

MS&AD Insurance Group Holdings

1st Information Meeting of FY 2016 (Held on May 26, 2016)

Q&A Session Summary

Below is a summary of Q&A session from the Information Meeting held on May 26, 2016

- Q1: You stated that you want to increase the ratio of profit accounted for by overseas business to 50%, but when do you think you will achieve this? Also, if profit in the domestic non-life and life business stays at the same level as present, you will need to raise profit of international business to around 100.0 billion yen, but how do you intend to achieve this?
- A1: I think we will be able to indicate the general direction of the timing of achievement when we announce the next Medium-term Management Plan. The target for Group Core Profit of international business in FY2017 is 65.0 billion yen, but in addition to the increased profit from Asian life insurance (currently 5.0 billion yen) and from fully demonstrating synergies with MS Amlin, we will work to increase profit of international business including M&A if any good opportunities arise.
- Q2: With regard to the asset management business, please explain whether the gains on the sale of 7.5% of your 27.5% equity holding in Sumitomo Mitsui Asset Management due to it becoming a subsidiary of SMFG are included in the plan for this fiscal year. Also, please explain your company's policy on asset management going forward.
- A2: I will refrain from commenting on the specific amount of gains on the sale, but it has been included in this fiscal year's plan. With regard to the asset management business going forward, there is currently no change in our stance of being centered on Sumitomo Mitsui Asset Management. We will discuss how we, as a group, manage asset management business including overseas for the future.
- Q3: You have stated that you will invest 100.0 billion yen in new systems and others from FY2016 to FY2019. Please explain the specific areas you will be investing in. Also, please outline the timing of depreciation.
- A3: Some aspects are yet to be determined, but we expect to invest almost 10.0 billion yen in advanced technologies such as Fin Tech and IoT, almost 30.0 billion yen in the claims services system, around 15.0 billion yen to support IFRS, and around 50.0 billion yen on expanding systems and renewing the online system.
- Part of the depreciation of the above investment will begin from FY2018, but the depreciation of claims services system^(※) is expected to start from FY2019.
- (Correction^(※))

In the Q&A session at the meeting, we indicated the claims services system would be in operation in FY 2018, but the correct timing is FY2019 and this has been corrected in this document.

Q4: You have increased your cost reduction target from 50.0 billion yen to 60.0 billion yen, but could you provide a breakdown of the additional 10.0 billion yen?

A4: Please understand that this is because of steady reductions made in various areas such as increased efficiency of staff due to Aioi Nissay Dowa Insurance's career assistance plan, system integration, and printing and distribution expenses, albeit not in large amounts.

Q5: Please explain the reason the forecast for Group Core Profit of the domestic non-life insurance business was lowered from 140.0 billion yen to 135.0 billion yen for FY2017 despite underwriting profit performing well.

A5: We take into account the negative on investment and increased retirement benefit expenses (approx. 3.0 billion yen) due to introduction of negative interest rates.

Q6: The outlook for the expense ratio in FY2017 has been raised to 32.2%. How far do you think you can lower the expense ratio in the medium term?

A6: Like other indicators such as ROE, we aim for this to be that of a "World-leading Insurance and Financial Service Group" which we are aiming to become. Looking at Allianz and AXA, the target shall be in the 20s, less than 30%.

Q7: You have substantially brought forward the pace of the sale of strategic equity holdings with the sale of 181.1 billion yen in FY2015. What is your policy on the sale of strategic equity holdings hereafter?

A7: In the two years of FY2014-FY2015, we sold 54.4% of our target of 500.0 billion yen. As we will achieve our target by selling at a pace of 120.0 billion yen in each of the two remaining years, we will maintain this pace. Furthermore, as share prices are currently down, the ratio in relation to consolidated total assets has been lowered to 12% and this only needs to be lowered by 2% to reach our target of 10%, however we intend to steadily reduce the ratio to the level of 10% and keep it without being influenced by share prices.

Q8: There was a release on conducting joint research into telematics technology with Toyota Motor. Could you explain the underwriting policy for retail insurance in the United States? Also, Toyota Motor's shares have also been reduced in the reduction of strategic equity holdings. Will this affect your cooperative relationship in the future?

A8: The joint venture we established is based on the business model of analyzing data obtained from vehicles to develop specialized insurance, and we do not currently have plans of actively

conducting retail business in the United States.

Not only Toyota Motor, we are proceeding with the sale of strategic equity holdings with the understanding of the respective companies, and it is our belief that we can continue to keep our cooperative relationship, and we would like to make our relationship of trust stronger forward.

Q9: In regard to Group Core Profit of international business in FY2017, combining total of Asia and Asian life insurance is forecast to increase to 20.0 billion yen. What factors will lead to the forecast for increased profit?

A9: Our company's strength is that we have established a leading position in Asia, such as having offices in all 10 ASEAN countries. Asian market is expected to achieve high growth in the future, and we believe that we will be able to increase in premium volume and earning by capturing this growth.

Q10: The media has covered automobile insurance including aspects such as ASV (Advanced Safety Vehicle) discounts, the introduction of different rates by types of light automobiles, and the increase of consumption tax. What impact will these have on your performance?

A10: ASV discounts and the introduction of different rates by types of light automobiles are being considered by the General Insurance Rating Organization of Japan and we are not in a position to comment. We can only monitor the situation and will have well prepared for any changes.

With regard to the impact, discounts lead to a reduction in insurance premiums, but it can not be said definitely that this will be a negative effect because the spread of ASV discounts will lead to a reduction in the number of accidents, which will have a positive effect on underwriting profit.

Furthermore, our plan was drawn up based on the assumption that the consumption tax rate would be raised in April 2017, and a delay of this will have a positive effect.

Q11: On June 23, the United Kingdom will hold a referendum on exiting the EU. If the UK would exit the EU, what impact can be considered on MS Amlin?

A11: MS Amlin underwrites in the United States and other countries worldwide, so the direct impact would not be significant. We will monitor the situation because we believe that the exit from the EU may have a short-term impact on P/L, considering of possibility of instability in stock and bond markets.

Q12: The revised target for the combined ratio in FY2017 is 93% range. Please explain the reason why this is assumed to deteriorate to the medium- to long-term target of 95% in "Goals to be achieved"?

A12: The figure of 91.6% for FY2015 was exceptionally good, and we expect that it will deteriorate somewhat. In the medium to long term, we would like to be able to maintain a combined ratio

of 95%.

Q13: The revised target for ROE in FY2017 is 7.5%, but this is 10% in the medium- to long-term target in “Goals to be achieved”. Please explain how you will make up the shortfall of 2.5%.

A13: We intend to raise this to 7.5% in the current Medium-term Management Plan, and aim for 10% in the next Medium-term Management Plan. To improve ROE, we will improve the quality of capital by continuing to sell strategic equity holdings on the denominator side, and increase earnings and improve productivity in the domestic non-life insurance business and life insurance business on the numerator side. We also intend to increase profits in international business through organic growth in addition to M&A, etc.

Q14: You have stated that you will make 100.0 billion yen of new investments from FY2016, but other companies have also announced investments in new technologies. Please explain the need for this and the expected effects.

A14: With the exception of support for IFRS, we are developing shared system for claims services, expanding system functions and developing common products from the perspective of providing a higher quality of services to customers, and we believe this is necessary in order to increase our customers to achieve growth. We would like to lower the expense ratio through the expanded equilibrium resulting from the increased top line.

Q15: Could so explain whether you have been able to ensure profitability in the corporate sector as you proceed to sell strategic equity holdings?

A15: Insurance in the corporate sector tends to be subject to larger annual fluctuations than insurance in the retail sector, but expense ratio is smaller because the cost for sales and administration are small in the combined ratio. And then we have been able to maintain total profitability. Meanwhile, with regard to the calculation of premium rates based on risk, we acknowledge that certain issues remain in the competitive environment, and we would like to proceed with consideration of calculation of premium rates based on economic value in the future. Furthermore, we will make efforts to increase ROR by reasonably managing risks in reinsurance, etc.

Q16: Are shareholder returns 50% of profit each year or will this be 50% of the cumulative value over the medium to long term?

A16: MS&AD aims to maintain stable dividends and steadily increase dividends. We continued to pay dividends even when we made a loss due to the floods in Thailand in FY2011. We cannot promise to provide 50% returns in each year, but we will strive to exceed your expectations.

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