MS&AD Insurance Group Holdings
2nd Information Meeting of FY2018 (Held on November 27, 2018)
Q&A Session Summary

Below is a summary of Q&A session from the Information Meeting held on November 27, 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 : What kind of impact will the domestic natural catastrophes that occurred this year have on earnings from next fiscal year onward? First, regarding the initial forecast for domestic natural catastrophes, do you think that the current level is appropriate? This fiscal year, even if an additional provision for the catastrophe reserve is made, the year-end balance will decline but is it likely that the provision ratio will be changed from next fiscal year onward? In addition, would you please explain as far as possible how much you expect reinsurance costs to rise next fiscal year?

A1 : We announced that we had factored about 51 billion yen domestically and about 40 billion yen overseas into our natural catastrophe budget, but looking at the impact in the past two or three years, I believe it will probably be necessary to revise this. Our conclusion is that we will basically maintain the current state but I think it would be more stable if we raised it somewhat.

We have not yet decided on the provision ratio for the catastrophe reserve. We are systematically accumulating the catastrophe reserve to the same level as the Isewan Typhoon (Typhoon Vera), which has a recurrence interval of 70 years, but MSI returned to a provision ratio of 5%, as it achieved this at the end of last fiscal year, and ADI planned to achieve this at the end of this fiscal year.

We believe that we need to steadily build up the level of catastrophe reserves to more than 200 billion yen, which is the level of the catastrophe reserves for fire insurance in FY2017.

We will negotiate reinsurance costs in the future. Even if costs rise by 5% as Deutsche Securities forecasts, the effective cost impact will be around 2-3 billion yen, which is not that much. What kind of cover we establish on a group basis will be crucial. This fiscal year, as I just explained, we have recovered about 60% from reinsurance. Since our direct writing insurance companies and reinsurance companies have had a relationship of sharing profits for a long time, we will negotiate reinsurance to obtain better cover for a better cost.

Q2: Underwriting profit excluding the impact of natural catastrophes at MS Amlin was revised downward by just over £100 million but was the impact of the downward revision to the non-cat. risk portion entirely attributable to the tighter supervision by Lloyd's as you previously explained? If that is so, I believe this will be a positive factor in terms of future earnings as this simply means you are posting costs in advance. The profit forecast for MS Amlin next fiscal year is £220 million. Is this likely to be a positive factor in regard to this forecast?

A2： Regarding MS Amlin's earnings, we also concluded policies where we have to build up some reserves.. As a result of tights market supervision by Lloyd’s and continued competitive pricing, profit recovery plan will be delayed.

Last month, when we exchanged opinions with a person at a major overseas insurer that has a syndicate at Lloyd's, the following statement was made regarding the tightening of supervision by Lloyd's: "If the reinforcement of discipline in the Lloyd's market maintains the current trend, we will have to tolerate it for the next 2-3 years. However, as the Lloyd's market basically has very important significance in the global insurance market, including Lloyd's underwriting capability, resolution capability and capability to obtain capacity, we will ourselves need to improve our profit as well." I think that is certainly the case.

There will be a delay in achieving the profit forecast of about 30 billion yen for next fiscal year but we intend to offset that portion with other business.

Broadly speaking, there are the following four categories of factors in relation to outstanding claims.

(1) Increase in reserves due to revision of final loss ratios for past-fiscal year policies
(2) Case reserves pertaining to losses that actually occurred and have low reproducibility
(3) Postponement of reversal of accumulated IBNR reserves in the past
(4) Although the profitability of the portfolio will increase by all rights in tandem with the raising of insurance premiums on new policies and changes in terms and conditions, we do not revise the final loss ratio

Among these, the last two apply to your question. Cases that are let pass for matters that by all rights are thought possible looking at the market environment. Then lastly, the policy terms are changed, and initiatives are taken to restore profitability, but such recognition itself is let pass, as in the following.

(1) It is thought that the increase in reserves for past years’ policies has almost been reached.
(2) Mid-sized claims with low reproducibility have been occurring, but they are not thought to be of the extent to affect the trend.

I believe that we have significantly postponed the recognition of profit in light of the tough environment in the London market and tough guidance that includes the total volume regulation from Lloyd's.

Q3: Regarding the last two factors that you just explained, when is the positive effect on profit likely to occur?

A3 : Generally it is difficult to say because there are very many applicable policies and this will vary depending on the underwriting line and underwriting year. Please understand that.

Q4 : Regarding the estimated final incurred losses on a direct basis resulting from Typhoons Jebi (No. 21) and Trami (No. 24), which is mentioned on page 6 of the materials, when comparing the number of claims in the entire industry and the estimated incurred losses announced by the General Insurance Association of Japan with MS&AD's market share, the amount seems to be rather large. Is this because of the impact of the relatively frequent occurrence of large losses or because the average payout per claim was conservatively estimated? Also, I believe that the figures mentioned here may change going forward but is the net incurred loss also likely to have a large impact? Would you please confirm this point?

A4 : In the case of the announcement by the General Insurance Association of Japan, we heard that there were various methods of estimating claims for each non-life insurance company. In the case of MS&AD, we basically looked at the actual results for each claim in the past and the accounting section confirmed and issued the data based on estimates from the claims services section. However, it seems that some companies made calculations by simply multiplying the number of accidents by the actual past average payout per claim.

Within our final incurred losses on a direct basis, as commercial lines have a weighting of about 40%, and as the average payout per claim in commercial lines tends to be high, the projected payment amount may have increased.

Going forward, the final incurred losses on a direct basis may change but please understand that the net incurred loss will generally not change much due to reinsurance coverage.

Q5 : I would like to know about the way the Company issued the initial guidance. This fiscal year, as you initially forecast the amount of planned sales of strategic equity holdings below 100 billion yen and retained the dividend forecast from last fiscal year even though you continued to increase the dividend in the past, I think a slightly negative reaction occurred. In the case of this announcement, the amount of planned sales of strategic equity holdings was raised and the dividend forecast was increased even though the forecast for Group Adjusted Profit was revised downward. In retrospect, I have the impression that the initial guidance provoked an unnecessarily negative reaction.

In light of this, I would like to know if you have changed your view on how to present guidance for next fiscal year or not.

A5 : MS&AD formulates forecasts conservatively at the beginning of the fiscal year and there may be a tendency for actual results to exceed forecasts. Regarding dividends, based on the viewpoint of paying stable dividends, we considered plans to increase the dividend after we had looked at earnings in the first half, given that several natural catastrophes occurred overseas last fiscal year.

Please understand that we may also use such form of guidance in the future.

Q6： In the earlier part about shareholder returns, you explained that the flexibility of share buybacks is not bound by the range of 40% to 60%. However, I understand that this has not been commented on before. Have you changed your view on this point?

A6： If you feel that there has been a change from our previous view, perhaps that is because our previous explanation was not very good. Previously, there was a question about whether the amount remaining after the payment of dividends would be the limit for share buybacks but that is not our view.

If we think that MS&AD is not fairly valued based on the share price level and the PBR, a share buyback would be considered effective. If we do not conduct this with flexibility, it will not be effective. As we have a certain amount of leeway in terms of profit that can be paid as dividends, in light of our capital level and the level of ESR, we will carry out share buybacks flexibly.

Q7： I believe that shareholder returns will probably increase and the ratio of shareholder returns will probably rise going forward. In that case, I think you need to strengthen management of business investment more than previously. What is your view?

A7： Regarding business investment and the criteria for investment in the case of M&A, as I just explained, we will fulfill in qualitative terms the three conditions of affinity of corporate culture, expectations of group synergies based on a sustainable growth model, and geographical diversification and insurance line risk diversification. We will promote economically rational investment by steadfastly maintaining capital discipline.

For example, if we look at the specialty insurance sector in North America, which is one of our target areas, share prices are currently staying at high levels, and when we consider whether there are really opportunities that would be suitable for investment or not under these conditions, we believe it is important to consider whether it would probably be better to rule them out if they are valued at a PBR of more than 2x or how we should view synergies that can rationally explain such a valuation.

As shown on page 47 of the materials, we acquired Amlin at a time when we had to create a platform, and I believe the acquisition can be sufficiently explained rationally in terms of this point. On the other hand, I think that looking at bolt-on type investments based on a more stringent assessment of investment efficiency is the correct viewpoint. We will therefore continue to invest with discipline.

Q8： Is MS&AD planning to make additional provisions to the catastrophe reserve next fiscal year as well? If so, will this be financed by gains on sales of strategic equity holdings? In that case, is it likely that gains on sales of securities will also be posted as part of asset management?

A8： Regarding additional provisions to the catastrophe reserve for next fiscal year, we have not yet decided whether to increase the provision ratio or make a one-time provision. We recognize that the balance of the catastrophe reserve for fire insurance is still insufficient and we believe it will be necessary to build it up from next fiscal year onward. How to fund this has not been determined yet but gains on sales of stocks as net investment and trading gains as part of asset management are both options and we will make a decision on this rationally.

Q9： On page 20 of the materials, there is an explanation regarding the improvement of profitability of fire insurance. However, claims on a direct basis for the current fiscal year amount to 463 billion yen so how many years will it take to recover them? You explained earlier that the ratio for commercial lines is 40% but would you please explain commercial lines and personal (homeowners) lines separately?

In addition, the Reference Loss Cost Rate will be raised by 5.5% for homeowners' comprehensive insurance, so would you also tell to what extent you will increase the rates for commercial lines?

A9： Regarding commercial lines, as I explained earlier, we are expecting reinsurance recoveries per risk and we have been managing the occurrence of large-scale natural catastrophes to ensure leveling over the long term. For individual policies, we are proceeding steadily after reviewing the conditions and the rate hike based on ROR and expected income while carefully explaining the details to customers.

As the Reference Loss Cost Rate for homeowners' insurance was raised by 5.5%, we will make a rate revision for subsequent fiscal years. We believe the positive impact on profit will be about 7-8 billion yen for the entire group. This will amount to 70-80 billion yen over ten years, but rather than talk about the number of years for recovery, we will provide insurance coverage steadily in the long term, while making use of reinsurance and the catastrophe reserve, which is the accumulation of past profit. In this way, we intend to secure profits steadily over the long term.

Q10：There is an explanation regarding the reinsurance scheme on page 53 of the materials. According to page 6 of the materials, recovery of 279 billion yen from reinsurance is projected for the current fiscal year but would you please provide a breakdown of respective reinsurance policies per risk, per event and the annual aggregate loss, as shown on page 53? Furthermore, please explain the reinsurance scheme from next fiscal year onward as far as possible?

A10： I cannot comment on a respective breakdown per risk, per event, or the annual aggregate loss in regard to the reinsurance scheme.

With regard to the reinsurance scheme for next fiscal year onward, we intend to respectively arrange reinsurance per risk for large property risks such as commercial lines, reinsurance per event for risks such as the recent Typhoons Jebi (No. 21) and Trami (No. 24), and annual aggregate loss reinsurance for the kind of medium-size risks that do not meet the condition of a per risk cover. Accordingly, we will build up a reinsurance scheme from the perspective of economic rationality based on a viewpoint, which will not change greatly from the current fiscal year.

Q11：The explanation regarding MS Amlin on page 33 mentions the expansion of the fee business through insurance-linked securities (ILS) and "sidecars". However, isn't it likely that using ILS and "sidecars" in the reinsurance market, which is in a severe situation due to the inflow of third-party capital, will aggravate the severe situation? Also, would you please tell us the

amount of fees to be generated annually?

A11：With multiple large-scale catastrophes occurring, we need to provide appropriate coverage. If we can provide steady coverage and, at the same time, diversify risks by using ILS and "sidecars" I think that it will be important to make use of them. MS Amlin has to date reduced its risk exposure for natural catastrophe risks from 20-something percent to 12-13 percent on a gross premium basis but by using ILS and sidecars, we are creating a mechanism to earn fees while reducing risk exposure by a further 10-20%. The income that we can earn from fees, etc. based on ILS and "sidecars" amounts to roughly 2.5 billion yen.

Q12：The explanation regarding domestic natural catastrophes on page 6 explained that about 60% of claims would be recovered from reinsurance but there was an explanation that the recovery rate for other companies is about 50%. Please tell us the reasons for the difference from other companies? You earlier explained that the ratio for commercial lines is large in the case of MS&AD. Would you please advise each amount of ELC for per risk, per event and the annual aggregate loss cover. In addition, I believe MS&AD must hold the risk above a certain level so please tell us the amount of the attachment point (primary retention amount)?

A12：We do not know what kind of reinsurance other companies have arranged so we are not in a position to comment on this. Our domestic non-life insurance subsidiaries respectively arrange reinsurance coverage based on factors such as their level of capital, level of ESR and catastrophe reserve balance but we are promoting initiatives to bring together the standards on a group basis into a single form.

Regarding the arrangement of reinsurance coverage for next fiscal year, we will arrange cover per risk, per event and for the annual aggregate loss cover from the perspective of minimizing the impact on periodic income as shown on page 53 with the viewpoint of covering 99.5%-tail risks.

We determine the attachment point based on the calculation of the model. We issue guidance to domestic non-life insurance subsidiaries on the level of risk that can be held for risks that occur about once in five years, and each company arranges reinsurance even more conservatively within that guidance. I cannot mention any specific amount.

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