Outside Director Roundtable

Strengthening governance for the next stage of growth

We asked the outside directors to discuss T&D Holdings' corporate governance challenges, efforts to resolve them, their roles as outside directors, and other topics, while also taking into account the issues mentioned in the FY2022 roundtable.

FY2022 review of the strengthening of the Group's corporate governance

Ohgo

I believe that the Group's governance has greatly progressed over this year. I acted as the chairman of the Nomination and Compensation Committee for the first time. Thanks to the efforts of the committee members, individual compensation for directors and Audit and Supervisory Committee members is now determined by a resolution of the Board of Directors, instead of the discretionary decision of the Representative Director as it had been before. An even greater new epoch is the process for nominating a president of each core company. Previously, each core company would list up candidates for President, discuss it at the Nomination and Compensation Committee and then again in the Board of Directors. This time, a different process was used—T&D Holdings took the lead in discussing the selection of candidates for President of core companies. To be honest, I think that this is a huge step forward in the sense that T&D Holdings, which used to have each company acting individually, has started to move together as one Group.

Taishido

I was appointed an outside director last June, and I understood that the promotion of integrated Group management with T&D Holdings at the helm was an extremely key management issue. At the same time, it was a year where I was keenly felt, from my outside perspective, how the management team had a strong awareness of promoting integrated Group management and were trying to

The Group was also proactive in constructive dialogue with stakeholders, which I believe can be highly praised.
—— Yamada

improve it. Intra-Group personnel rotation has also been strengthened, with an eye to developing talent that can steer management from the perspective of the total optimization of the Group as a whole. Furthermore, just as Mr. Ohgo says, I believe it is essential to strengthen the function of the Nomination and Compensation Committee, and I consider the strengthening of the attitude toward Group governance by T&D Holdings with regard to the personnel for directors and Audit and Supervisory Board members, including those of subsidiaries, to be a significant development. Furthermore, to ensure the effectiveness of the deliberations, a lively discussion was held on everything from decision-making processes, such as the appointment of the top management of core companies, to what information is necessary for the discussion. While the Group's governance reforms still need some work, I believe this was a year of great progress. The broadcasting of the Group's first commercial this spring also had a symbolic meaning in terms of promoting integrated Group management.

Watanabe

I have also recognized integrated Group management as a challenge since my appointment. During the past year, as a member of the Nomination and Compensation Committee, I have also offered my opinions on the personnel for Group directors and Audit and Supervisory Committee members, revisions to regulations, and actual operations, in an effort to promote the leadership of T&D Holdings. Furthermore, moving forward, I am proposing deeper discussion on the compensation system for directors and Audit and Supervisory Committee members. When it comes to integrated Group management, I believe it is important to enhance the growth potential that comes from being a Group, and to promote going back to the starting point of establishing the T&D Holdings, to be recognized in the capital market.

Yamada

I have been involved in the Group Long-Term Vision (Try & Discover 2025), which was announced in May 2021, from the formulation stage. Setting KPIs that facilitate social value as well as economic value, the deadline was announced externally to be realized in a five-year timeframe, and the message is very clear. At the same time, I felt that a considerable amount of resolution would be required from both the executive side implementing the Group Long-Term Vision and us, who monitor it. Two years have now passed. As the environment has been changing under what is known as VUCA, I have experienced firsthand the difficulty and burden of steadily moving forward with plans while keeping our feet on the ground. Against this backdrop, the Group has been proactive in engaging in constructive dialogue with stakeholders, and has strengthened its governance so that issues that emerge from these discussions are properly discussed by the Board of Directors, which I believe is highly commendable.

Higaki

As you all mentioned, T&D Holdings was established in 2004, and I feel that in its 20th year, a major gear has been set in motion. As the chairman of the Audit and Supervisory Committee, I believe there is a need to change starting from the corporate culture in order to further promote progress with this Group's reforms. We should create a culture in which issues are firmly raised about what needs to be changed—for example, we could foster an open culture by implementing a 360 degree evaluation system that includes top management. Various laws and regulations, such as the Insurance Business Act, must be upheld when managing an insurance company. This is to protect policyholders, not the insurance company. With this in mind, I am pushing for governance reform. However, it is still a work in progress, and it was a year where I had an extremely strong sense of how necessary it is to further push forward with corporate culture reforms in particular.

Moving forward, I am proposing deeper discussion on the compensation system for directors and Audit and Supervisory Committee members.
—— Watanabe

Challenges to further strengthen governance and role in resolving these challenges

Higaki

Having already touched on some of the challenges, I would further say that from a shareholder and investor perspective, it is all about managing the company with capital in mind. There is a need to make clear where capital is being used, sufficiently improve return on this capital, and distribute it appropriately. In order to achieve this, we need to take the scalpel to pain points and push forward with reforms. At present, we have not yet gotten that far. When I look into the cause of this, I feel that it lies in a culture where everyone is looking for comfort and trying to avoid friction as much as possible. This cannot be overlooked as an outside director, that is, a representative of stakeholders, including shareholders. This is why I believe that not turning a blind eye to the pain involved and overcoming it to move forward will lead to the next step up.

Yamada

The Group is committed to management on both an economic value basis and a financial accounting basis. FY2022 was a very difficult year when it comes to this goal. With costs increasing due to COVID-19 hospitalization benefits payments as well as foreign exchange hedging, I witnessed firsthand how important it is to strike a balance between securing profits for financial accounting purposes, which are the source of shareholder return, while also ensuring a stable increase in economic value. I highly commend the fact that the executive side was sensitive to changes in the market environment, discussed awareness of the issues at the Board of Directors in a timely and appropriate manner, and reviewed the revised profit targets at an early stage and disclosed them promptly, rather than postponing them. However, it is a fact that profits have decreased both on an economic value basis and on a financial accounting basis. Accordingly, I believe that this is an issue to be discussed at the Board of Directors meetings and other forums from a medium- to long-term perspective.

Watanabe

At the IR Meeting held the other day, I was impressed by the power of T&D Financial Life President Morinaka's message in response to an investor question: "there are still many things we should do in terms of integrated Group management." At the same time, I used to be an Audit and Supervisory Board member for the company, so I would like to use that experience to monitor the company closely and support its growth.

Taishido

I would like to see further progress in strengthening the function of the Nomination and Compensation Committee. Sufficient commitment is required for outside directors to be effectively involved in personnel for directors and Audit and Supervisory Committee members, so I would like to commit to working on reform. With respect to management, outside directors are in a position to supervise from an outside perspective. After I was appointed last year, I wanted to determine what the Group's management issues were, and in particular, what issues should be prioritized. I actively communicated with all of the outside directors as well as the executive side and management team to understand the various issues we face. In light of this, I would like to persevere as an outside director to see through to the end whether the Group is steadily advancing measures and achieving certain results toward the realization of Group Long-Term Vision. During my term in this position, I would like to push to leave a legacy of significant progress and great improvements in this area.

I would like to see further progress in strengthening the function of the Nomination and Compensation Committee.
—— Taishido

Ohgo

As a consultant, I have seen many cases in which companies that vocally emphasize only corporate governance have not necessarily done well. While it is important to push forward with efforts to strengthen governance, I am keenly aware that, ultimately, the primary objective of a company is to sustainably increase its corporate value. A company that is growing sustainably is the one that is able to continue to provide new value to its customers. If this is done, then as a matter of course, earnings will expand, shareholders and investors will highly evaluate the company, compensation will increase, employee satisfaction will rise, and further business expansion will increase the number of managerial posts, which will increase motivation to work and contribute to society in terms of employment. It is our responsibility to work hard to transform into a company that will please our stakeholders through such a virtuous cycle. However, the answer to the question of what approaches can help us find new value is not found in textbooks or taught in MBA programs.

Over these three years, T&D United Capital, which is in charge of the closed book business, is beginning to make a profitable contribution to the Group and is starting to see results, but its current focus is on All Right. Now that we have established the company, I want the Group to work together as one to achieve success. Because we are taking on something new, many issues that we have not thought about before will come up. I believe that the new challenge for the next year is to create a system in which the Group works as one to solve problems.

Taishido

I feel that it is wonderful that the closed book business is producing results as a new source of revenue outside of the life insurance business. On the other hand, as an equity-method affiliate with weak controlling interest, a key issue for the Audit and Supervisory Committee to monitor is how governance and risk management should be effectively implemented. As the Group's business diversifies, it is still extremely important to strengthen human capital. Through the personnel rotation I mentioned earlier, it is important to develop human resources who can take charge of management from the perspective of the entire Group. I also believe that strengthening the sales representative channel is essential for strengthening the business in the medium- to long-term. I consider it very important to create an environment in which our sales representatives can work with vigor and vitality, and can work for a long time as a stable base for their livelihoods. As an outside director, I would like to closely monitor progress in this regard.

I am keenly aware that the primary objective of a company is to sustainably increase its corporate value.
—— Ohgo

Yamada

In terms of human capital, the Group Long-Term Vision calls for improving the employee engagement score from the FY2020 level as a non-financial KPI. However, at first, sales representatives were not included in the survey. One of the key objectives of the employee engagement survey is to create an environment in which not only administrative personnel, but also sales representatives who interact with customers and propose insurance policies on a daily basis can work with vigor and enthusiasm. I think it is extremely positive that sales representatives are now included in the employee engagement survey. Trends in survey results will emerge in the future, and it is important not to be complacent about good overall scores, but to analyze critical evaluations in detail, and for management to promptly take the necessary remedial measures. I intend to closely supervise this. I also believe there is a need to keep a close eye on matters such as whether Taiyo Life is responding with attention to detail in the household market, or whether Daido life is cultivating sustainable SMEs as small micro-enterprises decrease in number due to a lack of successors.

Higaki

The independent insurance agent market, on which T&D Financial Life focuses, is a highly competitive market. Mr. Morinaka, former HD Representative Director and Executive Vice President, has been appointed President of this company. I think it is important to develop leaders who do not build their careers only within one company, but also have experience in outside companies other than one's own company. Large banks give their employees experience from a young age in being seconded in order to restructure their loan recipients' companies, not just their affiliates. This creates management personnel. I strongly wish that people who have experienced tough business will become leaders in our Group in the future.

Ohgo

There are also issues that boil down to diversity in human resources—since the Group is developing its business globally, it is questionable that management is exclusively Japanese, and All Right, which is developing its business using digital technology, should hire more and more engineers from outside the company. In this era of reforming services through digital transformation, I think it is only natural that we will see an increase in the number of people with science backgrounds, including those on the executive side. I believe we need to increase the number of personnel who can see things in a different way, and we need to have more diversity, breaking with the conventional wisdom of the company and the industry. Rather than discovering a consensus that everyone can agree on, I want people to be ready to delve deeper and discuss whether the consensus is correct.

Higaki

I agree. If anything, administrative personnel think based on previous precedents and do not question the common sense within the company very much. This is something I have said before at the Board of Directors. On the other hand, people in the sciences are in the business of taking on the unknown, so I think it is rather natural for reform to start from a place where one's common sense is negated. In this light, I believe that it is difficult for reforms to progress, much less innovation, in a company with a large concentration of administrative personnel. As is demonstrated by the calls for the ratio of female managers to be brought to 30%, I think it will be difficult to become an innovative company unless we increase the diversity of the organization, be it in the ratio of people with science backgrounds or in mid-career hiring. The company will change considerably when it becomes an organization that mobilizes people through their skills, abilities, and judgments. I would like the company to aim to become like this.

Message to stakeholders

Higaki

Encourage the Group to fulfill its accountability to policyholders in the most understandable and appropriate manner, and to provide products and services that are superior to any other company. At the very least, I believe it is the duty of those of us who are appointed as outside directors in this company.

I believe the company will not be innovative unless it increases its organizational diversity.
—— Higaki

Yamada

The Group takes an extremely positive stance toward information disclosure. This is highly commendable. The company has also started preparing its annual securities report much earlier, and is one of the few companies that submit it before the Shareholders' Meeting. Not only does it publish its integrated report at an early stage, but it also appears to work hard to enhance the report's content. The company is also proactive when it comes to constructive dialogue with investors. While the amount of information communicated externally is increasing every year, I would like the company to establish a system to ensure accountability without fleeing from the issue. I believe this will help improve the corporate value of the Group.

Watanabe

Because I have been a business revitalization attorney for so long, I often think about things from the employee's perspective, which is key to business revitalization. A comfortable and rewarding working environment for employees and the development of human resources are also important for the growth of a company. I would like to ensure that the company and employees can grow together, and from this perspective, I would like to supervise the management of the company.

Taishido

Customer satisfaction and employee engagement scores are the KPIs of the Group Long-Term Vision, so I would like to properly see a change in them. It is important that those scores steadily increase, and I will focus my supervision on whether new issues are being identified from the survey results, and whether improvement measures are being formulated and implemented. In addition, I advocate for ROE management and actively discuss our business portfolio. Concerning this point, I believe that we should proceed while further deepening our dialogue with the capital market, and I intend to keep a close eye on such matters during this year.

Ohgo

I would like to see the Group steadily implement "Try & Discover" as stated in the T&D Insurance Group's Corporate Philosophy and the "Make Change with Boldness" committed to in the Group Long-Term Vision. My hope is that the company will not only uphold these ideals, but also carry them through.