S1 2014 Earnings Call

Company Participants

- Hirokazu Fujita, Corporate Accounting Department
- Sasaki, Investor Relations
- Unidentified Speaker

Other Participants

- Masao Muraki, Analyst
- Tsujino, Analyst
- Unidentified Participant

Presentation

Sasaki {BIO 19269575 <GO>}

My name is Sasaki from IR of Tokio Marine Holdings, let me now explain the overview of the second quarter financial year 2013 results, as well as, the full year projections of Tokio Marine Holdings, which we have just announced today. We are providing the following four documents for this meeting.

One, financial report; two, PowerPoint document entitled overview of second quarter fiscal 2013 results and full year projection; number three, supplemental material for conference call; number four, financial settlements data. I would like to ask you to access our website, then from the home page under topics, access the page where we disclose those materials and get your own copy via download.

In this conference call, we will be using the PowerPoint document and the supplemental material for 2Q fiscal year 2013 conference call to give you a presentation about the overview of the second quarter results, as well as, full year projections for about 30 minutes, first.

Please turn to page three of the PowerPoint document explained by the consolidated ordinary income. First I will explain about the consolidated ordinary income, ordinary income was JPY2,064.6 billion, year-on-year plus 20.3% increase by JPY347.8 billion. I will explain the reasons behind the increase by one by one.

Net premiums written regained for domestic and international non-life insurance business was JPY1,415 billion, year-on-year plus 13.1% or up by JPY163.9 billion. This is mainly because of increased domestic P&C businesses, auto insurance, expansion of underwriting at International Insurance business, as well as, consolidation of Delphi and positive impact of progression of yen depreciation.

Next, life premiums of domestic and international life business were JPY168.3 billion year-on-year, minus 7% or decline by JPY12.7 billion year-on-year. Tokio Marine & Nichido Life Insurance company increases in-force policies as there were favorable sales of new products in Asia and contribution from Delphi consolidation, which pushed up the income. However there was increase in surrender benefits and other refunds at financial life, which leads to decrease in life premiums overall.

Next, Investment Income was JPY355.6 year-on-year plus 162.6% or up by JPY220.1 billion. This is mainly because of increase in gain on sales of marketable securities at TMNF and due to recovery of the domestic market, financial life recorded investment gains on separate accounts. Now, because the investment gain on separate account was booked, same amount transferred to the underwriting reserves was recognized which makes this factor a neutral factor to P&L.

Next, I will explain the consolidated ordinary profit. Please turn to page four. Consolidated ordinary profit was JPY148.6 billion plus 79.3% or up by JPY65.7 billion. I will now explain the reasons for increase and decrease one by one for each domain on the slide. At TMNF, underwriting profits decreased, but net investment income increased which led to the ordinary income increased of JPY54.9 billion. As a result, domestic non-life business overall had increase in ordinary profit by JPY69.3 billion. I will explain the details later.

In domestic life business, there was an increase in agency commissions associated with revenue growth, an increase in provisions for underwriting reserves owing to standard interest rate revisions and leading to decline in ordinary profit. On the other hand, our financial life, there was an increase in income from insurance related expenses in accordance with the recovery of the domestic stock market and decrease in reinsurance cost is due to decrease in in-force policy amount which leads to increase in ordinary profit. For domestic life overall, ordinary profit decline by JPY400 million year-on-year.

In overseas subsidiaries, there was expansion of underwriting while we remain highly disappoint in underwriting contribution from Delphi consolidation and positive impacts of yen depreciation leads to year-on-year increase in ordinary profit by JPY51.8 billion. For consolidation adjustment, negative adjustment increased by JPY45.8 billion year-on-year. This is mainly due to the timing difference in receiving dividend payment from overseas subsidiaries created increase in dividend as well as by establishing the Interim holding company makes overseas subsidiaries that also receive dividend payment, which increases the amount of consolidation elimination for this quarter.

Now, I will explain about the Interim net profit. Please turn to page five. Interim net profit was JPY91.4 billion year-on-year, plus 46.2% or up by JPY28.8 billion. Main reason for increase and decrease is same as what I explained earlier for ordinary profit. To add, as additional factors at TMNF there was a reaction from gains on disposal of fixed asset and extraordinary gains from reversal of price fluctuation reverse, which reflects last year.

At Tokio Marine Financial Life, there was a reaction from getting extraordinary loss from increased retirement payment last year.

That was the overview of financial earnings for the second quarter of the year. I will continue to explain about the condition of each company. Please turn to page six. First, I will explain about the overview of the second quarter fiscal year 2013 earnings for Tokio Marine and Nichido Fire Insurance Company. On the page, you will see up and down arrows, upward arrow means positive factor for P&L, downward arrow means negative factor for P&L.

First, I will explain about the different factors for underwriting profit and loss. My explanation will be mainly about private life insurance therefore, please look at private line -- private insurance line of the chart.

Net premium written in private insurance, all lines of insurance increased top lines centering around auto insurance. Net premiums written for private insurance increased 4.4% or by JPY35.4 billion. Earn premiums increased by JPY30.1 billion, pushing up the earnings.

Line by line situation is explained on page eight, please look at it later. Net incurred loss of private insurance (inaudible) declined by JPY14.2 billion and I will explain each factor. As for net incurred loss from natural catastrophes although we had typhoon number 18 or Mini in September this year, there was a swing from last year when we had massive low pressure and typhoon number 4 at Guchol, net incurred loss was reduced by JPY19.3 billion.

As for net incurred loss excluding natural catastrophes although we had some large accident decreased by JPY11.4 billion mainly due to decline in net incurred loss of auto and fire insurances.

On the other hand last year due to provision of yen appreciation from the beginning of the year, but this year we are experiencing yen depreciation from the beginning of the year, which leads to increase in provision for foreign currency reserves for foreign currency denominated outstanding claims by JPY16.6 billion.

Next I'll explain about the catastrophe loss reserve. Last fiscal year, owing to natural catastrophe such as massive low pressure we had a net reversal of reserve. This year owing to decrease in claims paid related to natural catastrophes there is a net transfer to reserve. This lead to increase in provisioning by JPY43.2 billion. As a result underwriting profit for this year was down by JPY11.6 billion to JPY8.2 billion.

Next I would like to talk about investment income. Due to timing difference in quarterly recognition of dividends from overseas subsidiaries which increased dividend, and increase in gains on sales of securities owing to progress in sales of business related equity and decrease in impairment losses on securities associated with recovery in the domestic stock market rally. Net investment income increased by JPY68.8 billion to be JPY108.9 billion. The business related equity sold this quarter was approximately JPY56 billion.

Most of the dividend incomes from overseas subsidiaries are eliminated on consolidated basis. As you can see decline in underwriting profit was more than offset by increase in investment income, an interim net income increased by JPY24.9 billion year-on-year to be JPY69.7 billion. Next I'll explain about the combined ratio.

Please turn to page seven. First, let me explain about the written to paid basis loss ratio. Compared to last year there was decrease in paid claims relating to natural catastrophes, decrease in paid claims excluding natural catastrophes in fire and also leading to decrease in paid claims including loss adjustment expenses by JPY32.5 billion.

As a result private insurance written to paid basis loss ratio improved by 6.6 points to 58.4%. Here I'd like to touch up on the earned incurred basis loss ratio. E/I loss ratio for this quarter improved by 4.2% to 62.1% this is mainly because via provisioning for claims reserves for foreign currency denominated policies increased incurred loss decreased for fire and auto insurances.

Auto insurances E/I loss ratio improved by 4.8% to 64.3%, which means unit claims payments increased for vehicle damage and property damage liability insurance but reported claims decreased and unit premium increased.

Now let's go back to written to paid basis combined ratio and explained about expense ratio. Due to increase in net premiums written, corporate expenses ratio improved by 0.2 point, but average agency points went up, which worsened the agency commission ratio by 0.3 point, worsening the business expense ratio by 0.1 point to 32.6%. As a result, written to paid basis combined ratio improved 6.5 points to be 90.9%.

Page eight, shows line by line net premiums written and loss ratio situation, page nine shows details or the asset management results. Please look at those pages later. Now I will explain the forecast of Nichido Fire on page 10. Nichido Fire experienced positive factors for its underwriting profit such as decrease in net incurred losses, decrease in natural catastrophes, improvement in underwriting results in auto, as well as, decrease in business expenses. However, there was a decrease in reversal of the catastrophe loss reserves leading to increase in underwriting profit by JPY2.4 billion to be JPY2.5 billion.

As for net investments income there was a reaction from impairment losses on securities last year. Our net investments income increased by JPY1.8 billion to JPY1.7 billion, after extraordinary gain and loss although it was impacted by the swing from several business or price fluctuation reserves last year. Net income improved by JPY2.4 billion year-on-year to be JPY2.5 billion.

Next I will explain about Tokio Marine & Nichido Life insurance Company, please turn to page 11. To review the sales results of Tokio Marine & Nichido Life, let me first of all explain to you that ANP, (inaudible) historical trend of ANP which continue to grow at a fast rate in the first half of this fiscal year. ANP of new policies grew significantly by 33.7% year-on-year, thanks to continued strong sales of "Medical Kit R" which we launched in January 2013.

In addition to the growth of the first-sector products and individual annuities. ANP's in-force policies also grew by 5.8% over the year due to the steady increase and in-force policies. Next let me go over (inaudible) Insurance premiums and others increase by JPY36.8 billion year-on-year to JPY294.2 billion, as I explained earlier for ANP this growth is also thanks to the favorable sales of new policies, as well as, steady increase in in-force policies.

Net income declined by JPY2.4 billion year-on-year to JPY5 billion, this is due to the increase in provision for underwriting reserves in conjunction with the decrease in standard interest rate and increased business expenses, primarily agency commissions.

I will next discuss international insurance business on page twelve.

Following the standard use in our conventional disclosure and IR materials, I would like to explain the international business procurements including overseas branches of Tokio Marine & Nichido Fire equity method companies, as well as, non-consolidated companies abroad. In the second quarter, net premiums written increased by 65% or by JPY205.5 billion year-on-year to JPY521.4 billion due to organic growth of existing operations and effects of Delphi consolidation on top of weaker Japanese yen.

Let me explain a few more detail by business domain, Philadelphia grew their top line by 40% based on increase in new business and rate increases on the renewal book. Delphi was consolidated to our group in the third quarter of 2012, so their contribution of JPY91.8 billion during the second quarter of this fiscal year was a net addition to our top line compared to a year ago.

Kiln grew their top line by 19% primarily thanks to weaker Japanese yen. Top line contribution from South and Central America grew by 50% mainly due to the strong sales of our main -- auto policies in Brazil. Non-life operations in Asia grew their top line by 43%, mainly based on the growth of personal auto policies in major markets. Next I would discuss adjusted earnings on page 13.

The adjusted earnings of international insurance business grew by 151% or JPY42.7 billion versus a year ago to JPY71 billion. This is due to the decline in natural catastrophe losses progress of our various growth measures and profit contribution of Delphi in addition to the benefit of fall in Japanese yen. If I may break this down by business domain, first, Philadelphia grew their earnings by JPY5.8 billion, in addition to the top line growth through a successful acquisition of new business and rate increase in renewal policies book. Natural catastrophe losses decreased over the year.

And Delphi contribution increased our adjusted earnings by JPY17.2 billion in the first half of the fiscal year, like we saw earlier for the net payments written. Adjusted earnings from North America declined by JPY1.3 billion mainly due to Tornado in January. Kiln grew their adjusted earnings by JPY4.5 billion, in addition to the decline in natural catastrophe losses, they also posted foreign exchange gains around their US dollar denominated assets due to the weakening of UK sterling. Adjusted earnings in Europe and Middle East declined on the local currency basis due to a major accident in Europe.

Adjusted earnings non-life business in Asia grew by JPY14 billion positively, this is because in addition to the top line growth in the property and automotive lines of business in Malaysia and Thailand, losses incurred related to Thai flood decreased.

Adjusted earnings contributed from life business declined by JPY900 million due to a decline in EV in our Thai Life Insurance business. I will next explain to you the group wise adjusted earnings in the second quarter on page 14.

The group total adjusted earnings increase by JPY34.8 billion to JPY108.2 billion mainly due to the increased contribution from overseas insurance business. However, excluding the effect of the change and risk discount rate which is used for EV calculation in life business, the adjusted earnings grew by JPY76.5 billion to JPY149.8 billion.

I will explain the major reasons behind this year-on-year change. For P&C business adjusted earnings is calculated based on the statutory net income with some adjustments such as exclusion of the impact of reserves unique to non-life business such as cat loss reserves from the statutory numbers as well as sales and our realized gains and losses of assets such as equities and real estate in order to clearly indicate profit and loss generated from our business activities during the term under review.

Tokio Marine & Nichido Fire grew their statutory net income by JPY24.9 billion year-on-year but the adjacent earnings grew only by JPY1.2 billion, the differential primarily comes from the adjustment made related to sales gains of scale business related equities as far as dividend income from overseas subsidiaries.

For a life business year-on-year change in EV is deemed as their contribution to our adjusted earnings. EV of Tokio Marine & Nichido Life declined by JPY29.6 billion year-on-year. This is due to the change in risk discount rate associated with price and interest rate, excluding this effect their underlying adjusted earnings grew positively. Tokio Marine Nichido Financial Life grew their EV by JPY13.5 billion year-on-year, their insurance fee income increased thanks to the improvement in market environment. And as I explained earlier adjusted earnings from our international insurance business grew positively. So far I have given you the highlight of our financial result in the second quarter of FY '13.

I will next discuss the full year guidance of FY '13 on page 16. Our consolidated ordinary profit forecast is now revised upwardly by JPY150 billion from our initial forecast to JPY285 billion.

Let me start with our domestic P&C business. Tokio Marine & Nichido Fire made an upward revision to their investment income. This is because sales gains in securities as well as interest in dividend income from domestic equities are expected to increase supported by the improvement of market environment, in the mean time as some of the payment of claims related to Thai Flood and Hurricane Sandy is now expected to be carried over to the next fiscal year reversal from the cat loss reserves is expected to be smaller than initially expected.

And since Japanese yen is expected to be weak continuously provisioning for reserve for foreign currency denominated outstanding claims is expected to increase in provisioning for reserve for outstanding claims is also expected to increase in yield of consumption tax.

Based on these factors, as far as expected increase in losses incurred from major accidents. The forecasts for underwriting profit is now revised downwardly, as a result ordinary profit of TML - TMNF is revised downwardly by JPY15 billion from our initial forecast.

Next on domestic life, ordinary profit forecast from TMNL is revised upwardly by JPY3.9 billion from our additional forecast. This is because investment income is expected to increase in proportion of underwriting reserve intensive product is expected to decline in product mix. That financial life, we've also made enough revisions by JPY8.4 billion from the original forecast since they expect reversal of additional provisioning for underwriting reserves based on improvement in market environment.

For overseas subsidiaries we made and operate revision by JPY26.6 billion from the original forecast based on the reason group business performance and weak Japanese yen which is expected to stay. Next, please go to page 17, to discuss the forecast of our consolidated net income for FY'13. The consolidated net income is expected to be JPY185 billion on full year basis which is in upward revision by JPY15 billion mainly due to the same reasons behind the upward revisions that we made for ordinary profit.

For more details by company please refer to page 19 onward. Before I conclude, I will walk you through our full-year forecast on adjusted earnings on page 18. The group total adjusted earnings is now expected to be JPY213 billion which is a downward revision by JPY13 billion. Adjusted ROE is expected to be 6.0% excluding the negative effect of the change in risk discount rate is for EV calculation by JPY44.4 billion. We expect our adjusted earnings to be JPY257 billion which is better than our initial forecast by JPY31 billion. I would discuss it in more detail by business domain, for domestic non-life business we made a revision by JPY11 billion from our original forecast. Based on the actual performance during the first half of the year, Tokio Marine & Nichido Fire revises upwardly their forecast on net payments return. However, due to a fall in Japanese yen in this fiscal year, provisioning for reserve for foreign currency denominated outstanding claims expected to increase and also there will be an increased provision for outstanding claim reserve and your consumption tax hike.

Meanwhile Nisshin Fire made an upward provision due to the expected profitability improvements in fire and auto business. For domestic life we made an downward revision by JPY28 billion from the original forecast, Tokio Marine & Nichido Life made a downward revision, while their top line is projected to increase based on a strong sales of the first-sector products particularly Medical Kit R, as well as, individual annuities due to decrease in disk risk discount rate we made a download revision.

On the other hand at financial life we make an upward revision based on expected improvement in market environment. For International Insurance business we revised upwardly the adjusted earnings forecast given the benefit of weaker Japanese yen in profit and decrease in -- this related to Thai Flood.

This concludes by presentation and I'm happy to entertain question that you may have during the rest the of the time.

Questions And Answers

Operator

Thank you Mr. Sasaki. Now we'd like to start the Q&A session. (Operator Instructions) Thank you. Our first question is Mr. Muraki from Deutsche Securities.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you for the opportunity. First this time all the revisions you made for the forecast you did make -- there was a downward pressure for the revisions. First you must have something to do with the large accidents other than also the E/I loss ratio.

I believe you are forecasting worse than the original forecast. If you look at Page 20, you show us the plan for the E/I loss ratio for auto, you are improving the -- other than auto you're showing some improvement, but this must where the difference come from.

And for the overseas travel insurance and for casualty insurance, personal accident last year compared to last year of the year before that and you are showing the E/I loss ratio going up and comparing your assumption other than auto, can you explain some of the factors relating to the worsening of the loss ratio and also on page 19, for the catastrophe loss reserves, JPY25.3 billon of gap exist between the forecast and I believe this is mainly due to the Thai Flood, but is that correct so I have those two questions for you?

A - Unidentified Speaker

My name is Hirokazu [ph] I come from the corporate Accounting of Tokio Marine and Nichido Fire. On your first question, the revision that we are making this time and any downward revisions that we had factored in this time, what are those factors was your question.

As you pointed out, for personal accident, for overseas travel insurance we are seeing some worsening of the results, the main reason for that is because of yen depreciation that was the tendency we witnessed in the first half and as for the second half and after we believe the worsening trend that we had in the first half is going to continue to some extent in the second half, other than the personal accident factor, sometime we saw worsening in the first half is the marine insurance and for other insurance businesses we did experience some large accidents in the first half and those were the main factors that to be considered where we made a downward revision to the underwriting profit of forecast.

To your second question, about catastrophe loss reserves, as you pointed out, the main factors are, first of all, the claims made for Thai Flood the payment -- the progress of the payment is lagging and it's getting into the later period. Originally, we were expecting about JPY24 billion of payment in fiscal 2013.

However, in actuality we believe it going to be around JPY14 billion for 2013. And the (inaudible) forecast is both are going to be pushed back and that, in totality there will be about JPY10 billion that will get into 2014 and that is the main factor making some impact to the catastrophe loss reserves. Thank you for your question, regarding the second point about Thai Flood, some of the payment which will log into next year, if that really happens at Tokio Marine & Nichido if this much amount then the loss ratio for the fire line exceeding 50%.

I don't think that would make, I don't think that would make such a significant impact to us to create a reversal gain.

Q - Masao Muraki {BIO 3318668 <GO>}

What is creative reversal gain?

A - Unidentified Speaker

For 2014 payment, we are still in the calculation process, I don't have the detailed answer for you. I apologize.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you, thank you for the answer.

Operator

Next question if from Ms.Tsujino from JP Morgan.

Q - Tsujino {BIO 2234779 <GO>}

First half. International business, you showed us some numbers and I know that there is a three month long delay in terms of the working of those numbers and I believe that they (inaudible) it's actually we are significantly recruited (Technical Difficulty) As you re-said our reinsurance portion has not been worked very significantly, but I believe that there hasn't -- significant impact but can you comment on that?

And also just to clarify, outside Japan with the worsened natural cats, I believe that according to your initial expectation that you had a budget of about JPY35 billion, so what has been the actual losses been incurred in the first half of this fiscal year and what is actually, what is the full year forecast at this particular part in time?

A - Unidentified Speaker

My name is Moriyama from international business development division. Now to your question on reinsurance rate is fastening.

Q - Tsujino {BIO 2234779 <GO>}

At this point in time or as of the second quarter of this fiscal year, we haven't seen actual significant impact. However, excluding foreign currency impact at Kiln, I believe that you actually get the underlying trend, but looking at the market trends and looking at the future rather to some extent consciously, you are now trying to stretch yourself into underwriting process.

A - Unidentified Speaker

So, as far as the top line is concerned again we try not to stretch our self too much. That is the reason or the rationale behind the numbers that we explained earlier and Kiln and reinsurance business on the full year basis. Again we intend to continue to keep the underwriting discipline in place, so that we wouldn't stretch our top line too much, that is the rationale behind our full year guidance. Also with regards to your question on natural cat, from January to June for the first six month of this calendar year before tax approximately JPY10.4 billion, after tax for in terms of list earnings or after tax approximately JPY7.7 billion has loss has been incurred. And in the first half of the fiscal year including before tax, this is about JPY5 billion less than what we initially expected.

And our original budget were JPY35 billion on a full year basis and given the actual situation till date. On the full year basis we believe that we would be heading somewhere around JPY30 billion. I hope that answers your question.

Q - Tsujino {BIO 2234779 <GO>}

Yes. So with regards to the insurance business. On the local currency basis looking at the trend of the net premiums written, is there anything that you can comment about?

A - Unidentified Speaker

Yeah. On page 12 of you handout material, let's assume it's written in the second quarter on actual result, as you can see here. I'm sorry, your question is the situation in third quarter, right?

Q - Tsujino {BIO 2234779 <GO>}

Yes, it's not part of this number yet, however, I just was wondering how the business is trending in the third quarter, any update that you can share with us?

A - Unidentified Speaker

Okay, if that is your question then, we believe that underlying trend that we observed in second quarter is expected to continue for the rest of the year. So in terms of the top line while we look at the profitability as well as risks, we would be continued to be profit oriented and in terms of the future earnings of course that we are currently putting together the earnings conference next fiscal year and we are trying to different encloses look at the situation.

Q - Tsujino {BIO 2234779 <GO>}

Okay, and on a different note, if the reconstruction special tax is finished when we accelerated, one year earlier than usually expected. What is the impact, and if that impacted into this plan?

My name is Evita [ph] from Accounting Department. The revisions made this time around, the termination of -- the impact of termination of the special re-concession tax, we are one year earlier than expected it's not factored in. And what is the impact is approximately JPY7 billion on a consolidated basis.

Q - Unidentified Participant

Okay thank you very much.

Operator

Next question is from Mr. Otsuka [ph] of Nomura Securities.

Q - Unidentified Participant

My name is Otsuka. I have two questions. My first question, is regarding for domestic auto insurance business, the number of claims, the unit claim payment what is the trend that you are seeing in this quarter or actually in the first half of the year. Can you show me the trend, that's the first question.

My second question, is about the large accident. I don't know if it's a large accident but typhoon number 26 that is Japan for the domestic market and also in Detroit in United States. I believe there was some accident in the United States and also in the Philippines there are -- the typhoon that occurred in the Philippines especially the loss relating to your re-insurance business. Can you tell me the impact of build accidents which we have witnessed?

A - Unidentified Speaker

From personal alliance of underwriting department, my name is Hanada [ph] and I'd like to answer your first question regarding the auto insurance for accident frequency due to the grade systems revisions centering around the -- there is a decline in the claims for vehicle damage and for parts the repair parts units cost is going up and also due to the grade rating system change there was an increase in both vehicle damage and the property damage.

Combining the three factors together the E/I for auto for full year the loss ratio was revised downwards, that means according -- compare to the original forecast I believe that you've seen a positive trend compared to the original trend as for the factoring in the decline in the accident frequency and that is why we've made revision to the full year forecast for the auto zone.

A - Hirokazu Fujita {BIO 17671014 <GO>}

My name is Fujita from the Financial Planning Department of Holdings for the Detroit accident. The litigation we have not seen much progress with the litigation. Therefore, we have not factored that into our forecast and as of the first quarter the credit line was disclosed by JPY10 billion. However, as of the second quarter the situation has not changed much. That is my answer to you.

Q - Unidentified Participant

Typhoon 26, as of now, what is the expected loss amount and also the Philippine typhoon impact, what are those?

A - Hirokazu Fujita {BIO 17671014 <GO>}

My name is Hirokazu from Tokio Marine and Nichido, for Typhoon 26, Typhoon number 18, that was about JPY12 billion to JPY13 billion of net incurred loss, and I believe 26 is going to be a little bit low, this level of net incurred of payment.

As for the Philippine's damage, as of now the loss adjustment or survey hasn't progressed much, but we don't expect that for this to lead into such a large amount of loss. Four, five year reinsurance, order lines exposed combined.

A - Unidentified Speaker

Let me add, my name is Mariama[ph] from international business development, with the low cost insurance company, Malayan insurance company, we have some take overhead which is a consolidated affiliated company within the group and looking at the damage they have experienced.

We have not been able to go into the local area of damage, and therefore it is difficult for us to say anything definitive about the level of the damage we have experience. But the Eureka Island as well as the adjacent area, the horses, cars, car insurance of all those personal life of insurance, so we trying to assess the level of the damage, and so far the exposure is limited is how we see the situation so far.

And also for the business insurance, for corporate customers we do have some underwriting that we have done for the area for the corporate customers and we have not really began the most assessment yet. But in terms of the scale of the damage, I would say that it is not as much to make any significant impact to the earnings, other than those within the group we have some reinsurance assumption business there in the local area where we would say that the damage is again alternated.

Q - Unidentified Participant

Okay. And lastly for Typhoon 26, you said that it's going to be -- the loss is going to be less than Typhoon 18, have you self started into this year's forecast and is that why you made a revision to the full year forecast.

A - Hirokazu Fujita {BIO 17671014 <GO>}

Basically, yes that is the correct understanding.

Q - Unidentified Participant

Yes. Thank you very much.

Operator

Next question is from Heiotha[ph] Taiwan Capital Markets. I have two questions. Number one with regards to business expenses on page seven, disclosing the first half actual results, in the first half of this year which actually increased slightly on year-on-year basis that is because of the increase in agency commission table point and looking at your full year guidance on the other hand on page 20. The business expense is now expected to come down.

So comparing the first half actual and the guidance, on the full year against your guidance, what is the reason behind this gap, was there anything special during the first half of the year, that is my question and secondly with regards to risk discount rate change that you made for licensing, in March 2014 this rate once again could be revised but if that happens, what kind of indicators that we want to monitor in order to see how this rate could trend going forward?

A - Unidentified Speaker

My name is (inaudible) from Accounting Department, with regards to these expenses in the first half of the year, there wasn't anything peculiar or particular in the first half of the year. It was rather because, in the last fiscal year the business performance was low and also the personal expenses went up, and business expenses were slightly deteriorated.

However, pretty much staying flat, that is our tape on the first half of the result of the expenses. With regards to full year guidance on the other hand we expect a top line to grow and accordingly the business expenses are also expected to increase to some extent, however, -- there were IT system development cost is expected to come down because again the top line is also expected to increase relatively the non personal and personal cost are also expected to come down and therefore the business expense are expected to come down by 0.5 points.

Q - Unidentified Participant

So with regards to agency commission table point, how do we want to look at the outlook?

A - Unidentified Speaker

Right with regards to the commission table point, we have been reviewing these points accordingly or as necessary and so far we have been trying to grow the top line and with that we have been also growing the commission and expenses as well. However the table has to be revisited and in fiscal year 2012 and 2013, I believe that the agency commission rate will be pretty much same around 17.1% or so.

Q - Unidentified Participant

All right. Thank you.

A - Sasaki {BIO 19269575 <GO>}

And with regards to the other question that you asked, concerning the change in risk discount rate. Sasaki from IR Group, is going to answer that question.

Now, we made a disclosure with regards to adjusted earnings today as well and as you see in a disclosure material as though at Tokio Marine & Nichido Life and also Financial Life and that is about in calculating the embedded value, we are using a value approach. And a risk and free rate interest rate as well as risk premiums are the assumptions used for calculation and the risk premium is 6% and risk free rate is 20 year loan GGB yield, and that yield as you see in the first note of the material we will be using the actual free risk rate as of the end of March, 2014 to calculate FY '13.

Q - Unidentified Participant

So how does that change, does it change by 1%?

A - Unidentified Speaker

Yes, yes we make revision by 1%.

Operator

Next question is from (inaudible).

Q - Unidentified Participant

Regarding your P&C business please tell me one thing in your presentation material, if I turn to the page 19 for the netting program for this year your forecast is the increase in net interest premium, what will be the impact that's coming from the -- the increase in additional provisioning to the -- coming from the yen depreciation provision as well as expected increasing needs?

A - Hirokazu Fujita {BIO 17671014 <GO>}

Hi may name Hirokazu, I'm from Corporate Accounting. The FX impact and the consumption tax impact, consumption tax on a full year basis, we are expecting about JPY6 billion on all lines combined. The FX impact, compared to the original forecast versus the revised projections that will be depends between the two for the private lines of insurance there will be about JPY7 billion impact.

Q - Unidentified Participant

Thank you. Related to that let me, may I ask you one thing, this is not about your financial earning but not that we know that the tax is going to hike. The rate any path through that you're thinking over to the rate of insurance, are you thinking of any price increases still accommodate to the increase in consumption tax?

A - Unidentified Speaker

This time the impact of the consumption tax has already appeared in the earning for next year, or the claim miserably have 40 payments to be made from the next year and after that's the additional provisioning for 2014. For the premium as well as for over the expenses to be paid, and the claims to be paid they'll also be impacted by the consumption tax. The combined ratio basis 1.9% upward movement is expected coming from the consumption tax increase?

The premium itself is tax exempt therefore, for business expense and the claim payment will be burdened with consumption tax and what to do about this going forward. Obviously, we will continue to reduce the business expenses and we will continue to rationalize the businesses. And by doing those, is that -- that is not enough to absorb the impact then as one of the many choices we have, we have a choice to review the premium rate to contrary effect.

Q - Unidentified Participant

Thank you.

Operator

There seem to be no question at this point of in time. (Operator Instructions) Next question is from Mr. Ban [ph] from UFJ Morgan Stanley Securities.

Q - Unidentified Participant

I have just one question to ask you. Adjusted Earnings has been revised downwardly compared to your original forecast. However as for the adjusted earnings which is the fund for dividend payment excluding EV contribution from life, primarily thanks to international insurance business as we said, we actually made it on upward revision.

So in the second half onwards in terms of the fund of the dividend, adjusted earnings in the second half of this fiscal year that you're expecting to use for the return to shareholders, do you see any negative impact to the returns to the shareholders at this point in time, what is your view currently on this adjusted earnings as a fund for dividend payment?

A - Unidentified Speaker

On page 18 of the presentation material you have seen the adjusted earnings forecasted for this fiscal year, and as you've pointed out earlier our dividend is essentially based on the adjusted earnings excluding EV contribution from life. And we also do normalize or average out adjusted earnings in order to determine then on the dividend we pay out.

So as you said because of the risk discount rate we have to make a downward revision and because of that given the nature of the revision, I believe that we should be actually able to increase adjusted earnings as a fund for dividend payment.

So going forward and also this fiscal year I believe that as we do the business and generate more profit we should be able to tell how much dividend we should be able to actually pay out and we have announced the interim dividend and that is a JPY30 in line with our initial forecast and there is an increase of JPY2.5 so going forwards as we grow the profit, we will continue to work to pay dividend, so there is no change to our dividend policy.

Q - Unidentified Participant

Thank you.

A - Unidentified Speaker

It seems to be no question in the line now, the operator is explaining how to have the Q&A question for Japanese Audience.

I would like to thank all of you for attending the second quarter financial results announcement meeting for Tokio Marine Holdings 2013. If you have any further questions or things that needs clarifications, please contact (inaudible). Thank you very much for your participation.

Operator

This concludes the financial results announcement meeting for the second quarter of fiscal year 2013 for Tokio Marine Holding. I thank all of you for your participation. Now you may hang up you line. This is the end of the conference call.