

MS&AD Holdings Conference Call (November 17, 2023)
FY2023 Second Quarter Results Briefing - Q&A Summary

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

MSI: Mitsui Sumitomo Insurance Co., Ltd.

ADI: Aioi Nissay Dowa Insurance Co., Ltd.

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

MS Amlin: Total of AUL, MS Re, AISE, ACS and other businesses

AUL(MS Amlin Underwriting Limited), MS Re (MS Reinsurance[†]),

AISE(MS Amlin Insurance SE), ACS(MS Amlin Corporate Services Limited)

†: Brand name launched by MS Amlin AG in September 2022

MS Transverse : Transverse Insurance Group, LLC and group companies

Q1: Why did you change your net income forecast for U.S. at 8.7 billion yen downward from initial forecast, and why did you change your overseas life insurers at 7.4 billion yen downward?

A1: It's due to the large losses at U.S. subsidiary and delay of new insurance programs at MS Transverse. And the losses of Hawaiian wildfires at ADI's subsidiary in Hawaii is also a factor of downward revisions.

For overseas life insurance, there are several factors such as market fluctuations and revisions of assumptions based upon IFRS17, etc. Each one is not big, but they all add up to this figure.

SQ1: Is the major loss of subsidiaries at U.S. related to Japanese business? Or is it a local business?

SA1: It's a Japanese business and not a special case.

Q2: According to the waterfall chart on page 36 of the document, voluntary automobile insurance's underwriting profit forecast has been lowered by 52.0 billion yen before tax from the initial forecast(520.0 billion yen = increase of incurred losses). At the first quarter telephone conference call, you explained that there has not been much deviation from the initial forecast. Why has the bottom line deteriorated so much in the last 3 months? Have there been any signs?

A2 We found the signs of increasing trend in losses in the first quarter, but we recognized that it was only three months trend. Since then, the frequency of accidents and average payout per claim have been increasing more than expected, so we have raised the annual loss outlook this time.

SQ1: You are scheduled to raise the price of voluntary automobile insurance in January 2024, but I think the January price increase is not enough for such a bad balance. Is it possible to change the price increase range now? Also, is it not possible to raise the price for a year after that? Is it possible to have an emergency price increase during the term?

- SA1: As you understand, we are planning to increase the rate by about 3% on a premium basis in January 2024. I think it will be difficult to offset the balance with that rate increase. The first reason is that there is a long-term contract, so the effect of the price increase does not occur immediately. The second reason is that if the situation such as the trend of average payout per claim's rise deteriorates further after the decision to raise the rate, it will be necessary to reconsider.
As for the emergency price increase, we are currently preparing for the price increase in January 2024, so I think it will be difficult to change the rate hike significantly.
- SQ2: Is it possible to implement an emergency price increase based on the current system?
- SA2: There is a lead time for system preparation, but I think it will take a time considering the period for agents to explain to customers.
- Q3: It seems that the impact of natural catastrophes on domestic business is greater than in the past. Please tell me how much do you evaluate the impact following to the change in the reinsurance program.
- A3: The evaluation of reinsurance scheme change is difficult because of the situation of natural catastrophes in each fiscal year. As for this time, the incurred loss for natural catastrophes of MSI and ADI was 101.9 billion yen/106.4 billion yen in gross. Last fiscal year, the incurred loss was 89.9 billion yen/113.0 billion yen in gross, so the recovered amount last fiscal year was bigger than this fiscal year. We are considering various reinsurance schemes because the reinsurance conditions has been getting strict.
- SQ1: How do you assess the impact of this natural catastrophe on profits? Please tell me whether you should expand protection even if the reinsurance cost will increase for the next fiscal year, or whether you will allow a similar amount of claim fluctuation considering reinsurance costs.
- SA1: The reinsurance scheme depends on the assumption of losses. There were no outstanding events this year, so the recovery amount was relatively small. We think that buying more reinsurance for each event has little cost effect considering the return. On the other hand, it is necessary to arrange the stop loss cover for accumulated losses, and we will consider future reinsurance arrangement separately based on the loss trend in last year and this year.
- Q4: The increase in incurred loss was covered by the sales of strategic equity holdings. In medium-term management plan, the target of sales of strategic equity holdings is 600.0 billion yen for 4 years. Will the profit from the sales of strategic equity holdings decrease after next year? Or will there be a change of the target amount?
- A4: Our target to sell strategic equity holdings is 600.0 billion yen based on fair value for 4 years. In FY2022, we sold over 200.0 billion yen, and this fiscal year, the progress of the sales has been still steady, reaching a sales level of more than 400.0 billion yen in the first 2 years since the launch of medium-term management plan. As for the review of the sales of strategic equity holdings, it is necessary to consider the impact of coordination with the issuer and the market environment.

Therefore, we do not intend to raise the target at this time, although it may exceed 600.0 billion yen through active dialogue with issuers.

Q5: MS Amlin's earnings forecast for the profit or loss of the insurance service is raised by £ 39M from the initial forecast of this year, despite expected loss for major natural catastrophes were implemented a reduction of £ 66M. It seems that the non cat business has been getting worse. What are the factors behind this?

A5: The loss ratio in non-cat risk of MS Amlin has been decreasing steadily.

Although both loss from natural catastrophes and non-cat risk loss ratio have improved, the reason why the profit or loss insurance service have not improved on the same scale is also affected by the discount in insurance liabilities. Therefore, the confirmation is necessary, so please let me answer later.

(Supplemental answer)

The non cat loss ratio has been decreasing steadily. Based on the fact that the actual results of a large natural catastrophe losses (before discount) have been below the plan, we have lowered the annual forecast by -£66M from the initial forecast. However, since a certain amount of buffer is included in the overall losses mainly on medium-scale natural catastrophes, the annual profit or loss on insurance services increased by +£39M from the initial forecast.

Looking at the non-cat loss ratio before applying the discount (excluding losses related to Russia and Ukraine and Covid19 losses), we expect 54.4% for the full year due to the rate increase and the improvement of portfolio (4.5 points improved from 58.9% in the last fiscal year).

Q6: With regard to the forecast of EI loss ratio at ADI excluding natural catastrophes in voluntary automobile insurance, it has increased by 4.7 points from the initial forecast, but I think this includes the impact of BIG business. Please tell me how the impact of BIG business has been changed from the initial forecast and whether it has subsided now.

A6: The EI loss ratio's forecast is up 4.7 points compared to the initial annual forecast. Dividing this into domestic and overseas, the impact will be 3.4 points in domestic and 1.3 points in overseas. The 1.3 points in overseas include the impact of foreign exchange rates. The overseas portion includes reinsurance inward from overseas subsidiaries. And the increase of the reinsurance inward affected as well. I do not have BIG business loss ratio itself in hand, the overall loss ratio of overseas portion is 88.1% including reinsurance inward of Toyota Retail, BIG business and overseas subsidiaries. This is the reason for the increase in automobile loss ratio at ADI.

Q7: This time, you announced 10.0 billion yen share buyback, but can we assume that it is within the framework of the basic return of 50% total payout ratio? Or, assuming a revised profit of 280.0 billion yen, is it clarified as an additional return?

A7: The share buyback of maximum 10.0 billion yen announced today is clarified as a basic return. The annual share buyback will be announced after considering the profit situation in the second half.

- SQ1: If the fine for cartel will be imposed in the future, will it be deducted from the group adjusted profit?
- SA1: The incidental factors will be deducted from group adjusted profit, but if such a situation occurs, we will consider it.
- Q8: Regarding aviation insurance, there has been a report that insurance claim has been settled by a Russian insurance company. Could you tell me about the status of MS Amlin's insurance claim negotiation for aviation insurance?
- A8: The impact of insurance claim settlement in Russia on MS Amlin's pending lawsuit is currently uncertain. I would like to refrain from commenting on the individual progress of MS Amlin's lawsuit against aviation insurance due to the pending lawsuit cases.
- Q9: In the case of BIGMOTOR and Cartel, please tell me the impact on the actual business after next fiscal year.
- A9: We are very sorry for the inconvenience caused to everyone regarding the BIGMOTOR and the price fixing.
- As for the BIGMOTOR, we are investigating all 70,000 insurance claims paid by MSI and ADI to see if there were any fraudulent claims. We also explain the results to customers and take steps to correct the insurance grades. At this time, there are personnel costs for the investigation, but there is no significant impact.
- Regarding the price fixing, it is difficult to comment because the regulator investigation is ongoing at this moment, but I think there are two impacts. One is the relationship of trust with customers. I believe it is important to restore social trust as soon as possible by thoroughly explaining to customers. In addition, we are starting to establish a system that will prevent events that may violate such laws and regulations. As for the direct impact on business, it is difficult to assume at this moment.
- SQ1: For example, if a person in automobile repair shop asks, "Please pay us more." or a person in the human resources department or a window person at a company for insurance arrangement asks, "Is this insurance premium reasonable?," how will you respond?
- SA1: We believe that we should eliminate fraudulent insurance claims and pay appropriate insurance claims for all cases. In addition, we will carefully discuss the level of labor costs with repair shops.
- Q10: The hail disaster in Gunma in July was 27.9 billion yen, which is a big figure compared to the competitors. Even if the statistical methods are different, are you aware of the inherent problems in the underwriting as a factor that makes these natural catastrophes bigger than other companies?
- A10: I think you have pointed out that hail disasters mainly in Gunma Prefecture are bigger than other

companies. At this moment, I cannot answer exactly because the loss is a reserve and not yet fixed, but historically both MSI and ADI have a high market share in Gunma and Northern Kanto, and I think that the percentage of cars that met hail disasters that were insured by both companies was simply large. Finally, we will be able to make a correct comparison with other companies when all the insurance claims will be settled.

Q11: In international business, it seems that you estimate overseas natural catastrophes and losses of European subsidiaries other than MS Amlin at ADI. Please tell us about the details.

A11: First of all, Typhoon No. 2 hit Guam and ADI suffered the losses. Also, ADI's subsidiary suffered the losses in fire and automobile insurance for Japanese clients and local clients. The deterioration in Europe's business profit was mainly due to the deterioration in voluntary automobile insurance in Toyota retail business and the BIG business. In addition to a number of theft accidents in voluntary automobile insurance in the U.K., where competition is severe, the impact of major personal injury coverage accidents and hail disasters on the European continent has led to a severe financial deterioration.

Q12: As for MSI Primary Life, while interim net income for the first half of the fiscal year was -8.6 billion yen, you have kept the full-year forecast unchanged. Please explain the structure of 27.0 billion yen plus in the second half (Profit forecast 16.0 billion yen – first half year deficit 8.6 billion yen = 24.6 billion yen).

A12: As for MSI Primary Life, net income was deficit in the first half as a result of significant unrealized loss arising from bonds due to the rise in interest rates. However, the amount of policy in-force has been increasing, and we have not revised our plan from the initial forecast in anticipation that income such as profit margins derived from policy in-force, which has been steadily accumulating, will steadily contribute to profits. We will consider hedging and other measures in response to fluctuations in interest rates and foreign exchange rates. As of the end of September, among interest rate and foreign exchange rate, we believe that the negative effect of interest rates change was stronger.

SQ1: If the assumption of interest rates and foreign exchange rates is flat and you are looking at the plan for the second half, will it be 27.0 billion yen plus in the second half? If it is due to the build-up of policy in-force and the improvement of hedge operations, will it be more positive for the whole year next year?

SA1: The profit margin is definitely increasing. The financial forecast is based on the market at the end of September. Primary's interest rate sensitivity is high, but by taking measures in response to fluctuations in interest rates and foreign exchange rates, and it is expected to achieve the initial forecast.

Q13: The ESR has dropped by about 10 points since June. Regarding the change factor, "increase in the amount of risk due to increased investment in higher return assets," please tell us how the ESR risk has been quantitatively affected.

A13: As shown in P26, ESR is almost the same level as at the end of March. It is down 11 points since the end of June.

With regard to the term "increase in the amount of risk due to increased investment in higher return assets," in light of the current market environment, for example, a portion of the strategic equity holdings sales in Japan are invested in overseas assets with higher return asset. As higher return assets accumulate, the amount of risk increases, which will negatively affect ESR. The impact of investment in higher return assets against ESR is -6 points from the end of March. I would like to elaborate on higher return assets at the information meeting next week.

SQ1: Do you mean that the MSR initiative that we established in New York has launched?

SA1: That's right. I hope you understand that we are launching and steadily building up our investment balance.

Q14: MS Amlin's loss ratio in non-cat risk seems to be decreasing steadily, can you tell us quantitatively about the first half performance?

A14: MS Amlin's non cat risk loss ratio (before discount) is 56.5%. In the same period of the previous year, losses related to Russia and Ukraine (about 6.3 points impact) were included, so there was an improvement of -8.2 points. Excluding losses related to Russia and Ukraine and Covid19 losses, there was an improvement of - 0.5 points. The non cat risk loss ratio (before discount) is expected to decrease further toward the end of the fiscal year, and the annual plan (54.4%) is expected to be fully achievable.

Q15: In the explanation of ESR, you mentioned taking overseas credit risk. Please tell me the specific investment size and target.

A15: As a result at the end of March 2023, we have accumulated a balance of 400.0 billion yen in the half term. This includes foreign bonds, private equity, and new private dead investments.

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