S1 2020 Earnings Call

Company Participants

- Taizou Ishiguro, Group Leader of Corporate Communications & IR Group

Presentation

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Hello, thank you for coming today. I am Ishiguro from the IR Group. We would now like to start the conference call for Tokio Marine Holdings Fiscal Year 2019 Second Quarter Results. I will first talk for the first 10 minutes, giving you a highlight of the presentation material that was posted today on our website and will also speak to the news release regarding shareholder returns.

We will take questions after the presentation. I would also like to give a disclaimer before we start the call. The explanations that will be given today may include business projections and forecasts based off current expectations and are subject to a range of inherent risks and uncertainties. Actual results may vary from what was anticipated. I would also like to mention that this call is being recorded.

So now, without further ado, I'd like to go into the highlights of our results. Please refer to Page 3 in the presentation. I will first talk about top line, that is net premiums written. Net premiums written increased by 3.7% on a underlying basis for the interim period, excluding the effect of the sale of TMR, the reinsurance subsidiary. Breaking down top line, the domestic P&C business grew by 4.7% due to all lines growing across the board. The international insurance business grew by 1.5%, despite a stronger yen due to a steady growth in North America and the new consolidation of Safety.

For the full year projection, although the underlying trends are brisk with the domestic business outlook being revised upwards and the same for the international business on a local currency basis, due to the stronger yen, growth is expected to be up only 2.4% year-on-year, which is a JPY20 billion downward revision from the beginning of year forecast.

Next, with regards to life insurance premiums, top line excluding technical accounting impact in Delphi's pension business fell by 6.1% year-on-year. This was due to sales suspensions of some products for corporations by TMNL as well as increased discipline in underwriting medical stop-loss insurance at TMHCC combined with a stronger yen.

For the full year, our forecast stays the same for TMNL as the beginning of the year, but accounting for the stronger yen and the increased discipline in the medical stop-loss business at TMHCC, we have revised down the overall forecast by JPY20 billion compared to the beginning of year outlook, which translates into a 4.1% decline year-on-year.

Next is bottom line. This will be interim period net income on a financially reported basis. Like was the case in fiscal year 2018, we once again experienced net cap that was greater than average, which had an impact on our bottom line. We have been affected by Typhoon No. 15 and other disasters in our interim results. However, the net cat overall has decreased on a year-over-year basis, resulting in net income growth of JPY62.7 billion reaching JPY116.6 billion.

As you know already, the reversal of cat loss reserves is possible in the fire group, for example, when the loss ratio on a written paid basis exceeds 50%. For this interim period, the backlog from net cat occurred in fiscal 2018 have been mostly paid, but for fiscal 2019 there are many policies, which has not yet been paid and thus reversals have not taken place in the fire group.

Please turn to Page 4 for full-year projections of bottom line. Financial accounting based net income remain unchanged from original projections. Impact of increase in domestic natural catastrophes, an increase in reserves set aside in North America due to social inflation are expected to be offset by take down or reversal of catastrophe loss reserve, decrease in natural catastrophes overseas and increase in investment income.

Please find full-year forecast of net incurred losses of net cat and catastrophe loss reserve on the right side of the slide. While net cat in fiscal year 2019 remains within the expected range in our risk model, we will continue to watch closely the net cat trends and diversify risk globally, as we take measures to improve profit for fire insurance with a sense of speed. Full year projections for adjusted net income is revised down by JPY95 billion to JPY305 billion due to domestic natural catastrophes since the impact of catastrophe loss reserves are excluded from the net income based on financial accounting.

Lastly, let me talk about ESR and shareholder return. Please turn to Page 29 of the deck and news release on shareholders return. ESR as of September 2019 was 175% before capital level adjustment. This level is flat, only up by 1 point from end of March 2019.

Against this backdrop, we announced today, JPY50 billion in capital level adjustment. As a result, ESR is 173%.

Let me explain our thinking behind it. 175% [ph] is within our target range, meaning the company will consider business investment, additional risk taking and shareholder return in a flexible manner. This stance remains the same. We also took into account the fact that a large [ph] M&A is expected, such as the acquisition of Pure Group announced in October this year as well as changes in the economic landscape, future business investment opportunities among others.

Ordinary dividend for the fiscal year 2019 will remain unchanged. Interim dividend will be JPY95 per share. Full-year dividend will be JPY190 per share, up JPY10, increasing dividend (inaudible) for eight years in a row. Shareholder return will be explained in the second half IR briefing scheduled next week.

In closing, I'd like to say that while the company is impacted by the large net cat experience in Japan for two consecutive years, by steadily implementing global based risk diversification and growth strategy called for in our plan, we intend to steadily strengthen the earnings power of the group.

And this is all from me.