

## Business Update Call

### Company Participants

- Unverified Participant

### Other Participants

- Futoshi Sasaki, Analyst
- Kazuki Watanabe, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Tatsuo Majima, Analyst
- Wataru Otsuka, Analyst

## MANAGEMENT DISCUSSION SECTION

### Unverified Participant

I thank all of you for gathering here today for our IR Meeting. The financial settlement fees are as we have announced on the 18th. Therefore, there was also a Q&A on the 18th. So, for myself today, I will be mainly talking about the midterm management plan for the group.

Please turn to page 4. The strategies that we have shown to you as a medium term management plan have made steady progress. On the holding company level, we have allocated resources to each business appropriately in order to achieve better capital efficiency, and each business has achieved an outcome leading to cash generation, but it's a common view held by our management. Especially in overseas insurance business, Sampo International has been positioned as unprecedented truly integrated global platform. And we have moved on to the next important step for us to evolve into the Sampo of the world. The details will be referred to you later on.

Up until now, we were in a phase to establish Group's business foundation in a way. However, from this fiscal year, on top of achieving the numerical targets such as profit or ROE, needless to say, we would also move towards transformation in the future. And we will show a result in building a new business model or building a new governance model. And we need to be showing the result in the latter half of the mid-term management plans, so this will become our execution phase. From fiscal 2019 and after, I will be announcing it in November of this year, so that we can show you the direction of this new plan to be executed from next year. And next year in May, when we have this IR Meeting, I will be talking about the details of the new business plan with some numerical targets.

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Please turn to the next page. I'd like to just briefly confirm the numbers. So, this is the progress of the entire Group. As you know, last year, we were impacted by natural catastrophes, such as North American hurricanes. And profit came to be on the same level as fiscal 2015. We reverted back to that level. However, this year, for adjusted consolidated profit of 2018, we are expecting jump in profit to ¥220 billion. And adjusted ROE should reach 8.3%, and J-GAAP-based ROE, finally, has double-digit ROE within our reach.

Please turn to the next page. This is the progress of the midterm plan for each business. In fiscal 2018, the adjusted profit is expected to increase for every business. And in order to preemptively capture the trend, we look at the important KPIs of each business with much attention, and we are expecting the improvement of KPI in every business. As a promise of Group management, establishing a firm position in each business is important. And we will make sure we do this through business order meetings, and we check the progress regularly in order to make steady progress.

Please turn to page 7. This is the important topic of shareholder return, and there is no change to the basic policy. While we listen to the voices from the market and also because we are projecting all-time high profits in 2018, as planned, we are planning a five consecutive years of dividend hike. Management is very conscious of 50% payout ratio. And we will be achieving that for four consecutive terms. One popular question we receive is the balance between dividend payment and share repurchase. We consider the balance by looking at the stock price. And for fiscal 2017, the balance is roughly half-and-half.

According to the shareholder return policy, as we always explain, we are actually executing the policy with transparency. I hope that point is understood. In making decisions on shareholder return, we listen to the voices from the market, carry out detailed analyses of the figures we obtain, and have a thorough discussion with outside directors who represent shareholders and others. There is no change to our intent of expanding shareholder return along expansion of Group profit.

Page 8 and 9 are about steady increase of stock price and reiteration on midterm and long-term strategies. And because we are making steady progress, I will omit those pages.

And please jump to page 10. For your reference, I will show you the status quo of our business portfolio. Since holdings company was established in fiscal 2010, we had allocated capital to our growth business such as overseas insurance business. In terms of breakdown of adjusted profit, we used to be more than 90% domestic insurance business. But in fiscal 2017, overseas weight had expanded to 27%. Also, we created a new segment, nursing care segment, although it is still only 3%. And that would help diversify the business risk even more. On top of that, that would help us transform in the future and that would also allow us to achieve our vision of building a theme park of safety, security, and well-being.

In that sense, in every business, the strategic meaning is there and it is different for every business. For example, what we consider as the theme park business model is not simply becoming a conglomerate. We will be eliminating the conglomerate discount.

In that sense, Sampo Japan Nipponkoa and domestic P&C business will make the biggest contribution in terms of stable and biggest free cash flow of all the group. In the life insurance business for Himawari Life, within the theme park business model, they will be contributing their business in terms of health support business. And for Sampo International and other overseas businesses, they will contribute in terms of becoming a booster for the group's profit.

And in the nursing care business or senior market business, under the theme park brand, they will be contributing a brand name. And also, an issue that's eminent in Japan, which is the aging of the society and also problem of the dementia, is going to be challenged by Sampo. And ultimately, the business model we build here should be exported to other nations.

So, those are the four businesses we have. And on top of that cross-divisionally, there is a digital business. And digital is not necessarily related to insurance, but it's there to support those four businesses. And digital business itself will be creating profit over medium- to long-term.

So, going back to the slide, adjusted net profit. If we achieve the ¥300 billion of adjusted profit, every business will have grown, and overseas business weight will exceed 40%. So, that means, as a group, we should be achieving further diversification to increase stability even more, and overseas business will become the booster of profit.

On page 11, I will be explaining about the transformation towards group sustainable growth to become the theme park of safety, security and well-being. These are the transformations which has been done by each business, as explained on the slide. So, digital strategy, maximization of the business resources, et cetera, will be allocated in order to maximize the profit potential coming from each business. For example, in between group companies and also with other outside companies, we are trying to build an ecosystem. And that is something we would like to pursue actively.

As I have been saying, building the theme park of safety, security and well-being will require such ecosystem. And by accumulating such effort, that would allow us to become an unprecedented, unique and highly profitable insurance group. Although, I don't know if we should be calling ourselves purely as an insurance group down the road. That is the most important challenge for us.

Turning to page 12. I will make a comment about Sampo International, which you must have high interest of. Obviously, I am at the very front line of this, and I am constantly talking to different companies, having different discussions. That is, I am talking to the top management of each overseas business. And for Sampo International, I am constantly talking to John Charman. So, every month for at least an hour, we have a regular one-on-one meeting to exchange views. And it has been one year since we started doing that.

We are seeing progress as planned. The smooth progress of PMI is evident from the fact that Sampo International was upgraded to have the same credit rating as Sampo.

Our foremost positioning Sampo International as the group's global platform is an advanced example, and this was our vision since before the acquisition. In other words, we are the first company in the world to be doing this as a challenge. And we are already integrating entities with existing companies in the United States. And in order not to lose speed in the global market, we are trying to build a truly advanced platform.

And at the earliest, before the end of this year, we will also be integrating retail on the global platform, as we have news released the other day. So, a company with this kind of a challenge, we must be the only one, and we ask you for a high expectation towards our result. But I feel the sense of responsibility in pursuing this and showing an outcome.

In the area of underwriting and bolt-on acquisitions, we have made achievements which would not have been done at Sampo in the past, and we are also creating synergy in the area of specialty insurance. We have seen geographical diversification. And we are also seeing fulfillment of the lines of business in expanding profit. And on top of that, they excel at crop insurance or agricultural insurance. And with the intent of a globalizing this agricultural insurance business, we started a platform called AgriSampo, and we are also pursuing the area in this area. Within a few years in the global market, Sampo will equal agri insurance. So, it's crop insurance in the area of agricultural insurance. And also, Sampo will also be digital. And so, within the global market, we want to be establishing a presence in these two areas especially.

As we have mentioned, digital strategy is explained on page 13. So, let me talk about the digital strategy. As you see, we are using new technologies to buy digital lab. We established this in last November. And we are using those new technologies. And it may not be relevant directly to the insurance business, but we are doing the cyber security business so that we can be acting as a solution provider of the cyber security. If we establish the reputation, at the end, we can offer the insurance solution together with our cyber security.

So, to sell insurance, we are not going through the cyber security business. But as a cyber security business provider, we want to really build our own strength. As a result, we want to sell insurance later. So, the theme park is not just for selling the insurance policies. And also RPA and AI, which you hear a lot on the newspaper, we are thinking about and making sure that we are going to use those technologies. And, of course, if it's implemented, we can reduce working hours of the employees so that we can solve the problems of the labor shortage. If we build up those productivity improvement, I'm sure that we could reduce tens of billions of yen of the cost which is directly impacting our bottom line.

Also RPA and AI are not just used to improve the efficiency, but we are trying to add value. For instance, to meet all types of the customer needs, we are taking tangible actions such as collaborating with LINE to develop smartphone-specific insurance products. And I think, we are also taking actions to build our ecosystem. In order to really support our midterm business plan, we have to do the transformation and also the theme park business. We

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should not just depend on the proprietary business, but I think we have to have a open innovation and we have to build the ecosystem. For that, we are going to put our best effort with our sense of speed.

And page 14 talks about the activities on ESG. As you know, the SDGs set by UN, of course, we have to improve our corporate value. And we are also trying to put the - trying to challenge solving social issues through our core business. And as you can see, those efforts are highly recognized by the third parties.

Page 15 through 17 show update of asset management, ERM and business performance figures, so please refer to them later. And we plan to reduce our strategic holdings stocks. And we want to maintain a solid financial base.

Please move to page 19. This is our domestic P&C business. Last year, had some impact of natural disasters both inside and outside of Japan and large accidents. But in this year, fiscal year 2018 is expected to normalize the situation. And also, we can consider their cost reduction impact so that we could improve the profit.

In terms of the highlights of the domestic P&C, the combined ratio is expected to be 95% in 2018 and below 95% after 2018. So, we want to go below 95%. And also, for the domestic P&C insurance, we are trying to collaborate and coordinate with advanced players so that these expertise will lead to the innovative products to our end. So, as a top player, we are growing the direct business, but the customers' behaviors are changing. And also, we have to consider the potential shrinkage of the market. Under the circumstance, we want to really grow the bottom line and that's a huge challenge, and we are taking actions for that.

Moving to the life insurance, this is Himawari Life. I'm not going to the details, but we are trying to transform to the health support enterprise, and the transformation is on progress.

Going to page 22, this health support enterprise, we call it as insurer health. And we have the products launched in this April. This is income compensation insurance. So, after the contract, when you get healthy, then we can reimburse the difference retroactively. So, this is quite innovative product which we can say. By doing so, life insurance products do not offer lots of opportunities to contact customers, but this product enables us to be engaged with the customers. And I am sure that - I think it's really important to have engagement with the customers. So, by introducing this kind of product, we will be aware that the customers will be healthier. So, this product really enables us to really get to know customers more and to have better engagement.

It's been only two month since launch, but A&P (00:18:31) is already over ¥1 billion, which is beyond our expectation. So, we are pleased to see the results. So, we understand customers' needs to develop products and services with new angles for stable, solid profit growth.

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Page 23 talks about nursing care & health care business. So, we had struggled, but occupancy rate has improved. And as we promised, we make profit. In 2019 - 2018 July, we merged two companies of Sampo Care. And we improved the quality, and also we reduced the cost to improve the efficiency by sharing the indirect business as well as know-how. We want to be recognized as profit business, as a stand-alone business.

And page 24 shows the highlights of that nursing care business. Of course, as a stand-alone, non-consolidated business, we have to really make profitability, but the strategic significance of this nursing care is not just with the good balance sheet, meaning that the senior market, which is the only growing market in Japan, can be recognized as a key in trying to really have a good synergy with the group businesses. And this nursing care business is really the most important business for us. We have to make sure that we have a good reputation. So, Agri Sampo, on the global basis and also nursing care business in Japan and that will generate a huge impact, let's say, trying to prevent dementia.

We developed insurance products which are deeply related to nursing care, and I think that will allow us to develop the program. So, those program or products in relation to the nursing care will allow us to improve the value-add to our group customers. And also that (00:21:01) capital or the data itself is the new oil and this is always coming up in our discussions. Sampo Care has not only the business know-how, but rather we have the (00:21:23) to our 100,000 members, including 20,000 staff members as well as over 80,000 customers who are using our businesses or who are using our services.

And also, we have 20 million group customer data. This is quite unique and also quite a rational clean data, and that is going to be impacting significantly to our group business.

So, Sampo Care, our group company, since it is endeavored (00:22:20) to the nursing care business, we have received inquiries from the different companies, not just from Japan but from overseas. And the most significant asset is our data. We have to (00:22:37) those data and we try to really collaborate with other businesses so that we could leverage this at the next step.

Page 25 talks about overseas insurance and as was mentioned before, we have been impacted by the hurricanes and others. But in this year, we will be able to achieve over ¥63 billion as planned. And the highlight of the overseas business, as you see on page 26, we want Sampo International as a global platform, and that's the most important.

By having Sampo International as global platform, it's going to be the center of excellence , and that can be deployed to the different countries. And also, we could extend bolt-on M&A, so that is going to be how Sampo is going to generate the excellent reputation, especially in those three pillars of the areas. For instance, we had in Italy A&A, the broker of the crop insurance. This company has about 30% of the agriculture insurance in Italy. So, we are trying to have those bolt-on M&A, which has the expertise. And in case of specialty, we are trying to expand the line of business. That could be another way to do the M&A. I think when we acquired Lexon, that is exactly how we are trying to expand this specialty. So, we want to really see the significance of M&A, bolt-on M&A.

More importantly, I think it's really important to have the solid talents. It's not something that Japanese people who are working overseas (00:25:06) but, rather, we try to hire the people from different nationalities and how we are going to develop those talents to enhance the overseas business. A group CHRO is really going overseas to make sure those talent development and we try to make sure that we develop and hire those people.

And also, we have the (00:25:36) discussion with the external directors and also nomination, competition committee. We are not changing our policy or appetite and the next page really discusses that policy. At this moment, I cannot name which company is in our pipeline.

So, with that, I'd like to close my presentation. And now, we'd like to move on to the Q&A session. Thank you very much for your kind attention.

## Q&A

### A - Unverified Participant

So we would like to use the remainder of the time to receive questions from the floor. And as usual please state your company name and your personal name before you ask your question. And if you have a question, please raise your hand.

### Q - Masao Muraki {BIO 3318668 <GO>}

My name is Muraki from Deutsche Securities. I have two questions. The first question is that you didn't explain this today about auto insurance, about the future of auto insurance about autonomous driving technology. In Japan, in 2020 to 2025, during that period, level 3 and level 4 autonomous driving vehicles causing accident will have the liability to be borne by the owner of the car and therefore, the basic framework of the auto insurance will not change. However, when the level 3 auto insurance comes out, the premium rate obviously is going to come down.

But for a while, I'm sure you will be factoring in the safety margin significantly. And so, the underlying balance will not be impacted much by this new type of auto insurance. Is that the correct way to understand it? And for that initial period, that is 2026 and after, where we move on to the complete autonomous driving technology era, the liability will not be borne by the car owner. And when we get into that period, what will be the shape of the auto insurance, how will it change from what it is now?

My second question is about your plan for 2019 and after as you indicate on page 4, you are showing your schedule for the announcement of the next plan and the profit the shareholder return source. What is your idea on the source of shareholder return because MS&AD recently have decided to add gains from the sales of stock as part of the shareholder return profit. And so, is the gain from such sales really showing your underlying capability, and there's also a change expected towards IFRS? And so, do you have any ideas about how to change the profit to serve as a source of shareholder return?

## A - Unverified Participant

So, the first question, I will be responding to your first question. This is not really an answer, but this is just things that are on my mind right now and the short answer is nobody knows. So, we are looking at different scenarios, and with the digital disruption and with changes in digital technology, a lot of things will change. One of which is the autonomous driving technology and what does this mean for insurance products? If you look at cars, the risk is going to be reduced. And so if you simply look out the auto insurance alone, premium should be coming down.

However, all of Japan or maybe including all advanced nations, we will not see all the streets being flooded with autonomous cars. I think it's going to be certain areas and I think it's going to be just the areas protected legally where within which, people can drive autonomous driving cars. And I believe it's going to be public cars first, so not private cars, but public cars.

And to those public cars, I believe there will be a premium tantamount to the level of risk, which is going to be less risk than what we have now. So, premium is going to come down. However, for product liability perspective, once accident occurs or if there is a recall, the risk of those will be higher. And so, in relationship to the higher risk, I don't really know what the total premium is going to be. I don't think it is going to be just a simple, one directional decline in premium.

On the other hand, on public roads, it is not going to be 5 to 10 years to see any significant changes. Maybe, personally there are people who love driving cars. So, we just cannot make it 100% autonomous cars at one day. I think we need some grace period and so we cannot just turn everything into autonomous cars overnight.

And so there will be some time where we will see a mingling of regular customers with autonomous cars, and are we going to see less risk under such a situation? I don't know. I personally wish the risk would come down. But for customers as well as for insurers, if the rate of accident comes down and if the risk comes down, that is good. But there is going to be some contradictions because PL risk (00:31:31) is going to go up when the two types of cars are mingled and there's also a risk of cyber terrorism, where the traffic facility is taken over in cyber and that causes major accidents. And so, in that case, the opportunity loss risk is going to go up.

So, as an insurance company, from the premiums written point of view, I don't think we will see any drastic decline with the premiums written. And when we get into level 4, there's no steering wheel attached to a car. So, it will be like a Google car. What is the definition of a car? Maybe we need to revise the law. And once we decide that such a thing is indeed a car, then we need to be creating an auto insurance to match that. And the today's auto insurance is not compatible with such a vehicle. It's not going to be compatible with level 3 and after.

However, recently, what has been discussed is that the - it's not the technology of the autonomous driving itself, but as seen by Tesla, whether the autonomous cars will be accepted socially or not is the gist of discussion. So, I don't think people will go for simply



making cars become autonomous more and more. Even when you have your eyes closed or when you're drunk or when you are talking to a friend, do we accept cars that would allow such people to be on it and still drive safely? I don't think that will be accepted by the society. So, technically, we are seeing some leaping in technology. However, the liability held by the driver today is not going to be mitigated so much. Therefore, drastic decline in such risk is not going to be reduced so much.

I'd like to answer your second question. Right now, looking at the midterm plan, we have the definition of the adjusted profit and payout ratio. The total payout is targeted at 50%. And the question from Muraki-san was that what do we do with the gains on sales of stocks and do we add that to the adjusted profit. I think that was the intent of your question. So, right now, specifically, maybe from next year, we do not have a plan to change the definition of adjusted profit. This is not specifically on the management's agenda as of today.

However, looking at ESR situation and looking at the further enhancement of the capital efficiency and also improving ROE, and depending on the situation against the business plan, perhaps we might change the definition of adjusted profit and might include this capital gain. The reason we don't include it is because we wanted to convert things to economic capital to make a business plan and, basically, we wanted to reflect profit which we have earned through our business efforts to be returned to shareholders.

So, that was the basic idea we had about how to remunerate shareholders, but this is subject to change depending on how we define it. We could be releasing part of the capital and return that to shareholders in some cases. So, from 2019 and after changing of the definition or perhaps changing the payout ratio from 50% to even something higher, and depending on the share price, we could be adding some more share repurchase. Those are all options. And we would like to be flexible in keeping those ideas and also bring it to the board meeting including outside directors to discuss those issues.

For fiscal 2018, I am not planning to apply any of those changes for 2018 for now. But from 2019 and after, the options I have mentioned are all open. We don't want to be too rigid but we want to be flexible.

Thank you very much. On the first question, for the immediate period from 2020 and after, the rating - the premium rating, what would happen? Because 2020 is very soon. And from the beginning of this year, there is ASV discount that you're giving, but in a similar manner, would you be giving some discount depending on the model of the car? Would you be reducing the premium rate for different models, or would you be using the advisory rate, or would you be using different rates for different companies? What is your idea?

For 2020 and after, nothing has been decided. But actually, in Japan, we are seeing some new models coming out in Japan, and 60% of them have ASV equipment attached. However, recently, the decline in accident has been weakening recently. So, I don't know how much of these ASVs such as automatic braking system, etcetera, will impact the

entire pie of the auto insurance. So, for now, whether the rate is going to be up or down, it's all neutral and undecided at this point in time.

Did that answer your question?

Yes. Thank you very much.

Watanabe-san?

### **Q - Kazuki Watanabe** {BIO 15948747 <GO>}

From Daiwa Securities, my name is Watanabe. I have two questions. I think in the extension of the previous question, for the domestic P&C, the pricing strategy, I want to ask page 5 line of business. By line of business, I see the combined ratio. For auto combined ratio for 2017 93.03%. So, between 92% and 94%, I think it's somewhere in between. And starting from this January, the auto is reducing the price, and if we have the consumption tax hike, I think our debt level may increase. For the short term, the auto insurance pricing strategy, would you please share with us? Also, for the fire, I think there is some expectation to increase, but the to-be combined ratio for the fire insurance, if you have any of those, please share with us.

My question number two is page 26. This is the growth potential in the overseas. Well, the payment income is growing at 10% to 15%, which is a little bit higher than the competitors' outlook. So, what kind of opportunities are you trying to capture to hit this high-premium income target of 10% to 15%? Would you please be specifically sure? And, also, are you able to maintain the combined ratio in overseas and trying to improve the topline at the same time? Those are the two questions.

### **A - Unverified Participant**

Thank you. Let me answer to the first question. As you pointed out the auto insurance, I think it's getting a little bit higher, well, 95% or below. And for the fire, it's over 100%. Well, in fiscal year 2017, actual results other than the hurricane and natural disaster, we were looking at the trend of the P&C and loss ratio and we are trying to be a bit conservative and trying to put the efforts. And that's how we have done so far.

Well, as a main trend, I think we can go below 95%. But for the insurance, we are trying to reduce combined ratio. And for auto insurance, maybe it will be on a par or maybe a little bit higher, and that could be the main trend. Well, 90% or so combined ratio in the auto insurance was in the past, but maybe it's a little bit unreasonable to maintain that level. So, maybe for the future, we may have to maintain the level.

The auto insurance in this January, the advisory rate was presented, so 8% and I think each company was only about 2% to 3%. In the future, the consumption tax hike or maybe the revision of the law on the obligations, we are trying to really minimize the discount.

### **Q - Kazuki Watanabe** {BIO 15948747 <GO>}

Any further reduction is expected?

## A - Unverified Participant

Well, for now, I think it's really hard to reduce. Well, as was mentioned by Muraki-san, either going further reduce the price or increasing the price, I think we are on the neutral path. That's our current situation.

To the second question, let me answer to your second question. I am (00:42:05). As you said, the expected increase, the top line is gas, as you say, so since Sampo International accounts for most of that. So, let me talk about the Sampo International. So, at the growth ratio, it's about 30% increase. Sampo America is now included, so that's the reason why we have 30% increase. And also, bolt-on M&A to increase the sales and excluding all of those factors and the peer sales increase is about 20%. So this 20%, out of which, half of them is coming from the increase of the price and the remaining half is coming from the new policy.

So, first, talking about the price between January and March. At the beginning, we were expecting a bit higher price increase but it's not that level. Maybe the lower-single digit is the market average. On the other hand, the Sampo International is working really hard after the first quarter. And maybe the mid-single-digit price increase is achieved. However, it's still not sufficient to see 10%. When it comes to the new business, a new policy, this is quite growing steadily. Within one quarter, all the premium income is in alignment with the original plan. So, we are expecting quite a high increase of the sales, and it is possible looking at the current situation.

In the long term, the Sampo International really has the capability to increase the sales. Over the last five years, as you know, inflow of the capital reduces the price, so it softens. Every year, the price is declining. And the Sampo International premium income is a total of over 100%. Year-over-year, it is about 16%. So, they are achieving 16% increase in the downward market. We think the price is hitting the bottom and now we see 20% increase of the sales. It's doing quite a good business.

So, where are we really making that bigger sales? Well, this is quite strong in the U.S. and we built new team, global risks solution team two years ago. And using quite a fine-tuned broker network to the specific customer network, we are trying to really sell overlapping products. So, this is quite similar to the Japanese sales activities and maybe 30% to 40% increase per year is expected.

In terms of the line of business, it's not really dependent on the cap (00:46:22), so it's more like the specialty or casualty insurance. So, trying to reduce the risk and trying to improve the sales. As was mentioned by Sakurada-san, in the area of specialty, we have built the bolt-on M&A with the certain purpose and that's how we are going to increase our sales.

To the second question, the combined ratio is not going up. Well, as you say, yes, this is quite important issue, let's say Sampo International in this year. Well, yes, we are making good progress in terms of the sales in the first quarter, but acquisition cost is a little bit

higher than we expected. To acquire a lot more, it tends to increase. So, how we control this acquisition cost is the key. In the long term, Sampo international combined ratio is expected to be around 90%. We want to control the cost so that it can keep around 90%.

**Q - Kazuki Watanabe** {BIO 15948747 <GO>}

Thank you very much. Thank you.

**A - Unverified Participant**

Otsuka-san, please.

**Q - Wataru Otsuka** {BIO 16340098 <GO>}

Otsuka from Nomura Securities. I have two questions. My first question is about the domestic P&C. The second question is medium to longer-term viewpoint. On page 20, as I'm looking at it, it talks about the cost for the advanced investment. And in the future, from 2018 to 2020, any plans for significant investment? So, that is my first question.

The second question is about page 4. I know this is quite preemptive, but from 2019 and after, you will have a business plan, a new business plan, and I'm sure you will be disclosing it soon. From 2020 and after, when you try to achieve ¥300 billion of adjusted consolidated profit and over 10% of adjusted consolidated ROE, would you be changing those figures for 2020 and after? Because as Sakurada-san explained in the very beginning, your overseas business and other businesses, which you are pursuing, you are seeing good result out of those new initiatives. And so, if they are so successful, I believe there is an upside to those two figures which you had shown us for 2020 and after. Is there a possibility?

**A - Unverified Participant**

So, first, let me answer your question about the advanced investment. Since before, we had - in the domestic P&C business, we are upgrading the host computer in order to improve profitability and we are undergoing such project right now as we speak. And so, this is one major cost-incurring item.

And the recognition of the cost as well as the surfacing of the effect is further down the road. It's going to only surface during the next midterm plan. Therefore, what is happening recently. As Sakurada-san mentioned, RPA, AI, there will be some investment in those. And also, we are trying to change the way people work and there will be some investment in that. And those are the areas where we are investing right now. And ultimately, we want to see the improvement of productivity in 2019, 2020 and after.

Roughly speaking for 2018, 2019 and 2020, for ¥10 billion to ¥15 billion of advanced investment we'll incur and the major project will be recognized with this cost much later. And so this amount is going to be for PoC with digital initiatives, etcetera. And as I said, the effect of those investments will come later down the road.

Pertaining to your second question. So, ¥300 billion, this is still our benchmark. And in the near future, we should be able to achieve that and we are working towards that number. Originally, the adjusted consolidated profit of ¥300 billion, this came because we wanted to become a global top 10. So, ¥300 billion per se was not the magical number, but we were trying to benchmark ourselves versus the peers and we compare ourselves versus major global insurance, etcetera. So, changing this number of ¥300 billion is not really the issue but what we want to become, what we aim to become is more important. But other result, we still have this ¥300 billion as our benchmark.

### **Q - Wataru Otsuka {BIO 16340098 <GO>}**

Can you add more words to my first question? I know this is quite pre-emptive but 2020 and after in the domestic P&C business for its adjusted the profit, the growth in profit is going to slow down after 2020, or as a result of the investment and also for measures in trying to improve the profitability, is that going to offset any potential slowdown in the profit growth after 2020?

### **A - Unverified Participant**

Conceptually, there's cost and effect, and the two will come in at the same time. Therefore, for 2019 and 2020, there will be hike in consumption tax, etcetera. So, there are some elements that hinder the improvement trend, but then for 2020, it will not be a comparison versus the previous fiscal year. So, I believe the improvement of the profit will accelerate after 2020.

Thank you very much. Next question, please.

### **Q - Futoshi Sasaki {BIO 17564798 <GO>}**

Thank you. From Merrill Lynch Japan, I'm Sasaki. I have two questions. Number one is regarding the autonomous driving car. Well, into the future as your look, let's say there is an accident, and for those claim, insurance company is going to pay the claim but you can ask for reimbursement. And I think you want to have the security or collateral. Well, at the end of the day, the insurance company is going to fight against the car company, automotive companies. And you have the equities of those automotive companies. You may have to change the scheme. So, what do you think about that? That's the first question.

And, also, the second question is about the life insurance. In Japan, I think we'll be able to apply the insurance to the gene test. The people who already tested for cancer, I think you already have a certain idea as to how much possibility you are going to get the cancer. So, maybe the cancer claim or medical claim may increase because of those gene tests. So, because of the change of those medical technology or technique, how do you see the evolution or development of those medical technology or medical technique?

### **A - Unverified Participant**

Thank you for your difficult question. To the first question, first of all, as was explained before, basically, (00:54:28) scheme to ask for reimbursement. So, at this moment, insurance company is paying that claim and we are going to ask for the entity who has the

liability. So, if it's a car accident, it will be the car company. If it's a cyber, then we cannot find the attacker so that's why we are using the pool of money set by the government.

Having the equities or not, well, sales of the stock, as we discussed about the shareholders' returns, by holding the stock, capital (00:55:07) is low. If we use it for the other purposes, so rather than the capital relationship, if the capital efficiency is low, then we want to sell those stocks. And of course, we have to sell our products, so that's why it's a tug of war.

Well in the future, this is my guess. But to each accident say Toyota, Nissan, and Honda, I don't think we have to go negotiation one-by-one, but rather we will see the systematic scheme for the car accident. Having equities or not will not be relevant.

To your question - to the second question about the life insurance, let me answer to that question. Well, currently, the gene test results to be used for the underwriting of the insurance policy, well, in the industry, we have to be a little bit prudent in terms of the actual operation and the company policy. There is not such set policy for the gene test.

Regarding the claim and also benefit payment, well, in terms of the premium composition, we are looking at those risk. So, if we have the certain data and if we could store those data over time, maybe it's possible to look at the data. But, at the beginning, the risk buffer could be utilized for those cases.

#### **Q - Futoshi Sasaki {BIO 17564798 <GO>}**

To the second question I want to ask, well, looking at the overseas case studies, well, maybe the reverse selection is actually taking place and sometimes to a specific disease, the insurance company is going to decline some of those underwriting or subscription. Well, in Japan, the insurance companies cannot use those gene data, but maybe the consumers are using gene data and maybe they are going to the reverse selection. This is a bit too far-fetched in Japan?

#### **A - Unverified Participant**

Well, at this moment, we are not really looking at that potential taking place in Japan. Thank you very much. Yes.

To your question - thank you very much for your question. Yes, it's not life insurance but rather data - well, insurance companies or other related companies. How we should - well, how we use data, that's one. And also in 2019 and also 2020, well after, well, we have not really studied and also we have not had any discussion at the BoD so that's why this is my personal opinion. Well, digital disruption impact is going to be serviced in 2020. And also in 2025, I'm sure this is going to be a huge impact.

Whenever I talk to people in other countries, two years ago, we were already talking about five-year timeframe. So, it is really coming around. There are two things in this disruption. One is autonomous driving and other Industrial Revolution number 4.0 has a certain impact. But I don't think it necessarily mean Industrial Revolution 4.0. Well, our

insurance business including life and P&C, the huge impact is coming from the unbundle business and on-demand and also digitization. What I mean by this is, for instance, why do we have to have one-year term as the insurance term? Maybe a three-month or one-month could be the insurance term.

But now, consumers are looking at like, let's say, for two hours. And also the other is sharing economy. They are sharing their cars with other people through the rental car. So, that insurance premium is going to be appropriate or not. It's not validated yet. Uber and other companies, Metromile and also (01:00:23), which we have some equity. Well, this bike for camera. You can actually use it for travel. And then, you take pictures and then you return. So, underwriting is done through S&S (01:00:42). So, I think this disruption, meaning the disrupting the business model, is a huge threat. So, the subscription or underwriting, and also going through the agency and also how they are doing their underwriting using evolution and also data analytics evolution, I think the function is going to be unbundled. That is going to be bigger impact.

Well, it's going to be a far away, but once we start to see it, I'm sure that it's going to be quite fast. And that's something which is taking place in 2025. So, as was mentioned by Otsuka-san or asked by Sasaki-san, data analytics is making progress and also data accuracy is improving. And you will find out everything.

**Q - Futoshi Sasaki** {BIO 17564798 <GO>}

So, when it comes, can we use every data?

**A - Unverified Participant**

That's a different story how the government is going to look at the situation, how the society is going to accept the situation. And yes, whatever is being discussed at GDPR is going to be discussed more holistically. So, as a business management team, I cannot say yes, we are going to take some actions after 2020, but rather disruption is taking place in those areas.

**Q - Futoshi Sasaki** {BIO 17564798 <GO>}

The insurance company or the financial system business model may fundamentally change and to be prepared for that change, what do we need to do or what are we doing?

**A - Unverified Participant**

At this moment, we don't know. So, in the digital world the - not really seeking for the synergy and not really using those data for certain purposes, but somehow we want to really leverage data and if we require the advanced investment, that's the area. At this moment, we don't think we are making sufficient investment. This is my personal opinion. So, please bear that in mind when you are making a report.

Next question please, Majima-san?

## Q - Tatsuo Majima {BIO 15338044 <GO>}

Tokai Tokyo Research Center, Majima. I have two questions. So, related to the previous questions in anything where you tend to challenge anything new, so I like to ask you. So, competition with Amazon, potential competition with Amazon. So, participating in marketplace or selling insurance policies in Amazon platform, are those possibilities? And also, any possibilities for collaboration or competition?

Second question is on that page 12, this is a technical matter. But right now, by the U.S. government, any insurance company based in U.S. but captive insurance done in Bermuda are the targets of tightening of tax regulation. And in SI, I believe we have integrated SI with your base in UK. And I don't know if that falls under this category of doing business in Bermuda. But any regulatory risk that you are facing in U.S.? Anything that we should expect in terms of the regulation tightening in U.S. related to your business?

## A - Unverified Participant

I'd like to answer your first question. Nothing specific is on the table. However, we have talked about our collaboration with LINE. And so, in a similar manner, with a platform, we don't really want to compete or fight, but we want to join them and also form our insurance offerings to match their platform. And if there are more opportunities in doing something like this, we will be proactive.

I'd like to answer your second question. So, I believe you are talking about BEAT in the United States. And as you know, Sompo International's headquarter is in Bermuda. Sompo America is under the SI umbrella. But then, the ultimate parent company is registered with the headquarter in Bermuda, and it is under the U.S. regulation.

About the tax change, the reinsurance arrangements within the Group is done and it's all transparent, but due to BEAT rather than doing so in a manner that we had done before, maybe we can rationalize or optimize this into a group reinsurance arrangements which we are doing right now. The amount of the impacted is very limited. It is negative impact, but it is a limited negative impact. And, therefore, there is no need for you to worry about this. And this negative impact amount is already factored into the projections for fiscal 2018. And so, you will not be hit with any negative surprise related to this point.

## Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you very much.

## A - Unverified Participant

If there are more questions from the floor, please raise your hand. Niwa-san, please.

## Q - Koichi Niwa {BIO 5032649 <GO>}

I'm from Citigroup Securities. My name is Niwa. Succession plan and also the evaluation in the market is the questions. So, maybe, I may sound too early to ask succession plan, but so what kind of succession plan you have? As a new management team, are you coming to the stage or you have to think about the new management team? That's my interest.



And, also, you have the business only 40% coming from the overseas business. So, maybe we may think about hiring the non-Japanese management at the higher level, higher position? And do we have the potential or possibility?

Looking at page 8, of course, we cannot pay attention to every single reputation in the market. But for the last year, I don't really think that you have enhanced the reputation in the market. Well, you have to make the buyback because it's too discounted. So, the midterm management plan is making progress, and you are now looking at hitting ¥300 billion. Maybe the - anything what you think you need to do or any implications which you may want to achieve in the next midterm management plan, would you please share those? Thank you.

### **A - Unverified Participant**

That's exactly what I am asking to myself every day. And maybe, I should share that. But maybe I may talk too much. So, I have to be a little bit careful.

### **Q - Koichi Niwa {BIO 5032649 <GO>}**

Regarding the succession plan, the current status of the succession plan, and also the market evaluation, meaning the stock price evaluation, if we see any issue, what is the issue? Those are the two questions.

### **A - Unverified Participant**

Well, to the first question, the succession is quite important. Well, as a governance, we have the auditor type, and we have the external and internal auditors. And over one-third is from external entities. Well, we have the other type is the committee-based, and we have done committee-based. And as I said at the shareholders meeting, as of today, we don't see any benefit is moving to the committee-based scheme. However, this does not mean that we will never go to the migrating to the committee-based scheme. The reason why we are not committee-based, one reason is maybe this is as best (01:09:12) to Japan. The external auditor's authorities are right is overseeing the directors, both inside and external directors. And also it's independent, meaning that they could bring their own opinions to their auditor committee. It doesn't have to be unanimously agreed, but they can bring their own opinion. So, that's the authority which the auditors have. And this is quite unique to Japan.

Maybe, the German committee scheme is a bit similar. The former CEO is the Chairperson of the Auditor Committee. I'm not really criticizing, but that's their scheme. So, the Japanese-style auditor-based is reasonable and it is based upon the rationale.

When we moved to the committee-based, auditor committee and HR committee and compensation committee. And yes, we have to have the external directors to be the chair for each committee. And the companies who have the committee-based scheme, HR and compensation committee members usually are the same.

### **Q - Koichi Niwa {BIO 5032649 <GO>}**

Why?

## A - Unverified Participant

This is needless (01:10:48) to say, but the – so how much we could pay as a compensation to the people – person who has a certain mission. So, mission and composition could be both side of the coin. So, that's why it cannot be segregated. And that's why we usually see the same faces, those two committees.

So, we are using the auditors-based scheme. And then, we try to improve the transparency. And also, we have the voluntary committee, the nomination committee and, of course, the chair is the external director. And only myself is the internal director and for our external. So, both remuneration and nomination can function. And this is functional and this is something which we report to the authorities, and I don't think it's necessary to change the scheme.

When I go overseas, yes, it always discussed. But the auditors' qualification, when I explain about the auditors' qualification, they will understand and they no longer say that we should move to the committee-based scheme. The nomination committee is, of course, really important especially in the succession plan. Over two years, we have been discussing succession plan, how we think about succession, at what timing. So, when at this moment, we have not really discussed when I am going to be replaced. Maybe, without myself, four other members may discuss. If succession plan is required, we always can say that, yes, we have been discussing the succession plan and we are prepared

And if I go beyond this, I think it might be a bit sensitive, so I should stop. And also, we are able to explain our succession plan under the Corporate Governance appropriate code.

At the execution level, the overseas operation CSO, Nigel Frudd is CSO, and he is managing the directors. I don't know if I should call – I think, what I need is we have to have someone from overseas who does the execution of the business.

So, when we are now building the platform, Sampo International is going to become the global platform. And the execution team is something like this. Well, the global platform is comprising of B2B platform and retail platform. For the retail platform, this is quite important in the global level. This is going to see the governance in different countries. Well, we have a kind of standard – global standard for B2B. So, nationality, it doesn't have to be aligned to the nationality. Turkey, Brazil and Japan are totally different for retail. So, we try to find the best practice and trying to really fine-tune, and that really requires the diversity and also the expertise. So, for the retail platform, two British, John Charman and Nigel Frudd, and two Japanese, and Turkey – one Turkish and one Brazilian. So, those are our governance team.

This team is not just collaborating with the holding's execution team, but they are exchanging opinions with external directors. So, I think, our non-Japanese management will be reflected in this way. Well, this really requires a lot of energy and effort. So, sometimes, we fight, and it has to be healthy argument. And it's not easy to set up that environment.

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To the next question, which is about the stock price in the market. Well, maybe, I'm sure that you are a professional of the extension of the stock price. Well, for the short-term, the profit outlook, and also shareholder return policy and also shareholder scheme, those will be the factors for fluctuation of the stock price that when you look at one to three-year timeframe, those stock prices which are struggling or not growing is really determined by how you look at the future, not really based upon the asset. So, rather than the value of the asset, how you see the outlook for the future. And if you have clear picture of the outlook of the future, those company stock price tend to increase. Well, I think that will lead to the profit. That's how the market sees.

Well, if the Sampo evaluation is not really tampered. But if it's not really growing as I expect it to be, that means that Sampo really is regarded as the insurance group company. And I think, I really have to show the business model, not just talking about the philosophy, and also trying to avoid back-up with the numbers. Four business pillars plus digital, and also the potential business and also the overseas business which we try to diversify our income source. And over 40%, or maybe 50% comes from overseas. Also, for the domestic market, it should not shrink. But I think, there are many ways which we could improve. 95% of the combined ratio is not good. So, there is a lot of things which we have to do. So, we have to grow the bottom line.

And also, going beyond the insurance, we need to really show the potential for the future. And that will contribute to the better stock price. For the short-term, of course, yes, if we talk about the dividend, I'm sure that this is going to boost the stock price. But in the long-term, I think what I explained is going to be the key.

**Q - Koichi Niwa** {BIO 5032649 <GO>}

Thank you very much.

**A - Unverified Participant**

We have about 10 minutes, so if you have more questions, please raise your hand.

Can we conclude then? Thank you very much for your participation. This finishes the IR Meeting for Sampo Holdings. I thank you, once again, for gathering here today. Thank you.

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