

IRDAY Analyst Session Q&A Summary

Q1: Regarding fire insurance, I would like to know the details of the average rate increase of 9% and the possibility of additional revisions in the future.

A1: The rate increases vary by sector, such as household and corporate, with an average increase of 9%. Depending on the results, we believe there is a possibility of further rate revisions in the future.

Q2: What factors contribute to the high loss ratio of fire insurance compared to competitors? Do you plan to increase the rate higher than other companies in the future?

A2: This is due to the fact that the hail disaster in June of this year occurred in an area with a high market share for our group, and the structure of reinsurance which differs from other companies. If compared with others by direct underwriting loss ratio, there is not much difference from others according to our analysis. Therefore, at this time, we do not see the need for higher rate increases compared to other companies.

Q3: Please tell me more about dealing with fraudulent fire insurance claims and reviewing agent commissions.

A3: It is analyzed that there is a high possibility that fraudulent claims are mixed in with damage claims. We are currently ramping up measures by exposing cases of fraudulent claims and sharing cases companywide. The agent commission structure was such that if there was a rate increase, the amount of agent commission would increase proportionally, so we reviewed some of the commissions.

Q4: Could you tell me if there is a gap to the initial estimate for the 2023 profit forecast of 400 billion yen?

A4: We are making steady progress in various initiatives. There are more natural disasters in this season's events. Recovery from reinsurance is also expected, and attention should be paid to how the reinsurance market will behave in the next fiscal year. We also believe that we need to keep a close eye on the rising loss ratio of auto insurance.

Q5: Is it really good to bear the cost of reinsurance in order to limit the volatility of profits?

A5: We believe that the difficult task in risk management is whether to reduce the volatility of profits by paying reinsurance premiums or to hold the risk and cover it with capital without reinsurance arrangements. If we do not arrange reinsurance at all, the volatility of our profits will increase, which in turn will lead to an increase in the cost of capital, so we will look at the balance between cost and amount of risk to decide how much

insurance we will arrange, and try to operate in an optimal place.

Q6: What is the outlook for the domestic natural disaster budget in three years?

A6: It is based on the domestic natural disaster budget for this fiscal year of 72.5 billion yen for 2 domestic non life insurance companies.

Q7: How much does inflation affect the earnings outlook for the next three years in the domestic nonlife insurance business?

A7: At this time, the inflationary impact is not clearly visible in Japan, but we will take into account, to the extent possible, the inflationary impact that has been confirmed or is expected at that time when formulating our next revised plan.

Q8: Can you give me an example of using digital technology, such as an insurance fraud claim detection system?

A8: To date, we have focused on making our claim services more convenient for customers and expediting procedures in our digital response. We are considering various methods for AI detection of fraudulent claims.

Q9: How do you analyze the frequency of accidents, unit claim amount, etc., regarding the fact that the loss ratio of automobiles was slightly higher in 1Q than planned? Also, how do you rate it against other companies?

A9: We believe that the increase in the frequency of accidents due to the return from the Covid-19 effect and the increase in unit repair costs due to the enhancement of vehicle functions are both within the range of expectations in the annual plan. Compared to a normal year in 2019 before the Covid-19, the frequency of accidents has decreased by 7%, while the loss ratio has increased. We believe this is due in part to an increase in unit repair costs resulting from higher functionality. In 1Q, the loss ratio was slightly higher than that of other companies, but we do not expect a significant divergence for the year.

Q10: With regard to auto insurance premiums, there have been reports that the Reference Loss Cost rate will not be reduced after next year. Could you tell us your outlook for your company?

A10: The current rate reflects a revision (about 2% reduction) of the Reference Loss Cost rate in the previous year (2021). As for the future outlook, we would like to consider based on the current loss ratio. Basically the current situation is status quo rather than price increase.

- Q11: What are the variables in the outlook for domestic fire profit improvement through fiscal 2025?
- A11: If the reinsurance premium increases significantly, it may be affected.
- Q12: Regarding fire insurance, please tell us about the progress and results of your digital initiatives in collaboration with Hippo.
- A12: There is much to learn from Hippo, including the use of data in risk segmentation insurance, algorithms for rate calculation, an excellent user interface for Web, and the use of devices for disaster prevention and mitigation, and we have dispatched five staff to work on acquiring these know-how as soon as possible.
- Q13: The Integrated report states that digital related business sales will be 30 billion yen in 2025 and then 100 billion yen, so how likely are you to achieve that?
- A13: The 2025 outlook for digital-related businesses is based on the accumulation of plans for sales from various initiatives. The future 100 billion yen is a stretched plan, but it includes the prospect that the data business, software business and other businesses that are sowing seeds overseas will be able to record sales and monetize from around 2025.
- Q14: How are the characteristics of InterRisk Research and Consulting compared with its peers?
- A14: Since its establishment in 1993 as a risk consulting firm, it has accumulated knowledge. We are proud to be one of the leading companies in Japan, especially in the area of risk consulting for natural disasters.
- Q15: I think foreign exchange risk is reasonably substantial, but please tell me how it is controlled.
- A15: For foreign exchange risk, we ultimately have to look at the impact in the yen, but we also monitor the impact of local currencies, including the dollar and pound sterling. We monitor dollar-yen, which has a significant impact, almost daily, especially on asset management. We also deal with insurance claims through currency hedges.
- Q16: There have been cases where MS and AD had similar exposures, such as South African floods and hail disasters, with losses totaling about double those of the other groups. Is there an awareness of the problem of the situation where the company is avoiding share adjustment by not merging, while it has overlapping large risk?
- A16: We recognize that the final loss is not a difference to the level you pointed out, such as being twice as large as other companies. We are always aware of the impact on the top

line, and we are currently focusing on the growth rate of our two-front system, but we believe that we must always consider merging the two core non-life insurance companies under our group.

Q17: Why is it that even after the transition to IFRS, base profit for shareholder return remain close to the traditional definition?

A17: Based on the view that it is better to maintain continuity and consistency in terms of base profit for shareholder return over the four years of the medium term plan, we decided to adopt almost same definition after IFRS.

Q18: Travel to and from other countries has also increased, and how do you feel about this now? Also, what is your current evaluation of Transverse?

A18: We have already had overseas business trips and reevaluating the value of having actual interviews while making sure the group is working together. As for Transverse, we were reminded that the point of their business model is how to screen MGAs.

Q19: What is your estimate of the current impact of Hurricane Ian?

A19: As for Ian, we assume that it will be large in scale, but we believe that it is too early to expect losses because we underwrite mainly by reinsurance. With regard to Florida, we have reduced underwriting exposure, and we believe that this will be effective against the initial budget for natural disaster losses this fiscal year. AAG has reduced its Florida exposure by 75%, primarily due to the suspension of business with customers who had underwritten only natural disasters.

Q20: Please tell us how AD's head office reinsurance business controls the risk of natural disasters.

A20: Like MS Amlin, AD's head office reinsurance business is working to reduce its exposure to natural disaster risks. Profitability is improving due to the hardening of the reinsurance market, so we are discussing within the group how to take advantage of this opportunity while balancing the impact of losses.

Q21: How about the possibility that your company group will accelerate the pace of strategic equity holdings sales in the future?

A21: With regard to the reduction of strategic equity holdings, negotiations have progressed faster than expected due to the stricter view against strategic equity holdings from society and the awareness of how strategic equity holdings are viewed by the companies in which they are invested.

Q22: You have already added 8 billion yen to MS Amlin's inflation reserve, but will there be any further increases?

A22: Existing reserves for inflation have already been factored in. In addition, although we have decided to respond with rate increases this fiscal year, we are not considering further increases of reserve because we have been able to achieve higher rates than expected for both direct and reinsurance. We will consider next term.

Q23: With Hurricane Ian and the weakening of the yen, is there any change in MS Amlin's estimated overseas natural disaster loss for fiscal 2022 from 26 billion yen?

A23: Both AUL and AAG have significantly reduced their exposure to natural disasters, with Florida seeing a reduction of more than 40% from last year. Although this is an intuitive outlook at this point, we do not expect the situation to change the 26 billion yen.

Q24: The general risk net loss ratio for fiscal 2022 is expected to be 46% for AUL and 55% for AAG. What is your forecast for the loss ratio over the next 3 to 5 years?

A24: As a result of initiatives such as reducing exposure to natural disasters and reducing underwriting in unprofitable categories, both companies believe that their general risk net loss ratios have reached a favorable level. We expect the loss ratio to remain at the current level in the future, and we expect growth in both the top and bottom lines due to portfolio replacement and increased underwriting and hardening of the market.

Q25: You say that you will respond to the current inflation by raising rates, but if inflation continues in the future, is it possible to raise rates beyond that?

A25: If it is possible to raise the rate to match inflation, we will underwrite and if not, we will not underwrite. We make decisions with profitability as our priority.

Q26: Central banks around the world are tightening their monetary policies at the moment, but what is the impact on MS Amlin's profitability?

A26: Under the low interest rate environment brought about by monetary easing, the entry of ILS funds and others into the reinsurance market had spurred softening. On the other hand, we believe that the tide may have turned because there are cases where underwriting is suspended at the moment, and we are paying attention to the hardening of the market after the renewal in January next year.

Q27: What is the reaction of investors to the new medium-term management plan?

A27: In our dialogue with investors through overseas IR, we received questions about the

background of the revised profit of 500 billion yen, the ESR range and additional shareholder return policy, future prospects for auto insurance, and the weight of our overseas business portfolio. we have explained this carefully, and we believe they understood it.

SQ1: Is it the view that PBR will be reevaluated as results emerge?

SA1: You're right. We will continue to improve our PBR by making solid achievements.

Q28: Has the possibility of additional shareholder returns changed from when the mid-term plan was announced in May 2022 to now (October)?

A28: Basically, while we are aiming for a stable dividend increase, we will consider making additional shareholder returns if necessary, for example, if adjusted earnings do not reach the target level.

Q29: What is the significance of the reinsurance business and what are the biggest challenges?

A29: Underwriting reinsurance to complement the underlying portfolio is effective in diversifying and improving the efficiency of the group's overall portfolio. The challenge is how to control volatility caused by natural disasters.

Q30: What is the status of your consideration of large-scale M&A?

A30: The valuation of specialty companies in North America continues to be high. In the long run, I'd like to consider M&A if Valuation gets into the target range and has a chance.

Q31: Can't we capture more profit in Toyota business overseas?

A31: Starting with telematics, the collaboration with the Toyota Group is implemented mainly by AD. In our overseas operations, we will continue to aim to increase profits in the Toyota business.

Q32: What is your view on the wide gap between your company's stock price and those of other companies?

A32: The biggest foreign investment is MS Amlin, and I think we need to show a solid track record here. AUL's portfolio is improving considerably and insurance underwriting profits are in the black. We are also improving AAG's portfolio and hope to meet your expectations by demonstrating our performance.

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