

MS &AD Insurance Group  
Medium-Term Management Plan  
**Next Challenge 2017**  
Stage 2 (FY2016—FY2017)

— To create a world-leading insurance and financial group —

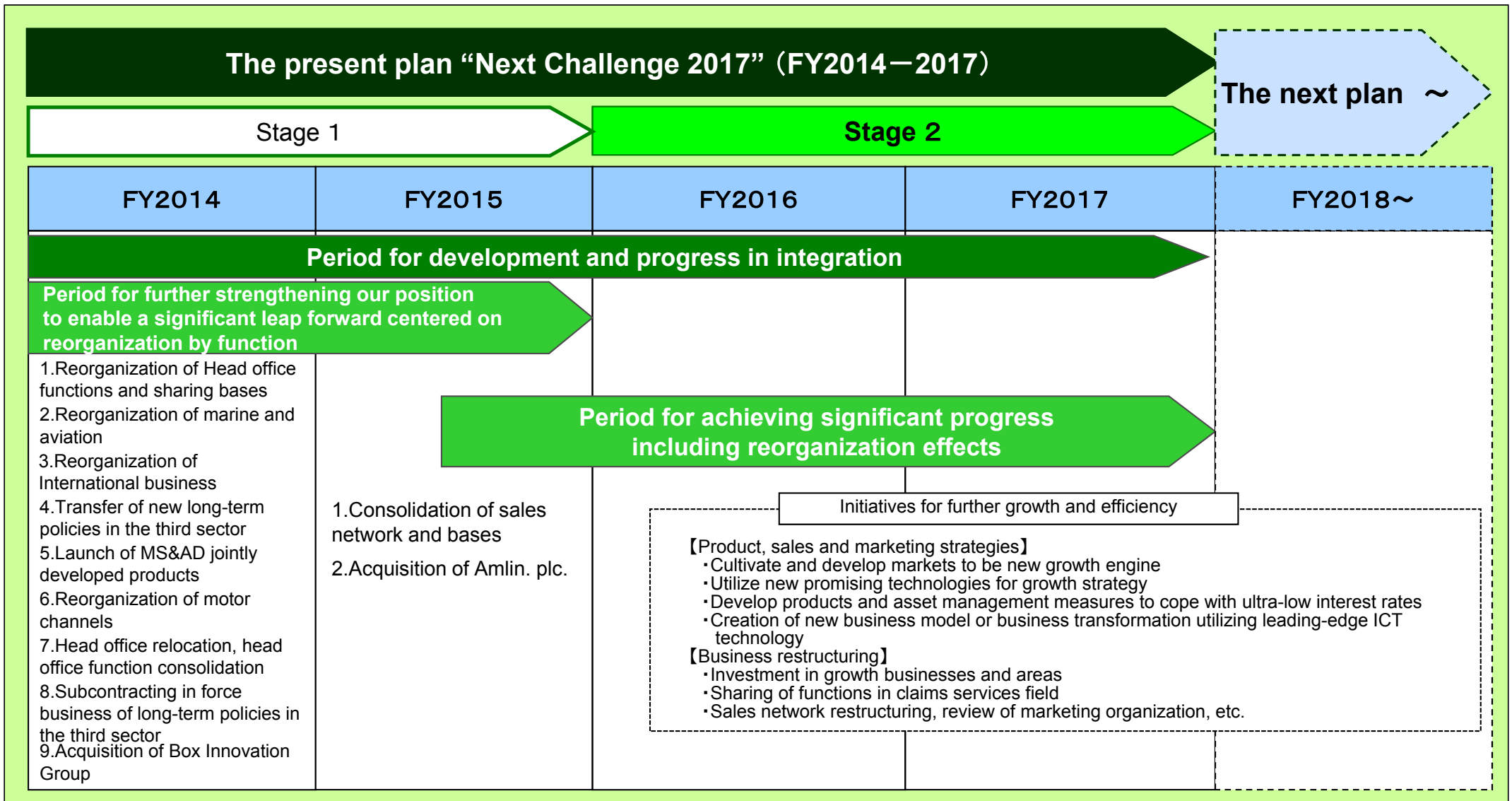
May 26, 2016

Advancing with you

**MS&AD** MS&AD Insurance Group

# Positioning of Stage 2

- ◆ Stage 2 is positioned as a period for establishing a foundation for realizing our vision by concurrently achieving both growth and efficiency and attaining the goals set out in the Group’s medium-term management plan.
- ◆ We will anticipate future changes in business environment through developing our product, sales and marketing strategies, while working to transform our business structure and build a foundation to support Group’s sustainable growth.



# Aspirations for MS&AD Insurance Group

◆ We will continuously commit to the mission, vision and values as our aspirations established at the time of the Group's founding. And we will continue our unwavering efforts to realize and achieve these.

|                                       |                    |                                                   |                                                                                                                                                                                                   |                                                                                                                      |  |
|---------------------------------------|--------------------|---------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|--|
| Aspirations for MS&AD Insurance Group | <b>Our Mission</b> | The significance of MS&AD Insurance Group         | To contribute to the development of a vibrant society and help secure a sound future for the earth, by bringing security and safety through the global insurance and financial services business. |                                                                                                                      |  |
|                                       | <b>Our Vision</b>  | The aspirations for MS&AD Insurance Group         | To create a world-leading insurance and financial services group that continues to seek sustainable growth and to enhance enterprise value                                                        |                                                                                                                      |  |
|                                       | <b>Our Values</b>  | The values which we respect in our daily business | <b>CUSTOMER FOCUSED</b>                                                                                                                                                                           | We continuously strive to provide security and achieve customer satisfaction.                                        |  |
|                                       |                    |                                                   | <b>INTEGRITY</b>                                                                                                                                                                                  | We are sincere, kind, fair and just in all our dealings with everyone.                                               |  |
|                                       |                    |                                                   | <b>TEAMWORK</b>                                                                                                                                                                                   | We achieve mutual growth by respecting one another's individuality and opinions, and by sharing knowledge and ideas. |  |
|                                       |                    |                                                   | <b>INNOVATION</b>                                                                                                                                                                                 | We listen to our stakeholders and continuously seek ways to improve our work and business.                           |  |
|                                       |                    | <b>PROFESSIONALISM</b>                            | We make continuous efforts to improve our skills and proficiency to provide high quality services.                                                                                                |                                                                                                                      |  |

# Basic Group Strategy

◆ Through our commitment to sustainable growth, improving profitability, ensuring soundness, and improving capital efficiency, we will increase the enterprise value of the Group as a whole.

## Drivers of implementation

- Completion of reorganization by function
- Strengthening of group governance and promotion of ERM
- Transformation of business structure to respond the future changes in the environment
- Permeation of a corporate culture and development of human assets that meet challenges as professionals

## Completion of reorganization by function

We will complete reorganization by function to achieve growth and efficiency concurrently.

### Group Insurance Companies

- Achieve sustainable growth by responding to future changes in the environment, increasing customer support and promoting efforts to improve profits, adopting initiatives aimed at unceasing quality improvement and promoting growth strategies that leverage our unique characteristics and strengths.

### Affiliated Operating Companies

- Support the Group's growth through full-fledged demonstration of integration synergies.

### Holding Company

- Strengthen group governance and lead ERM to increase the enterprise value of the Group as a whole.

### Group

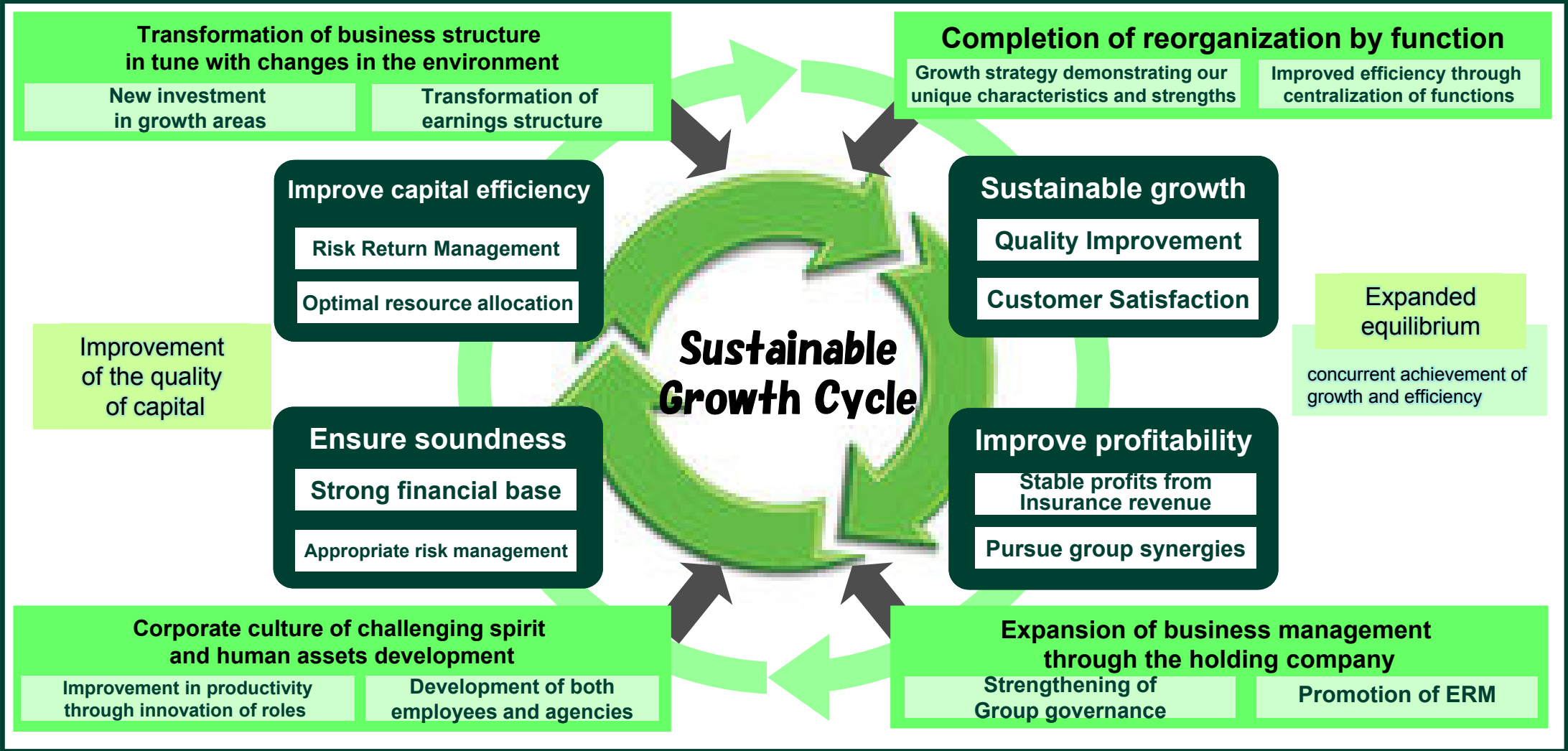
- As a group, implement new investment in business and areas with high capital efficiency and growth potential.
- Promote improvement of organization productivity through human assets development and innovation and the upgrading of roles throughout the entire group.
- Earn trust through the improvement of product and service quality based on communication with stakeholders, and contribute to the resolution of social issues.

## Promotion of ERM

- Promote forward-looking ERM that is based on a balance between risk, return and capital.
- Proceed with business management by establishing an ERM cycle that utilizes a risk appetite framework and ORSA process.
  - Aim to further improve risk management and respond to the strengthening of international capital regulations and supervision.

## Realization of Mission, Vision, Value

## Increase in Enterprise Value of the Group



◆ We will pursue efficiency and group synergies by reorganization, and will achieve further development.

## Sustainable growth and improvement of enterprise value

### Realization of 'growth' and 'efficiency' across the entire Group

- We will operate business with a sense of speed by improving the efficiency of group management while limiting temporary costs and load.
- We will improve customer support and satisfaction, and secure our position as the leading non-life insurance group in Japan by pursuing the benefits of having plural, unique non-life insurance companies in the Group.
- By centralizing long-term products in the third sector into Mitsui Sumitomo Aioi Life insurance, we will concentrate management resources and achieve more efficient operations, and by demonstrating the comprehensive strength of the entire group, we will attain the position as the leading non-life affiliated life insurer in terms of customer satisfaction, growth potential and profitability.
- Through the mutual use and sharing of unique know-how and management resources, we will develop and provide a variety of products, services and support measures, demonstrates synergies in sales activities, and further accelerate progress in improvements in productivity and efficiency.
- We will further enhance productivity and efficiency through efforts to share functionality in the claims service area. Customer convenience will be improved through pursuit of joint system development and standardization of operations, and by boosting our claims adjustment capabilities and improving productivity, we will become No. 1 in the industry in claims service.

### Maximum demonstration of the features of the two non-life insurance companies to respond to customers' diverse needs

- By clarifying the business concept of the two core non-life insurance companies and providing multiple options to customers, we will respond extensively to various markets and customers' diversifying needs.
- The two core non-life insurance companies will concentrate their management resources on their respective strengths and unique business strategies to realize the implementation of strategies with higher quality and competitiveness and to accelerate growth.

### Strengthening of group governance stance centered on the holding company

- The holding company will increase its involvement in the formulation and confirmation of management plans of the group companies, and strengthen its position on demonstrating the functions of providing instructions and coordination for promoting reorganization by function and pursuing group synergies.
- The holding company will play an active part in checking internal audit preparedness within group companies and strengthen check-and-balance functions.

# Plan for Reorganization by Function (Details, Schedule)

New

## Claims service

■ **Enhance customer satisfaction, claims adjustment capability, and productivity; realize No. 1 claims service in industry**

- Share claims service functions by sharing systems and standardizing operation, and thereby aim to reinforce and enhance efficiency of functions
- Promote operational consolidation in “claims adjustment operations” and “back-office administration” and establish joint system
- Consolidate and integrate insurance-class-specialized bases of both companies (e.g. CALI and credit management) and jointly use claims service infrastructure
- Through consolidation and integration of bases, establish optimal and efficient claims service system
  - Promote consolidation of claims and consolidation and integration of bases (increase in scale), and reduce bases
  - Make investigation bases that co-exist with consolidated and integrated insurance-class-specialized service centers joint bases of both companies

【Sharing system】  
Apr. 2019~  
Apr. 2020~ To be launched in 2 stages

【Operational concentration and function sharing】  
FY2016~ To be implemented in stages

【Consolidation and integration of bases】  
FY2016~ To be implemented in stages

Aim to expand reorganization effects by further promoting expansion of synergies, product standardization and mutual use of measures in existing implementation areas below.

## Third sector insurance

■ **Transfer products development function of long-term policies in the third sector to MS Aoi life**

- In addition to promoting product development capitalizing on the high compatibility with life insurance products, we will enhance product branding and market recognition through the sale of the same products through MSI, ADI and MSA life.

## Local sales networks

■ **Consolidation of sales networks and bases**

- By eliminating remote responses and consolidating small bases, we will optimize operation of the Group’s bases and strengthen our sales force and ability to provide service while also enhancing marketing efficiency.

## International business

■ **MSI will take care of operations for Japanese corporate clients, and ADI will focus on international business primarily for Toyota retail business.**

- MSI will comprehensively expand its business including investment in new businesses and M&A. ADI will continue to focus on strengthening its Toyota retail business.
- We will improve profitability and efficiency through mutual use of the two companies’ facilities and the unification of operation management.

## Motor channels

■ **The insurance contracts handled by MSI motor channel agencies which have ADI as the main business partner will be migrated to ADI.**

- Through centralization of business in ADI, which has strength in the motor channel, and mutual utilization of the two companies’ know-how, we will establish the Group’s leading position in the motor channel.

## Head office functions

■ **The holding company will reorganize and consolidate the head office functions of the two core non-life insurance companies and will enhance the group governance stance**

- By centralizing duplicated functions, unifying management schemes, and standardizing and simplifying operations, we will simultaneously improve business management, streamline the headquarters organization and speed up decision making.
- By strengthening the holding company structure, we will demonstrate instruction and coordination functions as well as check functions in internal control preparedness to achieve the Group strategy and pursue synergies.

## Sharing bases

■ **If both companies’ bases are close to each other, the bases will move to a joint facility.**

- In addition to reducing real estate costs and logistics costs and improving efficiency in joint operations of the two companies, we will strengthen cooperation and communication to cultivate a greater sense of unity.

## Marine and aviation insurance

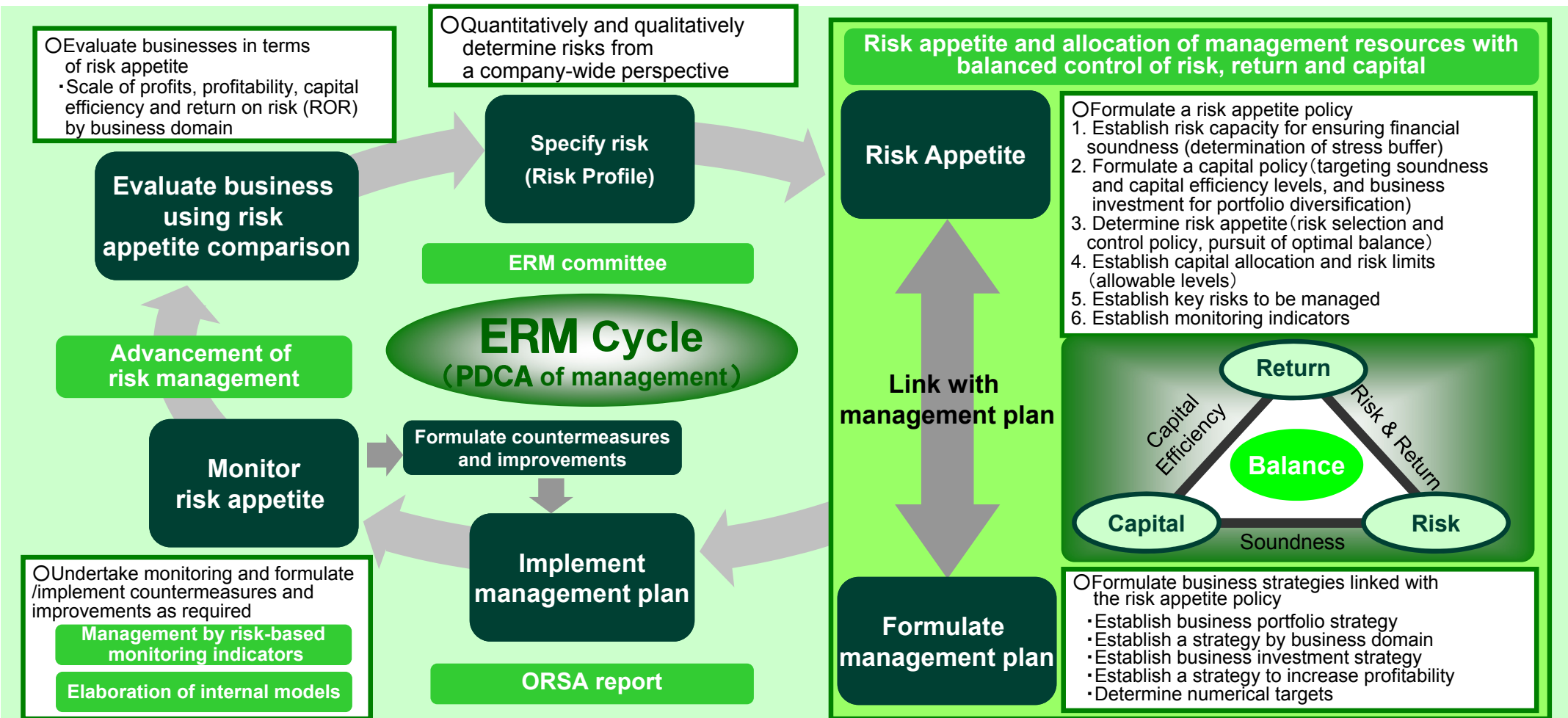
■ **Transfer of hull, aviation, aerospace, cargo and transportation insurance to MSI**

- We have completed policy transfers in each area of hull, aviation, aerospace, cargo and transportation, and achieved revenue growth after their transfer.

◆Advancing management based on risk & return, we will make further progress in diversifying our business portfolio and our revenue sources while reducing risk assets. The capital buffer we have built up will be focused on promising growth sectors both in Japan and overseas, enabling us to achieve a sustained cycle that enhances profitability for the Group.

## Enhancement of Enterprise Value

Realization of sustainable growth and improvement of profitability and capital efficiency with a foundation of “soundness”





# Strategy by Business Domain

- ◆ The group defines domestic non-life, domestic life, international, financial services and risk related services as our business domain.
- ◆ The group aims to achieve sustainable growth by expanding each business domain with managing further changes in business environment steadily.

## Domestic non-life insurance business

- MSI and ADI aim to evolve reorganization by function based on each business concept and to achieve standardizing and sharing group operation by utilizing business base established by reorganization by function and system integration. In addition, we will achieve fastest growth in the industry in Japan and strengthen profitability.
- Together with Mitsui Direct General, we will ensure the entire group is able to respond to customer's diverse needs, and establish our position as the leading non-life insurance group in Japan.

## Domestic life insurance business

- We will promote well-balanced business in both protection-type products and asset-building-type products and maintain the highest level of growth in the industry.
- We will enhance business base by improving products strategy and asset management skill based on the continuing ultra-low interest environment, and will contribute to increasing group profits.
- In the third sector, we will develop our sales and products strategy through steadily monitoring customer's needs, reform of social security system and the advance of medical technology.

## International business

- We will expand international business by enhancing the growth strategy enabled by the reorganization by function while maintaining the advantages of MSI and ADI.
- We will improve profitability through efficient business management, and contribute to increasing profits as well as diversification of business risks and underwriting risks.
- We will further strengthen the existing business base, while maximizing synergies with MS Amlin.

### Non-life insurance business

We will reduce administrative costs by building a unified management structure for the operations of the overseas bases of MSI and ADI.

### Life insurance business

We will strengthen involvement in management as well as the provision of technology and know-how support to improve the profitability of joint ventures and partner life insurers.

## Financial services business

- We will demonstrate our comprehensive strength as an insurance and financial group by developing and providing new financial products and services utilizing the Group's unique characteristics to meet customers' diversifying needs.

## Risk related service business

- We will demonstrate synergies with the insurance business by deploying the global risk solution service business.

◆Under our overall group strategy, we will implement growth strategies to meet customers' diversifying needs by capitalizing on the characteristics and strengths of the operating companies, and we will demonstrate the comprehensive strength of the Group through efficient business management by leveraging group synergies.

### Mitsui Sumitomo Insurance

○We will demonstrate our comprehensive strength by providing products and services that are superior to those of other companies, and we will expand our insurance and financial services business in Japan and globally.

### Aioi Nissay Dowa Insurance

○In addition to utilizing our advantage by further strengthening our partnership with the Toyota Group and Nissay, which is our strength, we will provide products and services that are superior to those of other companies, and promote community-based business.

○Overseas, we will continue to conduct retail business primarily through Toyota dealers.

### Mitsui Direct General Insurance

○We will further develop our direct business model centered on internet and will enhance profitability with responding to changes in our business environment flexibly.

### Mitsui Sumitomo Aioi Life Insurance

○We will increase embedded value by having a well-balanced product portfolio while providing high quality products and services through centered on cross-selling by integrated operation between life and non-life, and various channels under products strategy against continuation of ultra-low interest environment.

○In the third sector, which is solely responsible for provision of all products within the Group, we will further improve our level of customer support. In addition we will realize more efficient operations through the centralization of management resources, and demonstrate the comprehensive strength of the Group as a whole as we aim to become the No.1 non-life affiliated life insurer in terms of customer satisfaction, growth and earning power.

### Mitsui Sumitomo Primary Life Insurance

○We will provide asset-building-type products that meet customers' needs such as variable and fixed products in the area of both individual annuities and individual whole life.

○We will secure ongoing profits and strengthen our financial base through appropriate risk control.

◆We will enhance enterprise value by pursuing an optimal balance between financial soundness, capital efficiency, and shareholder return.

## Financial Soundness

**We will secure financial soundness by enhancement of our capital base and reducing risk.**

- We will secure financial soundness equivalent to an AA rating.
- With investment based on ALM, we will ensure security, liquidity and stable profits through taking risk depending on our AUM scale.
- We will reduce the weight of strategic equity in our consolidated total assets to around 10% and the risk weight in group risk to around 30% in the future, through reducing strategic equity holdings ahead of schedule and further reducing risk assets.

## Capital Efficiency

**We will improve the capital efficiency of the Group through appropriate allocation of management resources, growth, and diversification of the business portfolio.**

- We actively invest in high-growth and profitable areas in Japan and overseas.
- We will achieve risk distribution through diversification of our business portfolio and revenue sources, and improve capital efficiency through profit increase with securing financial soundness.
- We will improve quality of capital and aim to achieve 10% ROE level which is comparable to major insurers in Europe and America

## Shareholder Return

**We will return approximately 50% of “Group Core Profit” to shareholders in the medium run**

- We aim to maintain stable dividends, and to increase dividends through strengthening our earning power in the medium run.
- We will repurchase our own shares flexibly and as opportunities arise, with due consideration to market conditions and the state of our capital.

# Investment Strategy

◆ We will contribute to increasing enterprise value by stabilizing earnings from investment based on ALM while maintaining asset security and liquidity and by reducing risk assets, especially strategic equity holdings.

## Stabilizing Investment Return

○ We will aim to stabilize earnings from investment by conducting ALM based on the characteristics of insurance liabilities while maintaining the security and liquidity of assets we manage.

## Improvement of Returns on Risk

○ We will improve our returns on risk in our asset management portfolio by engaging in diversified investment while giving consideration to security, and by diversification of investment target and sophistication in portfolio investment  
 ○ We will maintain a solid financial structure by reducing risk assets, especially by accelerating to reduce strategic equity holdings.

## Plan to reduce strategic equity holdings

FY2014—2017 (Group Total)

|                         |   |                          |
|-------------------------|---|--------------------------|
| Original plan<br>¥ 300B | ▶ | <b>New plan : ¥ 500B</b> |
|-------------------------|---|--------------------------|

FY2015 or later  
 【MSI】 Approx. ¥ 100B per year  
 【ADI】 Approx. ¥ 20B per year

## Appropriate Risk Control

○ Amid an ongoing unstable financial market environment, we will appropriately control risk and contribute to the improvement of enterprise value by increasing net assets.

The holding company will strengthen governance related to asset management, and also promote the demonstration of group synergies and the advancement of asset management.

| Numerical Targets                                  | FY2015 Target | FY2015 Result | FY2017 Target | FY2017 New Target |
|----------------------------------------------------|---------------|---------------|---------------|-------------------|
| <b>Group Core Profit</b>                           | ¥ 120B        | ¥147.5B       | ¥ 160B        | ¥ 220B            |
| Domestic non-life insurance                        | ¥ 76B         | ¥ 91.9B       | ¥ 100B        | ¥ 135B            |
| Domestic life insurance                            | ¥ 13B         | ¥ 25B         | ¥ 16B         | ¥ 15B             |
| International business                             | ¥ 27B         | ¥ 27.9B       | ¥ 39B         | ¥ 65B             |
| Financial services<br>Risk related services        | ¥ 4B          | ¥2.6B         | ¥ 5B          | ¥ 5B              |
| <b>Consolidated net premiums</b>                   | ¥ 3,000B      | ¥ 3,078.9B    | ¥ 3,100B      | ¥ 3,570B          |
| <b>Combined ratio for non-life insurance</b>       | Approx. 95%   | 91.6%         | 95% or less   | 93% range         |
| <b>Amount of increase in EEV for MSI Aioi Life</b> | Above ¥ 40B   | ¥▲52B(Note)   | Above ¥ 45B   | Above ¥ 50B       |
| <b>Group ROE</b>                                   | 5.4%          | 5.2%          | 7.0%          | 7.5%              |

※Group Core Profit = consolidated net income - net capital gains/losses on stock portfolio (gains/losses from sale) - net valuation gains/losses on credit derivatives - other incidental factors + equity in earnings of non-consolidated group companies

Amortization of goodwill and intangible assets related to acquisitions, classified into other incidental factors.

※Group ROE = Group Core Profit ÷ consolidated total net assets excluding non-controlling interests (average of beginning and ending amounts on B/S)

Note: including reduction amounts of EV about ¥▲135B due to economic environment changes such as low interest rate in domestic market

# [Plan for improving operational efficiency]

- ◆ In addition to fully reaping the benefits of system integration and reorganization by function, we will realize cost reductions in company expenses of 60 billion yen per year in FY2017 compared to FY2011 through the accumulated effects of initiatives to improve efficiency in individual companies.
- ◆ We will reduce aggregate expense ratio to 32.2% in FY2017 through realizing growth and efficiency concurrently

Improved efficiency of non-personnel expenses and personnel through reorganization by function

Improved efficiency in system operation costs through integration of the three hosts in ADI

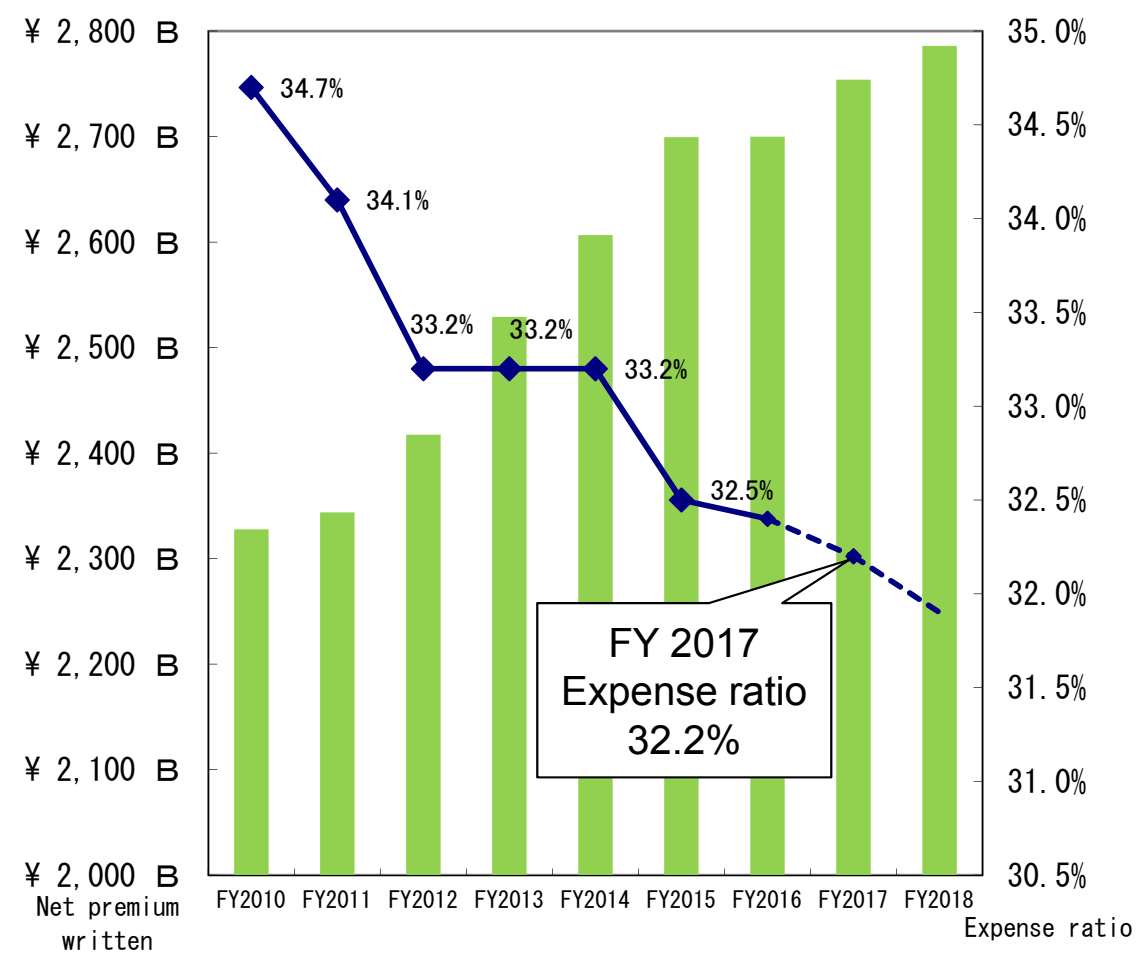
Improvement in efficiency in system development and operation costs through unity operations

Initiatives to improve efficiency in individual companies based on reorganization by function

+ Top line growth

**We will realize cost reduction in company expense of ¥60B per annum in FY2017 (compared with FY2011)**

[MSI/ADI: Aggregate Expense Ratio]



## [Stable Profits in Underwriting Income of Domestic Non-life Insurance Business]

- ◆ In our core business of domestic non-life insurance operations, we will seek to achieve and maintain a combined ratio, below 95%, and to achieve stable profits in underwriting income.
- ◆ In addition to top line growth, we will continue efforts to improve our loss ratio, we will achieve cost efficiency synergies through reorganization by function, and improve productivity through innovation of roles.

### Top line growth

- Product, sales and marketing strategy focused on future changes in environment
- Accelerate initiatives aimed at an increase in number of contracted vehicles as to voluntary automobile insurance

### Initiatives for loss ratio improvement

- Underwriting and loss prevention activities through cooperation between sales and claims service
- Guidance and support for efforts to improve high-loss ratio agencies and fleet policyholders
- Promotion of appropriate claims payments and use of partner repair shops

### Demonstration of cost efficiency synergies

- Reduction in development and maintenance costs through integration of system infrastructure
- Steady realization of effects of reorganization by function, promotion of sharing of claims service functions

### Improvement in productivity

- Establishment of an efficient administrative and operating framework through innovation in business processes, and optimal allocation of personnel
- Innovation of the roles of individual employees, promoting the career development of women

**Steadily maintain  
combined ratio**

**Below 95%**

◆Challenge to create the new business model by unitizing advanced ICT.  
◆Contribute to the Group growth strategy by strengthening system of IT operation and development, as well as IT Governance .

Promotion of ICT innovation

**We will promote innovation utilizing advanced ICT and create the Group's new business model.**

- Create the Group's new business model utilizing advanced ICT such as IoT, FinTech and AI, through alliances with other industries, as well as utilizing both internal and external expertise. In addition, we improve our customer-friendly service and achieve business efficiency and sophistication.

Contribution to Group growth strategy

**We will invest in IT systems in important areas for promoting the Group growth strategy.**

- Support the Group growth strategy by deploying the digitization of products, sales and operation, which improve the convenience and productivity of our customers, agents and employees.
- Expand strategic system investment and reduce expenditure for ICT operation by consolidating and standardizing the Group system linked with optimization of business processes.

Strengthening the system of IT operation and development

**We will strengthen our system development capability, QCD management and the control process which are the basis for promoting large-scale system development.**

- Strengthen system development capability by developing the skills of internal staff and enhancing our organizational capacity in accordance with Group Policies.
- Enhance QCD (Quality, Cost and Delivery) management, and strengthen IT operation and development skills.

Strengthening IT governance

**We will strengthen IT governance and improve the system quality of the Group.**

- Manage simultaneously developed large-scale projects smoothly through the holding company's cross-cutting and centralized management system.
- Strengthen the system of global IT management by adopting measures concentrated on dealing with cyber security, system risk and disasters.