Tokio Marine Holdings Inc - Tokio Marine Group FY2012 Business Plan

Company Participants

- Hiroshi Amemiya, EVP
- Koji Iwai, MD, Tokio Marine & Nichido Fire Insurance
- Shuzo Sumi, President
- Takaaki Tamai, Senior MD
- Tsuyoshi Nagano, Senior MD, International Business
- Unidentified Speaker, Unknown

Other Participants

- Koichi Niwa, Analyst
- Makarim Salman, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Takanori Miyoshi, Analyst
- Unidentified Participant, Analyst
- Wataru Otsuka, Analyst

Presentation

Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). I am Sumi. Thank you very much for coming to our briefing, despite your busy schedule. I will discuss our new mid-term business plan for the next three years, before we open the floor for the Q&A session.

Please refer to page two. We explained to you the framework of our new mid-term business plan at our Investor Meeting last November. But I would like to walk you through the overview of our plan once again. Under the new mid-term business plan, we will enhance our capabilities to achieve self-sustaining growth and higher earnings in order to expand profit in the respective business, while improving our capital efficiency across the Group by further promoting enterprise risk management.

We know the issues that we need to tackle, clearly. To expand profit, we need to improve combined ratio in our core domestic non-life business, while we continue to grow our domestic life and international insurance business. We would also like to pursue new growth opportunities by making new business investment continuously.

To improve our capital efficiency, we will continue to reduce business related equities and reinvest cash and capital generated from the sales in businesses with higher capital efficiency. Also, through business investment we intend to diversify risks globally. So that we can benefit from diversification effects furthermore.

By running a cycle of these initiatives, we aim to enhance our corporate value further and become a global insurance group which keeps growing in a sustainable manner. This is our basic thinking behind the plan.

Please see page three for management objectives. On the left, you see major business targets for domestic non-life, domestic life, international insurance and financial and general business, respectively. I would like to explain these targets in a bit more detail.

In our domestic non-life business, we would like to achieve the combined ratio of 95% level. So that we can generate stable earnings. At the same time, we will aim for the best premium growth within the industry and beat the average growth in the market.

In our domestic life insurance business, we would like to grow earnings in a sustainable manner, through integrated sales approach between life and non-life and by continuously launching attractive new products. We aim to grow our EV by JPY180 billion in three years total.

International insurance business will be the growth driver for the entire Group. We intend to grow the business and earnings in a sustainable manner. So that we can attain the adjusted earnings of JPY100 billion in FY2014.

I am pleased to report to you that we successfully closed the acquisition procedure for Delphi in the United States this month. They will join our Group and their contribution is already included in this target.

We will develop our financial and general business further, to foster stronger synergies within the Group.

While we achieve numerical targets for the respective business domains, we will continue to sell business related equities and realize strong return to shareholders. So that the Group-wide adjusted ROE will exceed our capital cost.

On the right-hand side of the slide, we have indicated the target range of adjusted earnings, assuming the average level of natural cat events. We would like to achieve the targets in the respective business areas and significantly increase our adjusted earnings and capital efficiency.

We have also included premium growth outlook on page four, to help you better understand how we expect the respective businesses to grow going forward. I wouldn't go over this page. Please take a look at the slide later.

Next, I will discuss business strategies for each domain. Please turn to page six. Let me start with domestic non-life business. This page shows major issues by company, Tokio Marine Nichido Fire, Nisshin Fire and E.design.

In our core operation, Tokio Marine and Nichido Fire, we need to improve the profitability of our core auto insurance. And by enhancing the operational efficiency further we aim to build a business model that can keep the combined ratio at a 95% level steadily. We would also like to achieve the highest premium growth within the industry by enriching our products, services and distribution network.

As indicated at the top right corner, the combined ratio of our private policies, excluding residential earthquake insurance and CALI, went up to 103.3% last fiscal year due to the frequent occurrence of natural cat events. In order to bring it down to 95% level, we will take a series of measures that I will discuss on the next page, page seven.

Our strategies to improve combined ratio are threefold. First, in addition to top line growth, we need to reduce business expenses, including agency commission for sure. Second, in order to recover profitability of our products, we need to revise our products and rates appropriately, primarily in the auto line of business. Lastly, we need to prepare ourselves for natural disasters which are occurring more frequently.

Let us look at how we intend to improve our product profitability, on page eight. As we try to improve the profitability of our products, we intend to focus our efforts on auto insurance, as they account for more than half of our business. Under the previous mid-term business plan, we continuously reviewed features and rates of auto insurance products, to make it more profitable.

In January this year, we introduced new rate plans based on more detailed segmentation. We believe that these product and rate revisions we have implemented so far will boost our profit by approximately JPY26 billion in three years total.

On top of that, we are planning to fundamentally revise the grade rating system for non-fleet auto insurance contracts this October. We believe the new system will result in fair treatment between policyholders with and without accident experience, as premiums will be more reflective of risk profiles. In the meantime, although the combined ratio has increased by 1% every year so far, we expect this structural issue to be mitigated.

In October this year, in addition to the revision of grade rating system, we will also review the rates of some of our riders whose loss ratios are deteriorating. Overall, we expect that these measures will improve our profit by JPY10 billion on a full-year basis.

In addition to such product and rate revisions, we will work to improve underwriting results and business efficiency. So that we can lower the combined ratio of our auto business from the current 102.6% to 98% level quickly.

Next, I will discuss measures to reduce our business expenses, on page nine. In the previous mid-term business plan, we worked on the cost reduction measures strongly and reduced the non-personnel cost by JPY41 billion from the FY'08 level. Under the new mid-term plan, we will continue to reduce our corporate expenses. By also reviewing the rate table for agency commissions, we would like to bring the business expense ratio by about 1 point.

In addition to the business expense reduction, we also implemented Business Renovation Project under the previous mid-term plan. Through the project, internal administrative processes were reduced massively and business processes were streamlined. As a result, we are now using more of our human resources for sales activities.

As indicated on the slide, we are now seeing a pickup in our productivity, which is one of the factors underpinning our current strong sales results. We will continue to improve our operational efficiency and productivity furthermore.

Next, let me discuss our growth strategies on the next page. Please refer to page 10. We have so far focused on launching highly competitive products such as super insurance and developing strong IT infrastructure to enhance the competitiveness of our agents. These efforts have led to strengthening our contacts with customers and translated into tangible growth in the second half of FY2011. The positive momentum is still continuing in the new fiscal year.

Under the new mid-term business plan, while we maintain profitability, we would also like to grow top line in a sustainable manner to achieve the industry leading premium growth. To attain that goal, we will continue to offer competitive products and services that are unique to us, including super insurance. We will also enhance our distribution network both qualitatively and quantitatively, by leveraging the alliance with Meiji Yasuda Life Insurance Company, for instance.

By following through these plans, we will grow insurance premiums deducting agency commissions, to ultimately reduce the combined ratio.

Next, I would like to go over our strategies for the next business domain, domestic life business. Please go to page 12. In Tokio Marine and Nichido Life, which is the core operation in our domestic life insurance business, as indicated in the charts, we expect both annualized premiums of new policies and those of policies in force to grow steadily. And our EV is projected to grow by JPY180 billion on the cumulative basis by the end of the new mid-term business plan.

The measures to achieve these targets are summarized on the next page. We will maintain channel strategy and product strategy as the important pillars to achieve sustainable growth at the top line, while enhancing profitability concurrently.

Under the channel strategy, we are planning to step up our integrated sales activities between life and non-life, leveraging customer base and agent network of our non-life operation, which is the strength of Tokio Marine and Nichido Life.

Under the product strategy, we launched a new third sector product last August at a competitive price point. This product has been selling well since it was introduced in the market. And their strong performance is also shown in the adoption rate of third sector coverage in super insurance. We will continue to develop new products which cater to the needs of our customers.

Although it is not written on the slide, as we communicated before, Tokio Marine and Nichido Financial Life is suspending the acquisition of new policies at the moment, in view of the recent business environment. The Company will focus on maintaining the existing policies in force.

Next, I will explain to you about our international insurance business, on page 15. As the growth driver in our entire Group, we intend to grow our international insurance business in both developed countries and emerging markets. In the commercial lines of business in Europe and North America, as well as in reinsurance business, we will maintain strict underwriting discipline to grow premiums written and profit.

In the non-life and life insurance business, in emerging markets we aim to grow our business over the mid to long term, in accordance with the country's steady economic growth. We will utilize various distribution networks to expand premiums and profit. Further, while we work to integrate the management of Delphi in a smooth manner, we would also like to pursue synergy effects with existing businesses.

By expanding the respective businesses and diversifying business and underwriting risks, as indicated on the next page, we would like to create a well-balanced portfolio.

Further, since the occurrence of Thai floods last year, we have been working to advance methodologies to manage natural cat risks like flood risks, which are difficult to be incorporated in model and difficult to grasp based on statistical approach. We will continue to strengthen our risk management efforts.

In the final fiscal year, under the mid-term plan, we are aiming to achieve the adjusted earnings of JPY100 billion through organic growth and contributions from Delphi that we acquired.

Next, I will discuss strategies of main companies. Please turn to page 17. First of all, North American operations, including Philadelphia. In North America, we established Tokio Marine North America as the holding company for our US operations last year. Going forward, this company will control strategies of our entire US business and enhance efficiency in back office operations.

Adjusted earnings of Philadelphia decreased significantly last fiscal year, due to the frequent occurrence of natural disasters. But their business model remains strong, underpinning the company's strong profitability and growth potential. By entering into new business lines and expanding distribution channels, Philadelphia is projected to grow the top line by 14% per annum on average. In the meantime, since the company will maintain their rigorous underwriting discipline, their combined ratio is expected to stay at a favorable level of 95% or below.

Please go to the next page. We concluded the acquisition of Delphi on May 16. Last Friday, the closing ceremony was held that I had a pleasure of attending in New York. Delphi will be consolidated to our Group starting from FY2012. However, since the acquisition date will be deemed as the end of June, their contribution in FY2012 will be for half a year.

Also, goodwill is under final adjustment. Assuming that the goodwill is same as six month worth net income, to keep the calculation simple for the time being, Delphi is expected to contribute the profit of approximately JPY20 billion before goodwill in the final year under the mid-term plan. The management team, versed in their business with rich experience, will continue to lead the company even after they join our Group.

By enhancing the distinctive business model, specialized in life and non-life insurance business in the employee welfare benefit market, this operation will achieve sustainable growth. The highest priority for us will be the smooth integration of the business for the time being. But we would like to expand their underwriting by leveraging high credit ratings of Tokio Marine Group. And to introduce Philly's products to Delphi's customers to create synergy effects.

Now please proceed to page 19, Kiln and reinsurance business. Kiln will maintain strict underwriting discipline and flexible underwriting control in line with the pricing cycle, to keep their combined ratio at 80% level. They are also planning to expand their sales through WNC, a North American cover holder that they acquired last year, to increase the scale of their business further.

In the reinsurance business, our core operation Tokio Millennium Re maintains its stringent underwriting discipline while underwriting more risks other than natural cat risks. They will also underwrite more through their branch offices in Australia and Switzerland, which were opened last year. So as to further risk and geographic diversifications and stabilize their earnings.

To finish off our international insurance business strategy, let me touch upon emerging markets on page 20. In the international insurance business, while we have expanded our profit in the mature western markets, we have also developed life insurance and Takaful business, let alone non-life business in emerging markets extensively, since we see opportunities to grow our profit over the mid to long term in these markets.

Under the new mid-term plan, we can expect to start fully the sales of personal auto insurance in China, which is the leading automobile market in the world. Our life insurance business in India is also expected to advance to the growth stage. We will continue to share know-how accumulated in different parts of the world, to aim for further expansion of profit.

These are our strategies for international insurance business. Next, let me briefly touch upon financial and general business on page 22. In the financial and general business, in order to maximize our synergy effects within our Group, we will brush up the level of expertise in the respective businesses while strengthening functional collaborations amongst Group companies. Please refer to this slide for more details.

I will next discuss our asset management strategy. Please go to page 24. Under the Group asset management strategy, our Group companies are expected to secure liquidity and implement ALM in principle, respectively, as a member of a global insurance group, while aiming to enhance profit by taking risks within the tolerable risk level based on their respective liability profile. The pie chart on the right shows the asset composition of Tokio Marine Holdings.

Page 25 summarizes asset management strategy of Tokio Marine and Nichido Fire. Outlook of global economy remains uncertain. But we would like to increase net asset value while maintaining liquidity and stable income.

Let me also touch upon our plans on business related equities. We have sold business related equities that Tokio Marine and Nichido Fire have held by JPY480 billion worth during the three years under the previous mid-term plan and by more than JPY100 billion per annum on average over the past 10 years. So under the new mid-term plan, we would like to sell business related equities aiming at around JPY100 billion per year.

The initial target for FY2012 is set conservatively, at JPY50b. Certainly, the actual performance depends on the market to some extent. But based on the target under the mid-term plan, we would like to reduce the business related equities by about JPY100 billion in FY2012 as well, if situation allows.

Before I conclude, I would like to discuss our initiatives on enterprise risk management, capital policy and return to shareholders, on page 27. We established enterprise risk management under the previous mid-term plan. We aimed to control the proportion of net asset value and risk capital appropriately, from the perspective of maintaining financial soundness. And at the same time strove to build well-diversified business portfolio in order to enhance return on risk capital.

Under the new mid-term plan, while we maintain this philosophy, we will also implement PDCA cycle to manage our business plan, based on the risk appetite across the entire Group, to achieve three things; one, sustainable profit growth; second, higher ROE; and third, maintaining financial soundness at the same time in a well-balanced manner.

The bottom half of the slide shows our net asset value and risk capital as of the end of March. In addition to the traditional capital buffer, we decided to show economic solvency ratio or ESR, following the mainstream trend among insurers in Europe.

It is difficult to say what ESR is appropriate to be maintained. But compared to the global leading insurance groups we do not think that our ESR is high yet. Going forward, we think it is necessary that we maintain ESR appropriate for a globally operating insurance company, with the premise that we would maintain AA credit ratings, which is one of our Group's competitive edges.

Last but not least, let us review our shareholder return, on page 28. Under the new mid-term plan, our basic position remains unchanged at all. And we will continue to put strong emphasis on returns to shareholders.

We intend to give returns to shareholders primarily through dividend, which we plan to increase in line with our profit growth. And we would like to target the payout ratio of 40% to 50% of average adjusted earnings. We would like to consider and implement share repurchase in a flexible manner, by assessing market conditions, our capital levels, business investment opportunities and our stock price holistically.

We have included reference pages in the material, which I hope you will take a moment to read through later.

This concludes my explanation. I would like to ask for your continuous support to our Company. Thank you very much for your attention.

Questions And Answers

A - Unidentified Speaker

(Interpreted). We would now like to entertain your questions. If you could raise your hand, Mr. Sumi will call on you and our staff member will bring you the microphone. As it is always the case, we would like to receive questions as many people as possible. So please limit your questions to two. Thank you for your cooperation in advance.

Now, if you have any questions, please raise your hand.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). Yes. The gentlemen in the third row at the center.

Q - Takanori Miyoshi {BIO 16985826 <GO>}

(Interpreted). I am Miyoshi from Goldman Sachs. Thank you very much for your very detailed presentation. My first question is about international business. Out of the adjusted profit target of JPY230 billion to JPY260 billion in FY'14, you intend to make JPY100 billion in international business, half of which is to come through the US. You have shown a clear growth plan for Philadelphia, with 14% annual growth. And it appears that Delphi will stay almost flat. So my first question is what kind of assumptions do you have behind these plans?

My second question is concerning enterprise risk management. By promoting ERM, you will expand your international business, generate more profit and sell business related equities to increase your capital buffer, which you intend to use for shareholder return and business investment. How much do you think your capital buffer is going to grow for the next three years, from the current level of approximately JPY400b? If you maintain AA credit rating, how much of the capital buffer do you think you can use for shareholder return or business investment? Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). You raised two questions. The first question is how do we expect Delphi to grow going forward, in the context of international business investment. The second question is how much are we going to grow our capital buffer for the next three years and how do we intend to use it while we maintain AA credit rating. Mr. Nagano, Senior Managing Director in charge of international business, will answer your first question. And the second question will be addressed by our Executive Vice President, Mr. Amemiya. Mr. Nagano, please.

A - Tsuyoshi Nagano {BIO 16141096 <GO>}

(Interpreted). I am Nagano, responsible for international business. Thank you for your question. With regard to your question on Delphi, we calculated the value of Delphi before the acquisition. We calculated the intrinsic value based on their business plan for the next five years. If I may review their latest performance, in 2011 they made the sales of a little under JPY160b, which is a growth of more than 11% year on year. As you can see in your handout material, the actual performance is almost in line with the plan.

Looking ahead the next five years from FY'12, to be honest with you, we are reviewing their mid-term plan carefully to form a new plan. However, in the budget which we used as an assumption for Delphi's acquisition, the top line was expected to grow by around 7%. Their expectations ranged from low 7% to high 7%. So I think it is fair to say around 7%. The combined ratio was assumed to be around 94%. Therefore, the top line is expected to grow steadily.

Currently, we expect that they make a profit of about JPY15b. But we think it is going to grow to approximately JPY20 billion over the next three years toward FY'2014. This is our latest assumption.

Did that answer your question?

Q - Takanori Miyoshi {BIO 16985826 <GO>}

(Interpreted). Yes. Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). Then Mr. Amemiya will answer your second question.

A - Hiroshi Amemiya {BIO 7352816 <GO>}

(Interpreted). Thank you. Let me address your question. As Mr. Sumi mentioned in the presentation, we have embarked on a new initiative to use economic solvency ratio to review our resistance to risks, just like our western peers do.

Concerning your question on the outlook, as it was explained earlier, if we, for instance, release the risk of business related equities by JPY100 billion each year for three years, then the market value would decrease by about JPY300b. If we add diversification effects, then on the non-consolidated basis approximately JPY150 billion will be released from the risk.

We earlier looked at targets on adjusted earnings. In our view, net asset value and adjusted capital will grow. This is also an assumption behind our plan that we will implement going forward. Having said that, more than anything else, the biggest challenge is to realize the return on investment that people expect us to achieve, or to achieve capital efficiency which exceeds our cost of capital.

Given where we are, since our adjusted capital is approximately JPY3 trillion, if we assume our cost of capital to be 7%, then we'll have to make JPY210 billion or more. This is why we have to attain the profit target that we explained earlier at the end of this plan.

So if we allocate this capital, utilize released capital and pursue higher capital efficiency which exceeds our cost of capital, we need to invest our capital in business. If appropriate opportunities are not available or if we do not need to plan for further business investment, then we will return the capital to shareholders to adjust the capital level. That is what we tried to convey in the very first schematic chart. This is how we intend to use our capital.

Did we cover your question sufficiently?

Q - Takanori Miyoshi {BIO 16985826 <GO>}

(Interpreted). According to your explanation, sales of business related equities will add, for instance, JPY150 billion to your buffer. And I think your adjusted earnings will accumulate to about JPY400 billion or JPY500 billion in three years, according to your plan. So when JPY700 billion to JPY800 billion is added to the current buffer of JPY400b, how much capital do you think you would need to maintain AA?

A - Hiroshi Amemiya {BIO 7352816 <GO>}

(Interpreted). From the standpoint of AA credit rating, we have reflected how we measure risk capital on this chart. More specifically speaking, we have measured risk volume on this chart, with 99.95% value at risk, which is the confidence interval required for AA rating. This 115% on the slide is the ratio calculated on that basis. Based on this approach, we think this number will change or increase. So we believe that we can secure AA rating.

Did it satisfy your question?

Q - Takanori Miyoshi {BIO 16985826 <GO>}

(Interpreted). Thank you, yes.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). The lady on the third row.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

(Interpreted). My name is Tsujino from JPMorgan. Thank you for the opportunity. My first question is simple. I think there was a slide which indicated that the rate revisions and other measures on auto policies would improve the combined ratio by about 2%. That is slide seven, concerning improvement of product profitability. This slide talks about the overall combined ratio. But because you will be taking these measures for the auto business, I presume that you are planning to reduce the combined ratio by approximately 4%, with the improvement of auto policies alone. Grade rating system will be revised, which will make the situation better across the industry.

So my question is how much have you factored that aspect in your plan as a positive impact?

I have another question concerning definition and additional information, on page 27. First, on definition, traditionally, in this type of material, I believe you showed just equity risk volume on the before tax basis, not other risk volumes. In order to keep consistency with net asset value, I think you added back valuation gains and losses on securities, primarily equities. And deferred tax liabilities applicable to them. Could you confirm that that is approach used here?

And if so, I believe your calculation becomes a bit conservative. Your peer company shows the entire risk volume after tax. So could you clarify this point for me, please?

Also, concerning the ratio here, 99.95% is the level used by those who aspire to attain AA in general. Based on the level, your ratio is currently 115%, which is quite different from March last year. You still have equities shy of JPY2 trillion, or JPY1.7 trillion. When the market moves, the ratio moves quite a bit. Therefore, I think you have to keep this level.

Then, what would happen to share buyback? When your buffer was a bit thicker, you had a capital strategy budget. Your buffer is not as thick now. But assuming that you will generate the profit of a little under JPY50 billion and pay JPY45 billion as dividend per year, you still have some room left. Unless you have an acquisition deal, then you could increase the return a bit more. If you're selling JPY100 billion or JPY200 billion worth of equities every year, then you have a pool of fund for further return every year. How willing are you at the moment to repurchase your own shares? Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). Your first question was whether our targeted combined ratio includes the effects from the revision of grade rating system for primarily auto policies. Managing Director Mr. Iwai will take the question.

A - Koji Iwai {BIO 16291834 <GO>}

(Interpreted). Thank you. Let me address your question. As you are aware, the grade rating system is going to be revised to resolve a structural problem where the combined ratio deteriorated by about 1% every year. Other than this benefit, we have not factored in any effect at the moment, as we are not sure how the situation will develop. On the other hand, while the average selling prices of cars are declining, as you can see at the bottom of page eight, we are implementing some programs on repair cost and high loss ratio accounts.

So by examining both positive and negative aspects comprehensively, we intend to take additional measures including rate revision in a timely and appropriate manner. So that we can achieve a combined ratio of about 98%.

Did it address your question?

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). Then, on the second question on page 27, we have slightly changed our expression. So Mr. Tamai, Senior Managing Director, will clarify the definition.

A - Takaaki Tamai {BIO 15093748 <GO>}

(Interpreted). I am Tamai. Your question was on page 27. The light blue here shows net asset value, whose definition has not been changed significantly. And the definition of risk capital, shown in purple, has not been changed essentially.

Comparing these bars on the left and right, there are two approaches you could take. One is to look at both net asset value and risk capital before tax. And the other is to look at everything after tax. As long as the bars are compared on the same basis, I believe either approach would work.

Did that answer your question?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

(Interpreted). Yes. So may I understand that just the equity risk is before tax on both right and left?

A - Takaaki Tamai {BIO 15093748 <GO>}

(Interpreted). Yes. That is correct.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). You also asked us at the end our willingness to repurchase our own shares. Our basic position is that we would like to implement dividend, share repurchase and business investment in a well-balanced manner. As we have been communicating, our primary focus is to increase the amount of dividend in a stable manner. But lately, particularly quite recently, stock prices have come down so much. Since our PVR is also quite low, some people say that we should take advantage of this opportunity and buy back our own shares. And some others say that acquiring business with higher PVR is not justifiable.

In a nutshell, it's all about balance. We do not necessarily have business opportunities that we can invest in all the time. Last year we made a large acquisition, i.e. Delphi. And we are always studying opportunities for business investment and opportunities for growth from different angles. But we are only investing in businesses which meet our internal hurdle rate. Otherwise, share repurchase might be more effective to enhance ROE.

So we are always examining opportunities, trying to strike the right balance. If we have ample capital and do not find business opportunities with growth potential, do we still not repurchase our shares? I would not deny the possibility. I have no intention of keeping our capital asleep for an unlimited period of time for a possible M&A opportunity that may or may not come about. So we will examine what's on our radar screen and make judgments accordingly.

Some people say that we are not willing to repurchase our shares. We are not negative about share repurchase. But if we just keep purchasing our shares to increase ROE our business will start contraction without the next growth potential. As a result, ROE might not go up and stock price might fall, I am afraid.

Also, Japanese yen has been appreciated lately. I do not know how the currency is going to trend going forward. But when the Japanese yen is this strong it presents a major opportunity for international business investment. If the Japanese yen weakens significantly, on the other hand, we might not be able to take any actions at all. So we would like to judge the situation and balance various elements. We have not become less eager to repurchase our shares.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

(Interpreted). Following up on Mr. Tamai's response, I earlier said that you were more conservative because I was also thinking about your peer company, which sees the equity risk on the after tax basis. And they do not have much unrealized gains. In your case, almost half of the market value of your equity portfolio is unrealized gains.

From the perspective of risk volume, your risk volume is about half of the total market value. So they balance out each other. But when you think of a company which does not have much unrealized gains and if you see the risk volume of equity before tax, assets other than unrealized gains will be hit more strongly. So it works out differently. Is this understanding correct?

A - Takaaki Tamai {BIO 15093748 <GO>}

(Interpreted). I believe your understanding is correct.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). Yes, please.

Q - Masao Muraki {BIO 3318668 <GO>}

(Interpreted). My name is Muraki, from Deutsche Securities. I assume you had substantial amount of discussions as you developed this mid-term business plan. Related to which, let me ask you two questions. On page nine, you have indicated your corporate expense ratio and agency commission ratio on the left. I am interested to know what you are aiming to do for the next three years in the domestic P&C business. Agency commission ratio is expected to stay flat. And corporate expense ratio is expected to come down slightly. And according to the chart on the bottom left, you seem to expect strong top line growth.

Rather than improving the redundant structure with agents or high cost structure due to the high business expense ratio for the next three years as priority issues, do you believe that you still have ample room left for top line growth? Is that the rationale behind this plan? I would like to hear the conclusion of your discussion.

My second question is related to page 28. Looking at the illustration on the chart, visually, it looks like you're planning to increase the dividend by JPY5 every year. It seems to suggest that you will pay more dividend and shift your focus more on shareholder return than in the past. Is my understanding correct?

Also, how do you define the fund for shareholder return to begin with? Traditionally, you have defined the source for shareholder return including M&A as adjusted capital of JPY2 trillion excluding unrealized gains, multiplied by cost of capital, which is 7%, therefore JPY140 billion at maximum. As it is stated in the presentation material, average adjusted earnings is approximately JPY80b.

Is this going to become the fund for shareholder return going forward? Or like your peer insurers do oftentimes, is it profit and release capital or something like free cash flow that will become the fund for shareholder return, including M&A? What is your definition of fund for shareholder return? If it has changed from the traditional definition, please let me know.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). There were two questions. The first question is what we are aiming to do during the next three years in domestic non-life business, including corporate expenses and agents. Your question is to clarify whether we are going to change redundant cost with agents or high cost structure of non-life business and our outlook on top line. Mr. Iwai, please.

A - Koji Iwai {BIO 16291834 <GO>}

(Interpreted). I am Iwai. Yes, let me answer your question. First of all, you pointed out that our expectation on top line growth is quite strong. In addition to the one that we made already, we are planning to revise rates for older policies in October. As written under growth strategies here, we have a project to collaborate with sales reps of Meiji Yasuda Life. We now have visibility on some of these initiatives, to some extent. And based on that, these are conservative numbers, in our view.

Meanwhile, in order to drive our employees forward toward the target of becoming the industry leader in terms of the rate of growth, we have put additional 1% on the internal sales target per year, on top of the target here. This is our view on top line.

Concerning corporate expense ratio and business expense ratio, as you can see here, under the previous mid-term plan we reduced the non-personnel cost by more than JPY40b. As it was explained earlier, our passion and position for cost reduction remain unchanged. Under the new mid-term plan, while we maintain solid portfolio, we would like to make ourselves more muscular, if you will.

As for agency commission, as part of the overall efforts to streamline ourselves, we implemented a major reform during the previous mid-term plan. Generally speaking, when the top line is growing, commission ratio tends to go up. However, we intend to use our ingenuity to achieve the level of ratio indicated on the slide.

We will strive to become the industry leader in terms of premium growth. Demonstrated by our top line trend since the second half of last year, various mechanisms that we put in place during the previous mid-term plan have started to function. We would like to continue this momentum to maintain and expand the portfolio to become the industry best performer. This is what we discussed in developing this mid-term business plan.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). This may sound redundant. But if I may add, there are many indicators that we can look at, like expense reduction or top line growth. But the important thing is what we are doing all of these things for. The primary goal for us this time is to achieve the combined ratio of 95% level. We want to make ourselves a muscular company that can at least make the profit of 5% in a stable manner. This is the basic focus for us.

If we can reduce the expense ratio, that will directly translate into improvement of combined ratio. Of course, if we assume bad risks, it's not positive at all. But actually, in our Company's case, if we grow our top line by 1%, based on our underwriting standard, our combined ratio should improve by 0.2% or so.

We are not underwriting whatever is available, just to grow our top line. And we are not going to roll out special campaigns for the sake of growing top line for the next three years, as if it is the state of emergency. We will run our business as usual and reinforce our Company that can secure the top line identified in this plan, with the stable combined ratio of 95% level.

As for your second question, since the bars are becoming taller at a constant rate toward FY'13 and FY'14 on this chart, you wondered whether we were planning to increase the dividend by JPY5 a year. But that is not what we meant. This is just an illustration to help you better understand the direction. Different from the past, we have shared the guidance of increasing the dividend by JPY5 this time.

Although we have declared conventionally that we would increase the dividend in a stable manner, unfortunately, we had to keep it flat for the past three years. For FY'12, unless emergency situations occur, we believe our profit will recover. So we decided to show this guidance, to demonstrate our resolve to increase dividend. Should emergency occur, we might have to change. But we are resolved to increase dividend as much as practical.

You also asked us about the fund for dividend. Traditionally, we use the definition of capital strategy budget, in which we included three elements -- dividend, share repurchase and business strategies. But once we used this phrase of capital strategy budget to explain our shareholder returns, people seem to have confused greatly as different people put different emphasis amongst the three elements within the budget. Because the confusion continued for several years, we decided not to use the phrase of capital strategy budget this time.

But the basic thinking is that we will think about the fund for dividend with 7% cost of capital and the three elements that I mentioned earlier in our mind. So as to strike a right balance. And if we try to explain dividend based on cost of capital or capital strategy budget, it is very difficult to understand. So we have explained conventionally that we wanted to pay 40% to 50% of normalized adjusted earnings as dividends. And this will remain unchanged and we will explain dividend based on the flow of money generated.

Thank you. Please.

Q - Wataru Otsuka {BIO 16340098 <GO>}

(Interpreted). My name is Otsuka, from Nomura Securities. I would like to ask two questions. My first question is on page 30. This page is to review the previous mid-term plan. Under the previous plan, your target for adjusted earnings was JPY220b, with the adjusted ROE of 6% or above. You were not able to achieve these targets due to many events, including natural disasters for the past three years. Looking at numbers on page three simply, you're now trying to achieve JPY230 billion or more, with the adjusted ROE of 7% or above. It seems that you have raised your targets.

What is the reason why you have changed or become more bullish? Is it because of Delphi's acquisition or revision of order rates, any other tangible improvements you are feeling? Please help me understand the background behind your more bullish targets. That is my first question.

My second question is about business related equities. You earlier explained that while you are planning to sell JPY100 billion worth each during the three years under the mid-term plan, you have a conservative budget of JPY50 billion this fiscal year, which is the first year under the plan. What is the background behind the conservative view? Do you think that the market environment is too bad, or are you foreseeing any difficulties in your negotiations with your clients? Please enlighten me on the background behind that budget. Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). Reflecting back the previous mid-term plan, as you pointed out, our actual adjusted earnings was negative JPY18.7b, far from the original target of JPY220b. The previous plan was developed at the time of Lehman shock in 2008. And after that, Eurozone sovereign crisis has been continuing and we have been hit by stronger yen, economic issues in Japan, Great East Japan Earthquake and Thai floods. Although we took various countermeasures, including improving profitability of auto business, our efforts did not necessarily show as actual quantitative results.

Meanwhile, as we surely and steadily executed growth strategies, I appreciate that the management structure of our Group was greatly reinforced over the last three years. What I meant to say is that in the domestic non-life business we tend to focus on the problem that the result of the auto business is very poor. However, we have worked on the business renovation project, including IT renovation, since we made a decision to do so in 2004. New systems came on stream one after another since 2008. And we are starting to see that revamped business processes are reinvigorating our employees as well as agents.

Thanks to this effect, top line of Tokio Marine and Nichido Fire has been growing at 5% year on year since September of FY2011, which was the last year under the previous plan. The business continued to grow steadily in April and May. It was not that we recorded high growth by luck in certain months. But rather people on the front line of Tokio Marine and Nichido Fire's activities are reactivated and very energetic now. So this is one achievement.

Also, we have raised rates for auto policies traditionally. But we haven't been able to touch the structural issues entailed in Japanese auto business. So rate increase did not result in better performance. However, we are now addressing two of the structural issues.

One of the issues has been that our results deteriorated as the proportion of aged population increased. But in January this year we were able to introduce a new rate table based on new age segmentation. Since the rates applicable to aged policyholders increased quite a bit, various criticisms were made. However, this will allow us to improve the balance across different age brackets.

The other is new grade rating system, scheduled to be introduced this fall. According to the traditional mechanism of grade rating, even if you do not do anything in a year's time, the result was to deteriorate by 1%, approximately. But we will be able to resolve the issue. And we are able to finally improve the combined ratio of the auto policies, which is the biggest line of business.

Speaking of domestic insurance business, let alone in the non-life space, we are also growing quite steadily in life space. This is also thanks to the successful product and channel strategies. Since Mr. Kitazawa is also present today, if you like, we could address more in detail. But our business is growing quite steadily.

Outside Japan, right before we started the previous mid-term plan, we acquired Kiln in 2008. And in 2009, Philadelphia joined our Group. Over the past three years, we've started up a life business in India, while we developed various businesses in different countries within Asia. And although our Brazilian operation was struggling, we reconstructed the business fully. Joint venture for Takaful business in Saudi Arabia commenced finally. Then we acquired Delphi.

So we have expanded opportunities to earn more profit outside Japan, while diversifying risks further. As we solidified our platform over the past three years, I am convinced that we are now in a better position to grow our non-life and life businesses both inside and outside of Japan down the road.

And as it has been discussed, I trust that we have strengthened enterprise risk management or ERM regime significantly over the past three years. In that sense, I believe we should carry out the new mid-term business plan with confidence. This is how we feel at the moment.

Did that address your question?

Excuse me. There was one more question concerning business related equities. Why did we set the conservative target of JPY50b? Traditionally, we have sold on average about JPY100 billion worth per year. When we kicked off the previous plan, we initially said also that we wanted to sell much more than during the previous business plan, or JPY150 billion or above. As a result, we were able to sell JPY488 billion worth.

There are two key factors behind this initiative. One is to gain understanding from our corporate customers. The other is to make judgments in a flexible manner, based on the market condition. We have been engaged in quite intensive discussions with various companies, trying to earn their understandings. And we are continuing to make significant efforts. And based on the discussions, we have a certain schedule in our mind. And I believe we will be executing the plan taking into account the situations of our corporate customers and market conditions.

Having said that, the reason why our current budget is JPY50 billion is that we have no clarity on ramifications of Eurozone sovereign crisis. Unfortunately, stock market is down again today. I really hope someone can explain to me why stock prices are down. But we could only monitor the market conditions and implement our plan. Since we are concerned that market could remain quite volatile, we have set the budget at JPY50 billion for the time being. We will be flexible. If we can sell JPY100 billion worth, we will do so. And if an even better opportunity arises we would like to sell more.

Q - Wataru Otsuka {BIO 16340098 <GO>}

(Interpreted). I understand. Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). Please.

FINAL

Bloomberg Transcript

Q - Unidentified Participant

(Interpreted). On page three, you have indicated the breakdown of adjusted earnings. Looking at these numbers only, it appears that the business portfolio is well diversified already in the current fiscal year, FY'12. And with this business portfolio as is, the respective businesses will achieve a linear growth toward FY'14. However, you are stating here that you will diversify your business portfolio a bit further. How do you intend to diversify your business further?

Related to that, you are also trying to invest in businesses with high capital efficiency. Comparing these numbers, I believe it is outside Japan where you find highly efficient businesses. Is this your assumption too? These are my first questions.

Secondly, I have been following your Company over many years. And I do not recall hearing a statement with such a strong emphasis on top line before. Have you become more conscious of top line because, as you explained earlier, you now have good IT infrastructure and have become more robust to be able to pursue top line growth? Or is it because the competitive landscape is changing? What changed your mindset?

A - Takaaki Tamai {BIO 15093748 <GO>}

(Interpreted). From the guidance for FY'12 on page three, you might have received the impression that our portfolio is already well diversified. One way of diversification is to branch out into different business segments like domestic non-life and life, international insurance and financial and general business. But we can also diversify between primary and reinsurance business, or across different lines within the non-life space. We are always trying to enhance diversification effects from various angles, to reduce risk volume.

Looking at FY'12 projection, international insurance is going to be the biggest contributor at JPY68b. This is one direction. And management team intends to judge the optimal diversification for us by examining risk volume and return. At any rate, different from the past, where we were solely dependent on domestic or non-life business, we will pursue optimal diversification across different regions, types and lines of businesses and segments in our entire Group. And that should allow us to get to what we envision to be in FY'14.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). Did we cover your question sufficiently? Then your second question was whether we are focusing on overseas businesses when we look for investment opportunities for higher efficiency. We are open for both domestic and international opportunities with high capital efficiency. With that said, frankly speaking, the reality is that there aren't that many major opportunities available in Japan.

Of course, opportunities are available internationally. But particularly in Asia, while price has risen significantly, Japanese non-life and life insurers in particular are rushing for those opportunities. We do not engage in such a competition for excessively expensive deals. We will take a very cautious stance. As it is always the case, we will act carefully and check quite strictly against our hurdle rate which we discussed earlier. We just cannot tell whether a good opportunity arises soon.

The other question was whether our mindset has changed quite a bit, since we are talking more about top line. We have not denied the importance of growing the top line originally. However, while many companies were top line oriented, we have been bottom line oriented and this position stays exactly the same. With that said, as I explained earlier, as we continue to control underwriting rigorously and if we grow our top line by 1%, our combined ratio is expected to improve by 0.2%. This is why top line growth is one of our focus areas.

As I explained, we have no intention of growing top line excessively. But growing the top line is one of the avenues for us to improve the combined ratio and increase earnings. And since it became clearer to us that profitability of auto business would improve, we believe that top line will become an increasingly important revenue source for us.

Did we answer your questions sufficiently? Yes. The gentleman on the fifth row.

Q - Koichi Niwa {BIO 5032649 <GO>}

(Interpreted). My name is Niwa, from SMBC Nikko Securities. I would like to ask about primarily two things by referring to page three. First, this is somewhat detailed but I would like to ask two questions concerning capital cost. In the Q&A session, you indicated that your capital cost is about 7%. Would it be possible for you to share with us the breakdown? And when during the mid-term plan do you think you can exceed the 7%? I would appreciate it if you could give timeframe on your expectations.

My second question is pertaining to natural disasters. Based on the experiences for the past two years, I suspect it is difficult for you to assume that this year is going to be an average year in terms of natural cat event. Please allow me to ask two things. Is it really possible for you to operate your business assuming that it is a normal year? What kind of measures do you take, if any, to ensure that you can run your business for a normal time?

And my last question is concerning damages by tsunami and earthquakes in Japan. According to some report, some research suggests that actual damages might be bigger than expected. How are you managing these risks quantitatively? Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). The first question was breakdown of capital cost and when we will achieve 7%.

A - Takaaki Tamai {BIO 15093748 <GO>}

(Interpreted). We assume our cost of capital to be 7% here, based on capital asset pricing model. If we assume risk free rate to be 1% and the market rate to be approximately 4%, since our beta value is 1.05, our cost of capital will calculate as approximately 6.5%. Based on that, we consider our cost of capital to be 7%.

In terms of timeframe, as it is indicated here, we are planning to achieve 7% or above in FY'14. However, if we can achieve it in FY'13 or FY'12, then that would be better.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). Your second question is how we intend to operate our business assuming an average year, while natural cat events are occurring very frequently. Our traditional budget for natural cat events for a normal year in Japan was approximately JPY25b, on average. However, even excluding highly volatile events such as March 11 earthquake and Thai floods, we have increased our budget slightly for a normal year to be about JPY30b.

To be frank with you, as far as tsunami is concerned, we recognized that tsunami was a weak spot in our model so we are currently studying how to incorporate the factor of tsunami. For the residential earthquake insurance, that is supported by the government reinsurance scheme. Taskforce has just begun, to study whether rates need to be reviewed or not. I trust that they would work out a direction. And for commercial earthquake policies that private insurers are underwriting, I believe respective company will decide future rates, based on the review that I mentioned earlier.

Yes, please.

Q - Makarim Salman {BIO 15867027 <GO>}

I am Salman from Jefferies Securities. I would like to ask my questions in English, for clarity. And then they will be translated into Japanese.

My first question is about shareholder return and share buybacks. As you know, a large part of share prices is of course shareholder return, as opposed to complex spreadsheets of net asset value adjusted for theoretical differences between US GAAP and J GAAP. Now, I look back fondly at your past presentations, where you used to compare your level of shareholder return to other great Japanese companies like Canon. And unfortunately, the last few years we've seen a dry up of that level of shareholder return. So how can you help me respond to investors who say to me, Mak, a large of the premium in Tokio Marine has been lost because of the overall reduced level of share buybacks and shareholder return?

And my second question is you have stated for your FY2014 targets that they are based on the macro conditions as of March 31, 2012, which given where we are the moment seem depressingly far away, TOPIX 854, JGBS around 98 basis points and FX fairly close to where we are at the moment. How much of these numbers are actually macro driven? And let's say the environment were to remain around the level it is now, how much lower would these targets be?

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). We discussed earlier. But your point is that some people say that Tokio Marine hasn't bought back its own shares much recently. Especially where we said that the PVR for Delphi was 1.5 times when our adjusted PVR was 0.6 times, some shareholders expressed their views strongly that it's better for shareholders if we buy back our own shares at 0.6 time book value than making such an acquisition.

Shall I carry on or would you like to translate first? Is this okay?

As I explained earlier, we have not changed our position for dividend and share repurchase. But last year, when we were studying share repurchase program, we were hit by the massive earthquake. And as we tried to determine the impact of the earthquake, we started the process to acquire Delphi concurrently. Once a project is kicked off like this, it is difficult to implement share repurchase program since we need to be mindful of regulations on insider trading. We had to operate under this type of condition for some time.

Of course, I cannot say whether we have another project at the moment. But we have various things on our agenda. And when an opportunity for share repurchase arises, we do not intend to simply keep our capital dormant without any particular reason. When the time comes, we will do it.

The other question was that macroeconomic indicators are suggesting changes lately. Under the current market environment, will our adjusted earnings change? When we put together this mid-term business plan, we took a fairly conservative view on macro economy. We have assumed the Japanese economy to stay almost flat. The situations are very tough. The government or OECD are forecasting the growth rate of about 2%.

However, we do not think that growth is that strong. We assumed the growth rate of between zero to 1%. We think that we cannot afford to be optimistic about the Eurozone issue. We cannot be optimistic internationally either. So we do not think that Asia would maintain their conventional rapid rate of growth. And we think that US economy would progress rather moderately.

So in that sense, it might be fair to say that this projection on adjusted earnings is based on a fairly conservative view. But to be frank with you, I do not know whether we call this conservative or realistic.

If you need some time for a translation, how about we invite questions from others, as we are running short on time?

Q - Makarim Salman {BIO 15867027 <GO>}

(Interpreted). No. This is fine. Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). It is almost time. So is there anyone who would like to ask the last question? Yes. The gentleman toward the back.

Q - Unidentified Participant

(Interpreted). Mr. Sumi, in one of your responses, you posed a question why the stock price doesn't go up. But I think you answered the question yourself. That is the nature of profit, if you will. Or even if you make profit by selling equities, I believe that the core auto insurance business needs to be turned around to positive profitability. So I would like to understand the effects of the grade rating system revision clearly.

How much does this boost your top line? I am also interested in the impact to the bottom line. I am very curious to find out how much impact your Company is expecting. So I would appreciate it if you could explain to me the impact on top line and bottom line with some numbers.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). Your point is that as long as the core auto business is making losses, our stock price cannot go up. I agree with you. So we are determined to contain the combined ratio at 95% level and make our core business in Japan profitable. It is a bit difficult to answer specifically how much the revision of grade rating system would improve our top line and bottom line but, Mr. Iwai, could you address this point?

A - Koji Iwai {BIO 16291834 <GO>}

(Interpreted). Thank you. As you are aware, we are expecting to see the effects of the new grade rating system from FY'14, which is the final fiscal year under this mid-term plan.

As far as the impact to top line is concerned, combined ratio or loss ratio does not have to deteriorate by about 1% per annum any longer. That we believe will be the impact at the top line. As far as the bottom line is concerned, we will probably see some effects in the flow of claims filed by policyholders. But that is what our customers will decide on their part. And like we discussed earlier, we have not factored that into our plan at the moment. We are closely watching both positive and negative factors that we mentioned earlier. And we will take additional measures accordingly.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). Does this answer your question? I hope it satisfied your question.

Q - Unidentified Participant

(Interpreted). Yes.

A - Shuzo Sumi {BIO 3861639 <GO>}

(Interpreted). Time has come. So we would now like to conclude today's briefing. Our executives will stay here for a while. So please talk to them if you like. Once again, thank you very much for your attention.