

Q3 2015 Earnings Call

Company Participants

- Shin-Ichiro Okada
- Shiro Sasaki

Other Participants

- Futoshi Sasaki
- Masao Muraki
- Natsumu Tsujino
- Wataru Otsuka

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you very much for participating in Tokio Marine Holdings' FY 2015 Q3 Financial Results Conference Call. Please be advised that during the presentation, all the lines other than the speakers' line are put on mute. And this conference call is being recorded.

Before we start, let me remind you that the presentation may contain forward-looking statements based on the current projections, and they may entail risks as well as uncertainties. Actual results, therefore, may differ from the current projections.

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

Shiro Sasaki {BIO 19269575 <GO>}

I am Shiro Sasaki, Group Leader of Corporate Communications and Investor Relations Group of Tokio Marine Holdings. I would like to give you the overview of Tokio Marine Holdings' financial results during the third quarter of FY 2015 which we announced today.

I will primarily use PowerPoint slides entitled Overview of Q3 FY 2015 Results for the first 20 minutes or so for my presentation. The PowerPoint slides are available on our website. From the Home page, please go Investor Relations section and find the material for conference call.

Now, let us start on page two of the PowerPoint material. This is an overview of our consolidated results. Net premiums written were ¥2,498.2 trillion, up by 7.7% or ¥179.3 billion year-on-year. This is primarily due to top line growth in the fire and automotive lines

of business in the domestic non-life business, as well as steady expansion of underwriting in the overseas business and positive impact of depreciation of Japanese yen.

Life insurance premium was ¥255.3 billion, up by 64.3% or ¥99.9 billion year-on-year with domestic and international business combined. This is mainly due to the steady growth of in-force policies at TMNL, as well as decrease in surrender of variable annuities in former (02:29) Financial Life.

Consolidated ordinary profit was ¥252.2 billion, down by 3.7% or ¥9.6 billion year-on-year. And net income attributable to owners of the parent dropped by 15.5% or ¥33.1 billion to ¥180.9 billion. I will explain about the consolidated ordinary profit in more detail later. Adjusted net income, which is a KPI for our entire Group, remains unchanged from a year ago at ¥243 billion. I will also amplify on this point later on.

In terms of the progress against the full-year forecast, we have achieved 77.3% of the net premiums written, 77.4% of life insurance premium, 82.2% of net income attributable to owners of the parent, and 82.1% of adjusted net income. So, across the board, we are on track vis-à-vis our forecast.

Next, I will discuss movement of consolidated ordinary profit from a year ago. Please turn to page three. In the domestic non-life business, ordinary profit of TMNF increased by ¥80.6 billion. While the underwriting profit declined, net investment income and other increased.

Underwriting profit declined due to an increase in net losses incurred by natural cat events, large scale (4:12) losses, as well as increase in net provision for cat loss reserves although net premiums earned increased. Meanwhile, net investment income and other increased due to increase in dividend income from subsidiaries and improvement of gains and losses on derivatives.

At Nisshin Fire, while the net premiums earned increased, net losses incurred related to natural cat increased, so did net provision to cat loss reserves. As a result, ordinary profit declined by ¥7.9 billion, or we know (4:46), our ordinary profit of domestic non-life business went up by ¥72.7 billion from a year ago. I will explain this business segment in a more detail later on.

In the domestic life business, ordinary profit increased by ¥15.5 billion year-on-year. This is mainly due to the reversal of contingency reserves associated with surrender of variable annuities, as well as increase in interest income from foreign bonds.

In the international insurance business, net losses incurred related to natural cat decreased. However, due to large losses and foreign exchange losses on local accounting basis, ordinary profit declined by ¥14.4 billion. As for consolidation adjustments, negative adjustment increased by ¥83.2 billion year-on-year. This is mainly because dividends that TMNF received from their subsidiaries increased, an allowance of intra-group dividend to be eliminated - increased accordingly.

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So, this is the highlight of our consolidated P&L.

I will now discuss adjusted net income on page 4. Here, I will explain adjusted net income, which is our Group-wide KPI. Adjusted net income is based on consolidated net income under JGAAP but compensating for the impact of various reserves unique to P&C business such as cat loss reserves, and deducting sales and valuation gains or losses of fixed assets in order to indicate, clearly, the underlying profit and loss from our business operations.

Adjusted net income was ¥243 billion, flat from a year ago. This is mainly because while in the domestic non-life business, net losses incurred by natural cat increased, net investment income and other increased. And profit in the domestic life business increased due to the steady expansion of in-force book, while profit of international insurance business declined due to large losses and foreign exchange losses.

Next, I will walk you through the reconciliation from the statutory net income under JGAAP to adjusted net income. Provision for cat loss reserves has been higher this fiscal year, which resulted in an increase of adjusted net income by ¥21.8 billion. Other extraordinary gains and losses and valuation allowances raised adjusted net income by ¥26.1 billion. This negative adjustment related to the taxable impairment losses at TMNF in FY 2014 decreased this fiscal year.

Next, I will explain the results of domestic non-life business. So, please turn to page 5.

This is the overview of Q3 results in FY 2015 for TMNF. First, as for underwriting profit, net premiums written of all the private lines of business increased driven by fire and automotive business growth. Top line grew by 6.1% or ¥79.7 billion year-on-year. Net premiums earned increased by ¥69.3 billion and it made a positive contribution to the earnings. For more details by line of business, please refer to page 7 at your convenience.

Net losses incurred of all the private lines of business combined increased by ¥63 billion over the year. The main reason behind this increase is as follows; net losses incurred related to natural cats which happened during this fiscal year increased by ¥41.4 billion mainly due to damages caused by Typhoon 15 and Typhoon 18.

Provision for outstanding claims reserve denominated in foreign currencies decreased by ¥14.6 billion due to depreciation of Japanese yen. And excluding these factors, net losses incurred increased by ¥27.2 billion year-on-year, partly due to the expansion of in-force books and also large losses in Marine and other lines of business, an increase in net losses incurred by automotive accidents which happened before the fiscal year.

Business expenses of the private lines of business increased by ¥28.7 billion over the year, mainly due to increase in agency commissions in accordance with top line growth. As for cat loss reserve, provision increased by ¥26.6 billion year-on-year due to the improvement of loss ratio on written/paid basis for automotive and fire lines of business. As a result, underwriting profit of the term under review dropped by ¥47.6 billion to a loss

of ¥4 billion. And excluding the impact of cat loss reserves, the underwriting profit decreased by ¥21 billion from a year ago to ¥65.1 billion.

Net investment and other increased by ¥127 billion year-on-year to ¥294.3 billion. This is mainly due to increased dividend received from subsidiaries, as well as improvement of gains and losses on derivatives. And we have also sold business-related equities by ¥97 billion during the first nine months of this fiscal year. Please also note that most of the dividend income from subsidiaries is eliminated on a consolidated basis. As a result of all those factors above, net income increased by ¥78 billion to ¥256 billion.

So this next review, the combined ratio results from page 6. The earned/incurred loss ratio for private insurance worsened by 0.9 points year-on-year to 61.4%, mainly due to a significant increase in net incurred losses relating to natural catastrophes.

The impact due to natural catastrophes was 5.1 point this year compared to 2.1 points in the same period last year. The expense ratio worsened by 0.2 points year-on-year to 32.1%, mainly due to an increase in average agency commission rates, associated with an increase in policies with higher commission, although an increase in net premiums written was a positive factor. As a result, the private insurance earned/incurred combined ratio was 1.1 points higher year-on-year reaching 93.5%.

The next page, page 7, shows net premiums written and the loss ratio by line. And on page 8, details of net investment income are shown. Please refer to them later.

Next, I will explain the results for Nisshin Fire. Please turn to page 9. Nisshin Fire recorded higher net premiums written, mainly around automobile insurance but also, an increase in net incurred losses including natural catastrophes, as well as the decrease in the reversal of catastrophe loss reserves and fire insurance.

As a result, underwriting profit was down by ¥8.2 billion year-on-year reaching ¥4 billion. Net investment income was almost flat year-on-year. Net income was down ¥8.6 billion year-on-year at ¥3.8 billion, mainly due to the decline in underwriting profit.

Next, on page 10, I will explain the results for TMNL. I will first talk about annualized premiums. New policies ANP increased by 12.6% year-on-year, excluding long-term saving-types products due to favorable sales in the third-sector line owing to new products in medical and cancer insurance while limiting the sales of long-term saving-type product.

In-force policies ANP increased by 2.5% year-on-year due to an increase in new policies despite surrender as well as lump-sum payout upon reaching target in variable annuities under better market conditions. Excluding the impact of variable annuities, in-force policies ANP increased by 12.4% year-on-year, and it continues to be brisk.

Next, with regards to financial accounting, net income decreased by ¥4.4 billion year-on-year to ¥16.7 billion mainly due to reversal effect of recording deferred tax assets of

Financial Life in fiscal year 2014, despite the reversal of contingency reserves associated with the surrender of variable annuities.

Core operating profit increased by ¥1.1 billion year-on-year to ¥21.9 billion mainly due to an increase in interest income from foreign bonds.

Next, I will explain the results for the international insurance business. Please turn to page 11. Net premiums written for the international insurance business increased by 6% year-on-year or by ¥61.4 billion, reaching ¥1,013.2 billion.

Let me break it down by region. In North America, net premiums written increased by 15% mainly due to rate increases on the renewal book and an increase in the new business book at Philadelphia and Delphi. South and Central America decreased by 21% due to the depreciation of the Brazilian real, but increased on a local currency basis due to strong sales of auto insurance in Brazil. Asia increased by 2% mainly due to auto insurance sales growth in India and China despite a slowdown in auto sales in Thailand.

Reinsurance increased by 33% mainly in non-catastrophe business and multi-year policies, despite the softening of the market. Life decreased by 34% due to the suspension of sales of specific products in Singapore.

Next, I will explain business unit profits for the international insurance business. Please turn to page 12. Business unit profit for the international insurance business decreased by ¥11.5 billion year-on-year reaching ¥95.5 billion. Although natural catastrophes decreased, large losses and foreign exchange losses, et cetera had an impact leading to a decrease year-on-year. But we are making steady progress overall against the full-year projection of ¥123 billion.

Let me explain by region. North America increased by ¥10.1 billion year-on-year mainly due to an expansion of business and a decrease in natural catastrophe losses at Philadelphia. Europe decreased by ¥12.3 billion year-on-year, mainly due to large losses and foreign exchange losses.

South and Central America decreased by ¥1.1 billion year-on-year due to the depreciation of the Brazilian real despite an increase on a local currency basis, mainly due to an increase of investment income associated with an interest rate increase.

Asia decreased by ¥2 billion year-on-year due to the reversal effect of a temporary factor in fiscal 2014 in Singapore. Reinsurance decreased by ¥900 million year-on-year, mainly due to large losses and foreign exchange losses, et cetera. Life decreased by ¥5 billion year-on-year due to a decrease in new business and a decrease in unrealized gains associated with the decline in stock prices in Singapore. Results for Philadelphia and Delphi are shown in detail on the next page, page 13. Please refer to it later.

This concludes my presentation. Now, we would like to take any question that you may have. Thank you very much.

Q&A

Operator

Thank you very much, Mrs. Sasaki. So, we would now like to open the floor for the Q&A session and the operator is giving an instruction to Japanese audience as to how to place questions. So, please bear with us for a moment. Thank you.

Once again, the operator is explaining how to place questions for Japanese audience, so please bear with us for a moment. The first question is from Masao Muraki of Deutsche Securities.

Q - Masao Muraki {BIO 3318668 <GO>}

Yes. I have two questions. First of all, related to the profitability of the automotive business. As of the end of the second quarter, with regards to historical accidents, I believe that you have increased the losses you incurred by historical accidents, and I believe that you haven't actually done an accurate calculation but since then (20:17-20:25) do you have any update that you can share with us compared to what you shared with us at the end of second quarter? And also excluding that, looking at the underlying trend of the automotive business, I believe that the loss ratio seemed to be continuously good, but how is the profitability of the automotive business trending at the moment? That is my first question.

And second question is related to investment. On page eight, you have shown the non-consolidated interest income of TMNF. And I believe that income itself is at ¥21.1 billion, and normally I think that it is a little less than ¥30 billion on a full year basis normally, and therefore, I don't think that there is going to be a major impact on the non-consolidated business at TMNF, but is that correct?

And also at TMNL, so far basically you have been doing the ALM, buying long-term bonds in order to match that with a - match with the liabilities, but have you seen any change in terms of the investment policy at TMNL?

A - Operator

My name is Hanada (21:31) from TMNF. To your first question, with regards to the - with regards to bodily injury liabilities, claims that we reviewed in terms of - as of the end of the second quarter, there is no update, so there hasn't been any revision made. And 62.4% is the full year guidance in terms of the loss ratio of automotive, and this has remained also unchanged.

And looking at the actual results of the third quarter, on un-incurred basis, the actual loss ratio is 62.1%, which is an increase by about 0.2% year-on-year. However, there has been less/no (22:12) events and also due to the price increase that we did in the past, the unit price rather went down. However, because the claims related to bodily injury liabilities increased, and also, natural related losses increased, the loss ratio actually picked up slightly, or increased slightly.

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When it comes to Auto frequency, on the other hand, the frequency continues to be low. And yet, the unit repair cost on the other hand, has been on the rise. And therefore, all we know, I believe that the profitability of automotive business will be pretty much in line with our initial expectation on the full year basis.

My name is Kinoshita (22:53) from Financial Planning Department of the Holdings Company. Let me talk about impact to our bond holdings. As it was pointed out earlier, we are actually now seeing a material impact to our bond holdings. So, the interest rate is going to be negative. However, even if that - however, given that the interest rate has actually come down to some extent already, we have actually not seen any material impact to our bond holdings. So, no major impact, and we will continue to monitor how this is going to trend going forward.

A - Shin-Ichiro Okada {BIO 15401816 <GO>}

My name is Okada from the Corporate Planning of TMNL. With regards to the investment policy at TMNL, we will continue to execute and we would mark-to-market both assets and liabilities to ensure that we can manage the differential between asset and liabilities in the position that is new to the market development. Thank you.

Operator

Here's the next question from JPMorgan. Mr. Tsujino, please.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

First of all, numbers-wise, for overseas or international and the natural catastrophe, your expectation was ¥27 billion for Q3. Up to Q3, how much has been accounted for already? And in the fourth quarter, is there any expectation that the numbers may change somewhat? So that's one simple question first.

And in accordance to that, for international subsidiary, for the full year for the company's outlook for ordinary profit I believe it's more than ¥150 billion I believe or ¥151.5 billion. But currently, it's ¥105 billion. So, you're a little bit short against your outlook. So, can you give us a little bit more flavor on that as well?

A - Operator

My name is Iwata (24:59) from the International Business Department, so ¥27 billion for - ¥12.6 billion has been generated so far for natural catastrophe. For the fourth quarter, we are expecting ¥10 billion. But against that, at this moment, no major natural catastrophe has yet happened. That's why we acknowledged.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

How about the water hazards in Mississippi? You have been saying that it had no major impact, but is that still the case?

A - Operator

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We're still looking into it. But so far, there has been no major losses associated with that incident.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

And furthermore, my next question is, going forward, with regards to your investments. (25:51-25:56) At TMNF - or the maturity average for JGB, I believe, it's about six years, seven years. But for the non-life business, especially in a company like yourselves, your liabilities are pretty steady and it continues to roll over, so you're able to take risk. But you already do that in equities, so you won't be able to pull out the yen. But with regards to JGB portfolio that you have in non-life, if you were to extend the duration, do you think that's likely from a policy point of view? If not, do you have any other ideas because you didn't really do any hedged foreign bonds before.

A - Operator

My name is Kinoshita (26:54) from the Financial Planning department from Holdings. With regards to duration and extending it, of course, from a taking yen risk point of view, that might be one of the options. But with regards to our current investments, we would like to be thorough in pursuing our ALM policy. That is our basic policy. So, savings insurance or fire insurance, that is the basis. So, we are not thinking about the options you have mentioned right now.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

How about increasing hedged foreign bonds?

A - Operator

With regards to that as well, hedging cost has been rising. So, when you think about what you can gain from it and if it's worth investing, we may pursue that option. But we'll basically look at the market to see where - what we have as options. And from next [indiscernible] (27:57) onwards, the hedging cost may change, but basically we would like to closely watch the market. Thank you very much.

I am very sorry. Earlier, you asked about the full year outlook for the international business. I would like to answer your question from the International Business Development department. With regards to the investment environment, there is some headwinds blowing. But like we mentioned earlier for natural catastrophes, it hasn't happened in a major way for the fourth quarter, which might be an upside to our earnings. So, we would like to present it to consideration and we would like to watch the situation closely as we head towards the end of the year. But we're basically in the middle of aggregating other numbers. So, we would like to announce them when we make our results announcements next time.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you.

Operator

The next question is from Mr. Sasaki of Merrill Lynch Japan.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I am Sasaki from Merrill Lynch. I have two questions. My first question is related to the sales of business-related equities. You have sold ¥97 billion by the end of the third quarter, and I believe that your full year budget is ¥100 billion. You are pretty much done with the full year budget. So, are you pretty much done for this fiscal year or you're planning to sell more equities during the fourth quarter? What is your progress or current situation of the business for the equity sales?

And second question is related to ESR, given that the stock market is down, I believe that your ESR of 111% as of the end of September has come down to, probably close to 100%. So given or assuming that your ESR is now approaching 100%, what is your take on the current position? Are you starting to take certain actions in order to improve ESR?

A - Operator

My name is Kinoshita (30:13) from Financial Planning Department of Holdings. Let me answer your question related to business-related equities. Under the mid-term business plan, we are planning to sell ¥100 billion or more of business-related equities per annum. So, the minimum is a ¥100 billion per annum, and we have achieved ¥97 billion, we have been selling those equities steadily. And as much as we could, basically our negotiation with corporate clients, we would like to continue to sell those equities down furthermore. So, we wouldn't stop this exercise for the fiscal year, we would continue with this exercise.

A - Shiro Sasaki {BIO 19269575 <GO>}

And to your second question related to the ESR. I would answer the question. I am Sasaki. Our company is disclosing our ESR, just twice a year at the end of the first half and second half. And therefore, we are now showing specific ESR number as of the end of the third quarter. Now, as of the end of the first half, we announced our ESR. That was post-acquisition of HCC. And based on that assumption, the ESR was 111%.

And that said, the stock market or the Nikkei average was ¥17,388 and against that currently, I think that today's closing price was a little under ¥15,000 or ¥14,952, which is a decrease by about 15% or so compared to the September end. You may not have this material with you at this point in time. So, I would like to just orally explain to you the sensitivity. Now, vis-à-vis interest rate because of the execution of ALM, the impact of the interest rate movement to our ESR is quite limited. It's very marginal.

And with regards to foreign currencies, of course, when the Japanese yen appreciates, the net asset value of the foreign subsidiaries decline. However, with outside Japan on the other hand, also a decrease and therefore net-net the impact to our ESR is quite limited.

Now, with regards to equities. Once the equity market goes down by 30% from ¥17,380 in terms of Nikkei, then our ESR would become 101%. And the actual decline that we have seen in the stock market is about 15%, almost half of this 30%. And, therefore, I believe

that ESR is sitting somewhere in between the September end number and 101%. So, this is still well above 100%.

Of course, from the September end to the end of the third quarter, we have sold more business-related equities and we have also been growing our profit. And so, I cannot give you a specific number at this point in time. And yet, at this point in time, I don't think that ESR looks significantly different from that we showed at the end of September.

So, in terms of action, we would like to continue to closely monitor the developments in the market and we believe that our ESR continues to stay at a position, which shows a strong financial soundness of our company.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

If I may ask you a follow-up question with regards to ESR. Now, looking at the risk appetite frameworks of foreign financial institutions, since that they are setting trigger points a little below the minimum floor level and once the actual market hits the trigger level it seems that more institutions will start taking action. Now it seems that your ESR is coming quite close to 100% already and yet it is your view that you don't have to take any particular actions at this point in time, is that correct?

And also toward the end of this fiscal year, with regards to your capital management policy. Do you think that the current stock market is not going to affect your current policy?

A - Operator

Now with regards to action, as we explained in the material that we used at the end of first half, of course, we intend to maintain our ESR at a comfortable level by selling the business-related equities and based on, of course, our risk appetite framework, we are managing our risks on a continuous basis. So in that sense, we are taking actions really on a day-to-day basis.

And in terms of how we look at our ESR and how we appreciate the level of ESR, in our company as we have communicated before as well, we are measuring the ESR based on 99.95% bar, which is a very stringent level. And furthermore, our net assets value includes, for example, or we exclude restricted capital from net asset value in order to – for us to be cautious of the credit ratings. And therefore, we have certain buffer, if you will, factored in to our ESR calculation already to some extent.

And with regards to shareholder return going forward, as it has been the case to-date, we would look at the capital position market situations and others in order to see whether we want to buy back our own shares or not.

And with regards to dividend, as we explained earlier as of the end of the third quarter, we are well on track. So, I believe that our dividend payout would also be in line with our original plan. So no change in terms of policies that we are contemplating at this point in time.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Well understood. Thank you very much.

Operator

Here is the next question from Nomura Securities. Mr. Otsuka, please.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Hello. This is Otsuka from Nomura. One big question related to natural cat? Since the fourth quarter and the incurred catastrophes, can you divide it into Japan and overseas? On January 18 and January 24, there was a major snowstorm in Japan, on a reported basis, if there are any losses, you can let us know, that will be great.

And with regards to full-year outlook, it seems that you haven't made any revision. So, with regards to snow impact in January, can we believe that the impact was small?

A - Operator

For overseas, around the same timeframe, around the January 25, there was a huge snowstorm in Washington, as well as in New York. And there was a lot of damage at around airports and stuff.

Q - Wataru Otsuka {BIO 16340098 <GO>}

But for the North American business; not for the March quarter, but it may hit the June quarter next fiscal year. But can you share with us what's happening there? And there was the earthquake in Taiwan as well. So, if you're being hit by this as well, can you let us know?

A - Operator

My name is Nakai (38:14) from the Corporate Accounting Department of Tokio Marine Holdings. With regards to Japan and January snow, I don't have the numbers with me right now, but the impact, we believe, is going to be small.

TMNF on a standalone basis, we believe it's going to be around ¥70 billion, and we don't believe it's going to be a great scale that's going to exceed that amount.

I'm Iwata (38:43) from International Business Development. For the big snow storm in North America for January, actually, we are aggregating the numbers right now. But we don't believe we're going to be recognizing huge losses. With regards to the earthquake for Taiwan, we are still aggregating the numbers. But for this as well, we don't believe the losses related to it is going to be major.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you.

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Operator

There seems to be no question at this point in time. So, the operator explaining once again how to place questions to Japanese-speaking audience.

There seems to be no questions at this point in time. So, Mr. Sasaki, please.

A - Shiro Sasaki {BIO 19269575 <GO>}

Once again, ladies and gentlemen, thank you very much for attending the conference call for the third quarter results of FY 2015. For further clarification and additional questions, please do not hesitate to call us at IR Department. Once again, thank you very much for your attendance.

Operator

This concludes today's Tokio Marine Holdings conference call for third quarter results in FY 2015. Thank you very much for your participation until the very end. Please hang up your lines. Thank you.

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