MS&AD Holdings

2nd Information Meeting of FY2014 (Held on December 3, 2014)

Q&A Session Summary

Following is a summary of the Q&A session from the Information Meeting held on December 3, 2014.

Q1: Your plan calls for an additional provision of 50 billion yen to the price fluctuation reserve this fiscal year, to be funded by gains on sales of securities. Given that a reduction in the corporate tax rate is expected in the near future, why would you add to reserve now on a taxable basis, and what is the economic rationale for doing so?

A1: Because it is difficult to predict investment markets, we determined that now, when we have a reasonable level of unrealized gains, is the right time to lock in those gains through a sale. While the details of any revision to the corporate tax remain uncertain, the group continues to maintain losses carried forward from the impact of the flooding in Thailand. By ensuring we realize these gains through a sale within the fiscal year, and by applying the proceeds to those carried forward losses, we believe we will also see an economic rationale on the tax side.

Q2: Only half a year has passed since the start of the current medium-term management plan, but you've already revised upward your full-year earnings forecast for FY2014, with an outlook that closes in on levels set for numerical management targets for FY2015. Given this, what is your current view of the targets for FY2015 and FY2017, and your outlook by segment?

A2: As you point out, we expect this fiscal year's performance to approach the level of numerical management targets set for FY2015. This is an acknowledgement of the high respective potentiality of our domestic non-life and life insurance businesses and our overseas business. We would like to review our outlook for FY2015 and beyond sometime going forward.

Q3: Regarding sales of strategic equity holdings to fund additional price fluctuation reserves, you mentioned that you may have to buy back those shares if you are unable to obtain the consent of the investee. How much of those sales have you obtained agreement for most recently? Also, your plan calls for sale of 300 billion yen in strategic equity holdings over a four-year period, but I also inferred that initial expectation for sales in the current fiscal year would be somewhat on the low side. At what kind of pace do you expect to sell off these strategic equity holdings in the next fiscal year and beyond?

A3: As of the end of September of this year, we have sold off 33.4 billion yen in strategic equity holdings, making solid progress. Also, we hope that in addition to ensuring we execute our plan to sell off 300 billion yen in holdings over four years, we might, if possible, move that schedule forward. Selling these strategic equity holdings requires the understanding of the investee companies involved, who are also customers of our insurance business, and will take considerable effort, but we hope you will trust us when we say we are certain of achieving the planned target. For the sale of strategic equity holdings intended for the additional provision to price fluctuation reserves, at this point none of the issuers has agreed to the sale, but we will continue negotiations.

Q4: You say your policy is to maintain appropriate control over natural catastrophe risks as a means of enhancing ROE. Can you tell us by what means you plan to do this? The materials indicate that you are moving in the direction of increasing underwriting risk in the domestic non-life insurance business; are we to understand that you will also increase underwriting risk in categories other than natural catastrophe risk?

A4: We believe the role, and indeed the mission, of an insurance company is to provide maximum coverage against risk. That is why we choose to take on the challenge of providing the utmost coverage for domestic natural catastrophe risks as well. To do that, we must first fully assess what kinds of risks exist, and to what extent, and then thoroughly review the kind of underwriting we will provide against those risks, including pricing and underwriting methods. Once that is done, we begin looking at using reinsurance and other means of dispersion of risk. By proceeding organically through these various steps, we control natural catastrophe risk at appropriate levels. At the same time, expansion of underwriting in our domestic non-life insurance business for other than natural catastrophes will involve expanding underwriting of new risks arising in regenerative medicine and other areas being promoted by the government as part of its growth strategy. By doing so we hope to distribute risk, achieving a cycle of expanded equilibrium that will lift our return on equity.

Q5: You state that one of your goals is to establish a financial standing that meets the requirements for an AA rating. Does this mean you are just securing a financial standing equivalent to an AA rating, or that you are aiming to actually attain an AA rating?

A5: As we compare ourselves not only with other domestic insurance companies, but with global companies overseas, we believe it is imperative that we aim for an AA rating, and we will continue working toward that goal. Specifically, we will work to achieve an ESR level of 200% and promote ERM.

Q6: So you are aiming to actually attain an AA rating, but what kind of measures are you considering, given that Moody’s recently downgraded JGBs from Aa3 to A1?

A6: While our holdings of JGBs are at 20% level of total group assets, not by any means a high ratio, one step we might take is to increase the ratio of our overseas business and reduce linkage with JGBs. In domestic life insurance, we would also develop products that meet the needs of our policyholders but that have low linkage with JGBs. However, I believe in Japan’s growth potential, and I think that if the government moves in the right direction with regard to growth strategies and fiscal soundness, JGB ratings will also recover.

Q (follow-up): Can you tell us about the impact of M&A activities going forward?
A: We would like to first increase the weight of the group's overseas business to about 30%, and then to about 50% in the medium to long term, and will be proactive in pursuing M&A deals if attractive investment opportunities present themselves. We will primarily consider deals involving life and non-life insurance in Asia and Lloyd's business, but will also consider other regions and business areas.

Q7: With regards to corporate governance, you have indicated your support of Japan's Stewardship Code. What kind of specific efforts are underway to ensure you fulfill your stewardship responsibilities?
A7: Because widespread adoption of stewardship concepts will contribute to improving transparency in Japanese corporate management, we believe this is a movement we should support. Our group companies have also announced their acceptance of the Stewardship Code, and will conduct more careful dialogue with the parties in which they invest. We also understand that the companies are accountable for explaining why strategic equity holdings are necessary.

Q8: Popular opinion against strategic equity holdings by financial institutions is growing; can you tell us how you feel about this? What impact do you think it will have on future plans to sell off strategic equity holdings?
A8: The intrinsic motivation behind our sale of strategic equity holdings is to reduce risk; the sales are not in response to any public pressure to dissolve strategic equity holdings. We plan to sell 300 billion yen at least in strategic equity holdings over four years, as originally planned, though if possible we would like to go beyond that.

Q9: This is a question about cost reductions. You state that you will reduce expenses annually, while at the same time expanding your business, which would seem to be a factor in increased company expenses. While the materials indicate a number of special factors that will boost company expenses, aside from these do you envisage any special elements that may emerge that could cancel out any efforts to reduce costs?
A9: We don't believe there are any additional reasons, aside from those special factors already acknowledged, that would further boost company expenses. As revenue grows, agency commissions and other variable expenses will increase, but that doesn't change our basic policy of reducing expense ratios. First, we will work to ensure a 50 billion yen reduction in expenses. Additionally, we will aim to reduce expense ratios by increasing premiums written.

Q10: You note that as part of your efforts to reduce automobile loss ratios you will work to strengthen partnership with auto-repair shops. What is the status of that initiative, and what effect have you seen?

A10: We select the partner auto-repair shops we refer customers to based not only on repair unit costs, but on the quality of their work, which in turn leads to greater peace of mind and satisfaction for the customer. Our understanding is that this has resulted in a reduction in repair expenses of about 10% per incident. Note, however, that because currently a little less than 5% of vehicles are brought in for repair to those auto-repair shops, we believe continued efforts to raise that percentage will lead to improvement in the loss ratio.

Q11: As the use of electronics in automobiles has increased in recent years, it has become more difficult to address problems with traditional repair techniques. Can you tell us your thoughts on the outlook for the motor channel including repair shops?

A11: We are aware of a growing polarization in the field, with some repair shops growing larger and expanding into franchising, while others are forced to go out of business for lack of a successor. Utilizing our automobile research center, we are implementing training in the inspection and repair of new types of vehicles, assisting with the purchase of the necessary equipment, and taking other steps to support agencies in the motor channel with their main business. Through these efforts, we hope to support motor channel agencies win in the market.

Q12: You mentioned that one of the reasons given for implementing a repurchase of shares is that the share price does not reflect the company’s earning capacity, and subsequently the share price has risen slightly. Can you tell us if the current share price reflects a level you can be satisfied with?

A12: While I can’t speak to a specific share price, in the medium term we would like to target a PBR in excess of one times. Our market capitalization currently stands at about 1.8 trillion yen, so that means for the time being aiming for a market cap in excess of 2 trillion yen. Shareholder returns are an important element of that goal, and we hope to implement this effort so as to meet everyone’s expectations.

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