MS&AD Insurance Group Holdings
1st Information Meeting of FY2018 (Held on May 24, 2018)
Q&A Session Summary

Below is a summary of Q&A session from the Information Meeting held on May 24, 2018

The following abbreviations of company names are used in this document.

MS&AD Holdings, Holding Company : MS&AD Insurance Group Holdings, Inc.

MSI : Mitsui Sumitomo Insurance Co., Ltd.

ADI : Aioi Nissay Dowa Insurance Co., Ltd.

MSI Aioi Life : Mitsui Sumitomo Aioi Life Insurance Co., Ltd.

MSI Primary Life : Mitsui Sumitomo Primary Life Insurance Co., Ltd.

MS Amlin : MS Amlin plc

MS First Capital : MS First Capital Insurance Limited

Challenger : Challenger Limited

ReAssure : ReAssure Jersey One Limited

Q1: I think the issue with your company this time is improving capital efficiency (ROE and ROR), but what kind of risks do you plan to take during the next four years in the New Medium-Term Management Plan to achieve this?

A1: The risk allocation at present is around 60% domestic non-life insurance business, around 20% domestic life insurance business and around 20% international business.

In order to improve ROR and ROE, we need to diversify our business portfolio, and I think a ratio where domestic non-life insurance and others (domestic life insurance and international business) approaches 50:50 is a risk allocation where we can achieve ROE of 10%.

Q2: On page 18 of the materials, you explain that the total amount of investment in the domestic non-life insurance business including past investment will be 135 billion yen, but could you explain why it is necessary to make such a large investment in an area not expected to see significant growth in profit in the future? Also, could you explain how the expense ratio will change in the future?

A2: The domestic non-life insurance business is the Group's earnings base, accounting for around half of our overall income even in the final year of the New Medium-Term Management Plan. It is a highly competitive area, and we recognize that up-front investment is required to improve business productivity, respond to customers' needs and strengthen sales channels.

The expense ratio was 32.2% in FY2017 but is expected to rise by around 1.2 points due to R&D expenses during the New Medium-Term Management Plan and is forecast to rise slightly to 33.3% in FY2021. From FY2021, in addition to lack of the 1.2 points of R&D expenses, this will be lowered by around 1 point due to the R&D effects from investment made until FY2021 and is expected to fall by a total of around 2 points to under 32%, while also being anticipated to be 30% at the next level.

Q3: Page 18 states that three major projects are scheduled for improving productivity, but are all of these joint projects by MSI and ADI? Also, will the integration of the back offices of the two companies be completed in FY2021, or will this continue after then?

A3: It will be carried out jointly by the two companies. The main focus is sharing of products, administration and claims services, and we will continue these from FY2021. There is a possibility that the sharing will include not only these two companies, but also Group companies such as Mitsui Direct General Insurance and life insurance companies in some cases.

Some are of the opinion that MSI and ADI should not be integrated, but I would like to add the supplementary note that merging has not been rejected as an option. If it is judged that merging will be more effective for increasing corporate value of the Group in the future, we may merge. Meanwhile, if dividing functions after integrating and sharing our back offices can better meet the needs of customers and lead to the enhancement of corporate value of the Group, we may consider the method of further dividing functions. Please understand that we are presently at the stage of creating the backbone for making that decision.

Q4: Please provide a detailed breakdown of the Group's Adjusted Profit in international business for FY2021. Please also explain the accuracy of the forecast.

A4: MS Amlin's profit is forecast to be around 45 billion yen.

MS Amlin had recorded profits of 30-35 billion yen every year prior to being acquired, and MSI's reinsurance business (around 7-8 billion yen per year) and Lloyd's syndicate business (around 3 billion yen per year) have been integrated into this. First, we will aim to reach the level prior to the decreased profits in FY2019 and expect to grow to around 45 billion yen including synergy effects by FY2021.

With regard to the accuracy of restoring profits, because natural catastrophes are a temporary factor, decreasing incurred losses at lines other than natural catastrophes will be the key to restoring profits. To explain the breakdown of the restoration, IBNR reserves for policies underwritten in FY2016 or earlier were accumulated at once in FY2017, so this burden will not rise further (around 30 billion yen). Furthermore, we are proceeding with efforts such as revision in premiums and stricter underwriting standards (underwriting 25 billion yen in FY2017 and underwriting 20 billion yen in FY2018) and expect profitability to be steadily restored. We also carry out thorough risk management of natural catastrophes including reinsurance coverage.

Next, in Asia, we expect to secure over 30 billion yen in profit through organic growth including MS First Capital, in which we newly invested last year, and around 35 billion yen in profit with 10-15% annual growth when the USA and others are added.

In addition, we expect around 8 billion yen in profit from ADI's reinsurance business (5-6 billion yen) and the Toyota Retail business including BIG business which will become profitable.

In the international life insurance business excluding the Chinese life insurance business under the

Chinese Bank of Communications in which we are investing, profit is expected to grow to the level of around 17 billion yen due to around 8-9 billion yen in growth of existing Asian life insurance in combination with Challenger and ReAssure, in which we invested last year.

In addition to these, we expect inorganic profit growth of around 10-15 billion yen including Chinese life insurance.

Q5: What are the specific regions and businesses where you expect inorganic growth in the international business?

A5: I will refrain from disclosing the details, but in general, this includes growth through the effect of integration of existing investments within the Group (raising investment ratio and M&A of invested companies, etc.) and pure M&A. The main target of pure M&A is the Asian region, but we will also consider North America if any good opportunities arise.

Q6: I think the USA is strategically important for global players in non-life insurance. Could you explain your group's strategy in the USA including major acquisitions? Please explain whether your strategy is to express your strength in regions that are expected to grow in the future other than the USA.

A6: Our overseas M&A strategy has been focused on Lloyd's and Asia where our strengths have been, and we have conducted M&A accordingly.

The strength of our international business is that we are number one in ASEAN, and thanks to this strength, we have been able to expand in the Lloyd's market, and form partnerships such as those with Mapfre in Central and South America, AXA in Africa, Generali in the Middle East and QBE in Oceania. Moving forward, we would like to continue to exhibit our strengths and individuality in Asia, MS Amlin business and Toyota Retail business.

As you have indicated, the United States is the largest non-life insurance market in the world, but acquisitions involve another party, and we would like to consider each potential deal well based on whether our corporate cultures fit and whether synergies can be produced.

Q7: The increase in rates this year seems to be getting all of the attention concerning MS Amlin, but I'm concerned about whether the cycle management MS Amlin is aiming for can be achieved when there is a surplus of reinsurance capital. What is your outlook for the reinsurance market in the medium to long term including the continued hardening of the market?

A7: In general, the reinsurance market is understood to have a cycle of hardening and softening in terms of around 10 years.

Cycle management involves increasing earnings as the market shifts from softening to hardening.

In the reinsurance renewal negotiations conducted by MS Amlin, MSI and ADI this fiscal year, regions with losses from North America (hurricanes) saw a rate increase of 15% while the rate increased by 0-5% in other regions. Furthermore, in the reinsurance renewal negotiations scheduled for this May and June, MS Amlin forecast to increase rates by an average of around 6%. Although it will be difficult to reach the targeted level because the market has a surplus of capital as you pointed out, this is expected to fall within the envisaged range of the earnings plan.

Since our Group is also on the side ceding reinsurance, situations where the market does not harden can also be advantageous. With regard to the side taking natural catastrophe risks, we would like to act flexibly without missing any opportunities while watching the situation as hardening progresses while the volume of underwritten risk evens out in FY2018.

Q8: I think ROE of the overseas Toyota Retail business will continue to be low even if profitability improves in the future. What is the meaning of continuing with a business with low profitability?

A8: Overseas automobile insurance is a business that is not very profitable not only for our company. However, the automobile industry is reaching a major turning point, and Toyota itself is positioning itself not as an automobile company, but as a "mobility company." As we conduct automobile insurance business with Toyota in Japan and abroad combined, we believe this will generate fruits beyond conventional automobile insurance.

There are difficult aspects to profitability as an insurance business as you have pointed out, but we are considering conducting a fee business overseas and are proceeding based on the assumption that we will not invest a large amount of capital.

Q9: In terms of risk taking in international business, what kind of risks (natural catastrophes, specialties, etc.) do you intend to take? Also, do you intend to take risks such as foreign bonds and equities in asset management for domestic life insurance?

A9: MS Amlin and ADI's reinsurance business are the entities taking risks for overseas natural catastrophes. Other businesses basically take general property and casualty risks both in commercial and retail businesses in their respective regions.

We intend to continue taking further risks in asset management for domestic life insurance.

Q10: In your Group, MSI and ADI each operate their own overseas business development. Recently, the functions of the holding company have been strengthened, but the subsidiaries still seem to have much autonomy compared to other companies. I think there is room to improve ROR if the international business is further consolidated. Is anything impeding this?

A10: In reorganization by function, we decided that ADI will handle Toyota Retail, and MSI will handle the remainder.

At present, rather than unification into the holding company, we have determined that it is more efficient and effective to intentionally utilize the different business models and expand the places where personnel skilled in domestic sales in each operating company can work overseas. However, there is nothing particularly impeding consideration of integration if it is determined that integration would be more efficient and effective in the future.

Q11: Looking at the targets for FY2018, it appears that the pace of reduction of strategic equity holdings is slowing. Will the pace slow down because the amount of risk is approaching an appropriate level, or can we expect the pace of sales and reductions could accelerate further depending on negotiations with business partners?

A11: One of the milestones for proceeding with the reduction of strategic equity holdings in the medium term is for strategic equity holdings to account for less than 30% of overall risk amount, and to keep the weighting of their market value to less than 10% of consolidated total assets.

If 500 billion yen is sold over five years including FY2017, the target can almost be achieved, so we have established sales targets based on this assumption.

After achieving this target, we would like to disclose what level we would like to reach.

Q12: Page 50 shows how ROR has changed, but could you explain the ROR level of strategic equity holdings?

A12: There are various approaches to ROR of strategic equity holdings, but it is around 4% on a dividends basis.

<Correction>

- At the meeting, the explanation was based on underwriting profit and dividends, but the above correction has been made because the ROR management shown in the graph on page 50 is carried out using the three categories of "insurance underwriting," "asset management: strategic equity holdings" and "asset management: other than strategic equity holdings."
- Meanwhile, underwriting profit and dividends are managed as returns in ROR management in the verification of the rationality of holding strategic equity holdings.
  (On this basis, ROR is around 7-8%.)

Q13: The numerical management targets on page 9 indicate that Group Adjusted Profit will total 1 to 1.2 trillion yen over four years. Adjusted net assets as of the end of FY2017 were around 3.2 trillion yen. Even if 50% of Group Adjusted Profit is used for returns, capital will be accumulated, and I think it would be difficult to achieve ROE of 10%. Do you intend to raise the rate of return, or does this incorporate reducing net assets such as goodwill from M&A?

A13: The inorganic growth incorporated into the New Medium-Term Management Plan is around 10 to 15 billion yen, and goodwill deductions are not expected to be very large.

With regard to the indication that the calculations do not match, we have not made a decision at the present time, but we will continue to consider how to balance the targeted Group Adjusted Profit of 350 billion yen with the Group Adjusted ROE of 10%.

Q14: You have explained that the backdrop to indicating the total return ratio to be within a band from 40% to 60% with regard to the shareholder return policy in the New Medium-Term Management Plan is because of the high volatility of Group Adjusted Profit under the new definition. The forecast for Group Adjusted Profit in FY2018 is 270 billion yen. Am I correct in my understanding that 135 billion yen accounting for 50% is the baseline, and that adjustments will be made within the range of 40% to 60% according to baseline even if performance fluctuates?

A14: This is simply shown as a range and we do not assume the midpoint of 50%. However, 50% is a yardstick from the perspective of stakeholders, and we recognize that the consensus is that the difference between shareholder dividends and 50% of Group Adjusted Profit is returned by own share repurchases.

The dividend forecast for FY2018 remains unchanged, but upward revisions were made at the end of the year for three consecutive fiscal years until FY2017.

There is no change in our stance of continuing stable dividends and also making dynamic own share repurchases.

We believe it is important to further increase Group Adjusted Profit to maximize shareholder returns.

Q15: Shareholder returns do not seem to increase much in FY2019 when looking at the forecast for Group Adjusted Profit. If you hope to reach 350 billion yen in FY2021, what is your approach to flexibility within the range rather than 50% necessarily being the baseline?

A15: We have indicated a range of 40% to 60%, and there are various possibilities within this range.

Our forecast for FY2019 is conservative because of the impact of consumption tax and because we believe the profitability of automobile insurance will also be somewhat difficult. Even if Group Adjusted Profit does not grow significantly during that year alone, we will think within the band if we expect we can secure Group Adjusted Profit in FY2020 and FY2021.

Basically, our approach is to reliably increase profits and provide as many returns to shareholders as possible without rolling back returns. Please understand that the new shareholder return policy indicates the Company’s enthusiasm about our active approach to shareholder returns.

-End-