Q1 2018 Earnings Call

Company Participants

- Kiyoshi Wada, Group Leader, Corporate Communications and IR Group

Presentation

Kiyoshi Wada {BIO 19963983 <GO>}

I am Wada from Corporate Communications and Investor Relations Group. I would like to give you the overview of Tokio Marine Holdings Financial Results during the First Quarter of FY '17 that we announced today.

I would like to give you a presentation for the first 15 minutes or so based on the PowerPoint slides that are uploaded on our homepage under Topics. And after my presentation, we would like to entertain your questions.

Let me start with the overview of our consolidated results on Page 2. Net premiums written were JPY 919.3 billion, up by 2.8% or JPY 24.9 billion year-on-year due to business expansion, both home and abroad.

Life insurance premiums increased by 1.9% or JPY 3.9 billion from a year ago to JPY 219 billion due to an increase in in-force policies.

Meanwhile, consolidated ordinary profit became JPY 123.6 billion, down by 3.4%. And net income became JPY 88.1 billion, down by 9.4% year-on-year due to a decrease in sales gains of business-related equities as well as a decrease in gains and losses on derivatives at TMNF.

We are working continuously to sell business-related equities for JPY 100 billion or more per annum. And while in FY '16 we sold JPY 52 billion or more than half of a full year program during the First Quarter, this year in FY '17, we sold JPY 42 billion in the first three months. As a result, after excluding the effect of provision for cat loss reserves and amortization of goodwill, our group-wide profit KPI adjusted net income declined by 4.3% year-on-year to JPY 119.6 billion.

In terms of progress against our full year projection, we have already achieved 31% of a full year projection, a similar rate of progress compared to a year ago. Next, please go to Page 3.

In the domestic nonlife business, ordinary profit of TMNF increased by JPY 31.2 billion year-on-year due to a decrease in net losses incurred by natural catastrophes and an increase in dividend income from overseas subsidiaries, while provision for foreign currency-denominated outstanding claim reserves and net losses incurred by large losses increased, respectively.

Profit of domestic life business declined due to a decrease in sales gains of securities and an increase in provision for contingency reserves. Profit of international insurance business increased due to profit growth in North America, amongst others.

As for consolidation adjustment, negative adjustment increased by JPY 37.7 billion year-on-year due to an increased dividend income from overseas subsidiaries at TMNF.

Next, please go to Page four to review adjusted net income. Adjusted net income is a group-wide KPI based on consolidated net income under JGAAP. But compensating for the impact of various reserves unique to insurance business and deducting sales gains and losses of fixed assets in order to indicate underlying profit and loss from our business operations.

Adjusted net income became JPY 119.6 billion, down by JPY 5.4 billion from a year ago. Major year-on-year changes in the reconciliation from net income under JGAAP to adjusted net income are as shown on the slide. Next, I will discuss domestic non-life business on Page 5.

Net premiums written for private lines of business increased by 2.8% or JPY 12.8 billion year-on-year, mainly due to top line growth in auto, fire and other lines of business.

For more details by line of business, please refer to Page 7. Net losses incurred increased by JPY 4.8 billion year-on-year due to the expansion of in-force policy book as well as increase in large and midsize accidents, despite a decrease in net incurred losses related to natural catastrophes.

Business expenses for private lines of business increased by JPY 3.1 billion year-on-year due to an increase in agency commissions, associated with top line growth. Provision for cat loss reserves went up by JPY 0.5 billion year-on-year due to the increase in net premiums written. As a result, underwriting profit of the term under review became JPY 34.5 billion, down by JPY 1.8 billion year-on-year.

Next, net investment income and other. Details are described on Page 8. But net investment income and other increased by JPY 30.5 billion to JPY 109.1 billion due to a growth of dividend income from subsidiaries despite decrease in gains and losses on derivatives as well as sales gains and losses of securities. Please also note that dividends from subsidiaries do not affect consolidated numbers of our entire group as they are almost eliminated as part of the consolidation adjustment.

During the term under review, we sold business-related equities by approximately JPY 42 billion. And the sales gains were approximately JPY 30 billion. All in all, net income became JPY 120.1 billion, up by JPY 28 billion year-on-year.

Next, let me discuss combined ratio on Page 6. The loss ratio for private lines of the business on an earned-incurred basis was up by 0.2 points, reaching 55.7%. Although net incurred losses relating to natural catastrophes decreased, there was an increase in provision for foreign currency-denominated outstanding claim reserves as well as an increase in large and medium losses. The expense ratio improved by 0.2 points year-on-year, reaching 32%, mainly due to an increase in net premiums written.

The private lines of business earned incurred combined ratio, as a result, was flat year-on-year at 87.6%.

Next I'd like to explain the results for Nisshin Fire. Please turn to Page 9.

Underwriting profit for Nisshin Fire was up by JPY 300 million year-on-year at JPY 2 billion, due to an increase in net premiums written for fire and specialty insurance and a decrease in net incurred losses relating to natural catastrophes. Net investment income and other increased by JPY 300 million to JPY 300 million year-on-year, due to the reversal effect of foreign exchange losses in fiscal 2016 and a decrease in impairment losses on securities. Accordingly, net income increased by JPY 200 million year-on-year, reaching JPY 1.3 billion.

Next I'd like to explain the results for TMNL. Please turn to Page 10.

New policies ANP decreased by 13.7% year-on-year due to sales suspension of long-term saving-type products and product revision in April associated with the lowering of standard interest rates, et cetera, despite continuous favorable sales of household income term insurance.

In-force policies ANP increased by 3.5% year-on-year due to an increase in new policies.

Looking at key figures in financial accounting. Net income decreased by JPY 3.7 billion year-on-year, reaching JPY 2.5 billion. However, if the decrease in gains on sales of securities and the increase in provision for continued c reserves, et cetera, is taken out, core operating profit was about the same as last fiscal year at JPY 7 billion.

Now I'd like to talk about the International Insurance Business, which is on Page 11.

Net premiums written for the International Insurance Business increased by 2% year-on-year due to the progress of growth measured in each business segment. By region, in North America the net premiums written increased by 4% overall due to the 3 companies increasing rates in the renewal book and business expansion, focusing on products of the specialty insurance.

Europe increased, too, due to business expansion at Tokio Marine Kiln, et cetera. South and Central America increased, mainly due to auto insurance sales growth in Brazil. And for Asia, net premiums written increased due to progress of growth measures in each country, mainly in India.

Reinsurance decreased, mainly due to a reversal effect of multiyear policies in fiscal year 2016. Life insurance increased, mainly due to sales growth in Thailand, India and Indonesia.

Next I'd like to explain business unit profit for the International Insurance Business. Please turn to Page 12.

Business unit profits increased by 4% year-on-year, which was up by JPY 1.7 billion due to the progress of growth measures in each business segment.

On a regional basis. In North America, profits increased by JPY 6.2 billion overall. Philadelphia's profit decreased, mainly due to large losses on one hand. But Delphi recorded an increase in profits due to the reversal effect of realized capital losses in fiscal 2016 and an increase in investment income.

As for Europe and reinsurance, profits decreased, mainly due to factors such as the deterioration of foreign exchange gains and losses. For Asia, profits increased mainly due to reserve takedown and the reversal effect of large losses in fiscal 2016. Please refer to Page 13 for the breakdown for the 3 North American companies.

This concludes my remarks.