

MS & AD Insurance Group Holdings
Thematic Meeting - MS Amlin (held on December 14, 2023)
Brief Summary of Q&A session

The following is a summary of the Q&A session at MS Amlin Thematic Meeting held on December 14, 2023.

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

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

MSR: MSR Capital Partners, LLC

Q1: The combined ratio of AUL shown on page 4 decreased significantly from FY2021 to FY2023, but the attritional loss ratio shown on page 6 doesn't seem to have decreased as much as the combined ratio. Please tell us how much reserve releases took place during the period and what the impact was.

A1: Please note that all figures in the presentation are on the underwriting year basis. Therefore, the impact of quarterly reserve releases is not linked to the graph in the materials and it's difficult to say how the reserve movements are allocated to each underwriting year.
The reserves in respect of recent underwriting years are trending favorably. We did a transaction that transferred the legacy reserves from 2018 and prior to a third party which are trending a little unfavorably and now we are seeing material favorable movement in our actual vs expected.

SQ1: As for the reserve movement after next year, do you think you can release reserves to some extent? Or do you see risk of reserve strengthening for the past portfolio?

SA1: We haven't made any decision on what we will do on reserves yet, but it is likely that we will recognize some improvement and favorable movements of our reserves.

Q2: AUL's ROE target is 10%+, and MS Re's ROE target is 12%. I think both are a little conservative considering competitors in Europe and the United States, the current situation of high interest rates and the insurance premium cycle. Please tell me the reason why the targets are conservative and information regarding financial leverage and capital allocation.

A2: AUL:
AUL business is 2/3 direct and 1/3 reinsurance whereas MS Re business is 100% reinsurance, so the situation is different between AUL and MS Re.

The target ROE of 10%+ is the target which should be achieved through the premium cycle. ROE can be more than 10% in the current hard market situation, while it may drop to single digits at the bottom of the premium cycle.

MS Re:

ROE of the direct business tends to be relatively lower than that of the reinsurance business. The ROE target of 12% is a long-term goal throughout the premium cycle. As for capital, other companies issue subordinated debt of about 20% of their capital and leverage it to get a higher ROE where MS Re doesn't, which is one of the reasons why MS Re's ROE target looks lower.

SQ1: If there is an incentive to increase ROE, do you have an option to return capital to the parent company in order to improve ROE?

SA1: MS Re:

This might be true when considering profitability (ROE). MS Re's primary focus last year and this year is to focus on rebalancing the portfolio, create well diversified portfolio to give stability in earnings and scale them up. We are currently in the process of driving the strategy, so we will consider returning capital if necessary after realizing the diversified portfolio and stable profits.

AUL:

AUL's capital requirements are more rigid because they are controlled somewhat by Lloyds. Lloyd's has certain requirements that AUL needs to fulfill to manage the capital level.

Q3: With regard to the insurance portfolio of AUL, please tell me the percentage composition of insurance premiums by line of business. Also, what is the percentage of Political Risk and Catastrophe Risk?

A3: Our portfolio is split roughly 2/3 direct and 1/3 reinsurance. Half of direct insurance is short tail property lines including automobile physical damage. The other half is split roughly equally into four lines; Marine / Casualty / Energy / Crisis Management. This Crisis Management includes political violence, political risk and product recall. As for Catastrophe Risk, about 15% of total portfolio is cat business.

SQ1: What kind of risks are you covering in Israel and Gaza?

SA1: AUL's exposure in the Middle East are mainly political violence where majority of exposures are located in northern Israel. In the Gaza area, there are very tiny exposures of multinational companies but they are almost insignificant.

Q4: I understand MS&AD group has an investment platform called MSR in the United States. Is there any room for cooperation with MS Amlin?

A4: Both AUL and MS Re do not have any direct daily cooperation with MSR at the moment.

Q5: Please tell us the situation of ALM in MS Re?

A5: Prior to the introduction of IFRS17, the duration on the asset side was shorter in view of a rising interest rates, but since the introduction of IFRS17, the matching of assets and liabilities has been

progressing. As of the end of second quarter, we achieved approximately 80% matching, so the operational volatility of interest rate fluctuations in the future will be kept at a certain level.

Q6: The assumption of rate increase in AUL in 2024 is 2.5%, but I think it is somewhat conservative. Please tell me what kind of thinking makes this assumption.

A6: Rate improvement of 2.5% for 2024 can be split roughly 4% for reinsurance, 1% for direct insurance. We are in the process of reinsurance renewal for January 1, so it is too early to see the range of rate increase. However, at the moment, I think the rate expectation looks to be roughly on track. (Note: The above increases are explained in terms of risk-adjusted rates excluding the effects of inflation and changes in insurance conditions.)

SQ1: Regarding the range of rate increase of direct insurance (1%), you said AUL write automobile insurance, but I understand there are a lot of thefts in Europe and European automobile insurance is in a very difficult situation right now. Do you think the market as a whole realize adequate rate increase?

SA1: There have been very significant rate increases in the last few years, so it is normal to expect rate increases to begin to flatten off. For example, marine insurance in the London market started to increase rate in 1-2 year advance of most markets and marine insurance's rate is flattening now. However, it is attractive when we look at rates relative to technical price, rather than relative to prior year movement. Please note that AUL write motor business only in North America which excludes liability and covers just physical damage, mostly to large trucking lines. We are not exposed to general motor business in the UK and Europe.

Q7: How do AUL, MS Re and the headquarter in Japan exchange information on underwriting risks and rates?

A7: We have constructive information exchange with the headquarter. As for business plan, we provide information such as what exposures we have taken for each lines of business, what lines we will focus on in the future and discuss with the headquarter. In addition, we have exchanged views on asset management policies and risk assessment. We also have regular quarterly meetings on financial results. We actively exchange information and thought about financial results, risk limits, details of deviations from the plan, significant losses, etc. in the meetings.

Q8: Please explain how much AUL can expand the top line as one of the Lloyd's syndicates in the future?

A8: 5 years ago, the top line of AUL was about £ 2.5 billion. We've shrunk significantly by shedding £ 1.0 billion of premium and now we're back to £ 2.0 billion. We still have the infrastructure for £ 2.5-3.0 billion syndicate and if the market conditions are appropriate and continue to grow, we can grow another £ 0.5 to 1.0 billion with the current infrastructure.

Q9: Regarding AUL, please tell us your approach to "cyber insurance" and "Intellectual Property (IP) insurance," which may be risky but can be a major driver of future growth.

A9: Regarding cyber risk, though we may be growing it slightly on the reinsurance side, we are nervous of the systemic exposure and we are taking a defensive position to cyber risk at the moment.

In terms of IP, there are some specialist syndicates in Lloyds which underwrite IP. AUL do not have any in-house specialism for this particular risk and we may write in a small following position, so the weight of IP in the portfolio is very small.

Q10: What does the true "growth engine" described on page 17 of the AUL presentation mean? Is it profit or synergy to the group?

A10: As written in the English presentation, it means 'profit'. Bottom line is much more important for AUL than topline. AUL as a Lloyds syndicate can globally access to many kinds of lines of business in the Lloyd's market and give MS&AD Group the opportunity to access to global specialty risks.

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