MS&AD Insurance Group Holdings
1st Information Meeting of FY2023 (Held on May 25, 2023)
Q&A Session Summary

The Q&A Session Summary at the Information Meeting held on May 25, 2023 was summarized as follows.

The following abbreviations of company names are used in this documents.
MSI: Mitsui Sumitomo Insurance Co., Ltd.
ADI: Aioi Nissay Dowa Insurance Co., Ltd.
MSA Life: Mitsui Sumitomo Aioi Life Insurance Co., Ltd.
MSP 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
MSR: MSR Capital Partners, LLC
Transverse: Transverse Insurance Group, LLC

Q1: Please tell us about the profit increase outlook of international business. Looking at page 14 of the handout, I believe that based on the comparison between the FY2023 forecast and the FY2025 outlook, you are planning to increase the profit by about 16 billion yen for the 2 years of FY2024 and FY2025. Of these, international business in ADI will increase the profit by 9 billion yen, Transverse by 4 billion yen, overseas life insurance by 3 billion yen and MS Amlin by 4 billion yen in outlook. Please tell me if this understanding is correct.

A1: Your understanding about the breakdown is generally correct. In particular, MS Amlin's profits increased only by 4 billion yen, from about 48 billion yen in FY2023 to about 52 billion yen in FY2025. We believe that the FY2023 forecast is highly likely to be achieved because of the rebound from various incidental factor that occurred in FY2022. In the past, MS Amlin had not achieved the plan, so we will review the plan after confirming the achievement in FY2023.
The plans from the overseas subsidiaries are more bullish, but we revised it conservatively.
There are various backgrounds, but especially in the Lloyd's business, it is necessary to have the business plan approved by the Council of Lloyd's every year, and AUL has an aggressive plan, but on a consolidated basis, we revised it conservatively. Conversely, I think there is considerable upside potential.

Please understand that, at the midterm of FY2023, the plan may be revised upward in light of the current fiscal year and the approval status of Council of Lloyd's .

SQ1: I understand that MS Amlin's plan is conservative. Next is international business of ADI. On page 64 of the handout, you have a significant profit increase plan of 7.7 billion yen in Toyota retail business in FY2025 and 6.1 billion yen in the overseas reinsurance inward business, totaling about 14 billion yen.

Toyota retail business is behind in turning a profit, and how far you will continue to operate overseas reinsurance inward has probably been discussed in the past at the information meetings.

Could you tell us about whether a big profit of about 14 billion yen will come out of international business in ADI, or if the accuracy of achieving the plan is contrary to MS Amlin's plan?

SA1: First of all, Toyota retail business, we are looking at a big profit of 7.7 billion yen in FY2025. There has basically been no change in strategy since the beginning of the mid-term plan, and we plan to increase both the top and bottom lines by expanding the scope of business to used vehicles in addition to new vehicles and expanding the countries in which we operate. On the other hand, we struggled in FY2022, especially in Europe. While we factored in certain aspects of the recovery in traffic after the restart from Covid19, the situation suddenly worsened in loss ratio, with an increase in the theft of luxury cars such as Lexus and large bodily injury liability losses. We understand the causes of the deterioration in loss ratio and have already taken measures, but it will take a little longer to see the effects, so we expect the difficult situation to continue in FY2023.

For example, as of bodily injury liability coverage, we have declined the policies with poor loss ratio and reviewed underwriting conditions, and in terms of anti-theft measures, we have eliminated theft by almost 100% by temporarily distributing second immobilizers to customers, so we believe we can achieve our initial plan. Outside of Europe, showing decent profits and making solid progress in China and Australia, we believe our FY2025 plan is fully achievable.

Next is overseas reinsurance inward business, and we think a profitable FY2022 is a topic. Last year, Hurricane Ian hit the United States, and the fact that we've been reducing the risk of U.S. wind and flood disaster lead this achievement. For FY2023, we have already arranged so-called protection covers, so we believe we have a lineup that will be able to maintain a stable profit even if natural catastrophes of a certain scale occurs. We also hope to continue our business while taking risks with enjoying the benefits of market hardening.

Q2: 10 years have passed since "Reorganization by function" regarding the reduction of the operating expense ratio, and I believe that this has been passed on to the "1 Platform Strategy." Please tell us how confident you are about the feasibility of achieving the plan that the operating expense ratio will fall below 32% in FY2025 and fall below 31% again in the following year just by this initiative.

Also, as you have previously explained that you do not necessarily rule out the possibility of the merger of MSI and ADI, please tell us about the advantages and disadvantages of a deep restructuring, including the merger.

A2: First of all, Reorganization by function, which started in 2013. It's a strategy of trying to achieve growth and efficiency at the same time. In summary, in terms of growth, both companies grew strongly at the top line, so we believe that continuing two companies has paid off in terms of growth.

And in terms of efficiency, we also made a commitment to reduce operating expenses by 50 billion yen at the beginning, and we have achieved efficiency gains of more than 50 billion yen, which we believe has been achieved solidly. As for functional reorganization, we still had pending issues as the integration of products and operation of the claims department division ("claim section"), which is the division that pays insurance claims We have already integrated insurance products and successfully reduced business expenses by approximately 10 billion yen. As for claim section, we have built a common claim payment system infrastructure for MSI and ADI, and although we are not yet in final form, the new system is currently being used by MSI. ADI plan to start to use this system in 2025. Therefore, we believe we have been able to steadily implement what we have been aiming for in Reorganization by function.

On that basis, we believe that under the 1 platform strategy, we will be able to further improve efficiency by deciding on the areas that still remain, especially the more integrated management of the head office division and the BPO for more routine operations, as well as where to leave the difference in order to retain its strengths, which we currently sell in a two-company system to make it easier to promote this.

Especially in the head office function, we are considering ways to further improve efficiency. We plan to thoroughly achieve the 31.9% operating expense ratio, and we have made 39% progress in reducing expenses and operating expenses compared to the target in the medium term plan budget of 46 billion yen, as indicated on page 24 of the handout. We are moving ahead of schedule with respect to 46 billion yen, so we believe that we will be able to achieve 31.9% in FY2025.

Regarding the advantages/disadvantages of merger between MSI and ADI, we have not changed our stance. We are always looking at the option of a merger. The biggest impact is on the top line. I explained earlier that we are achieving growth through a two-company system, but if we become an one-company system, there will inevitably be a significant negative impact on the top line due to share adjustments, etc., which is one factor we need to overcome. With combined ratio currently in the mid-to-low 90% range, we believe that expanding the top line will help expand the bottom line and enhance corporate value.

We are promoting 1 platform strategy as an extension of reorganization by function, but we continue to have the option of merger, and we are making various efficiencies in a way that even if we do merge, there will be no reversals or negatives. In that sense, we think an merger is always an option we can take.

Q3: Why did you base shareholder returns on 253.7 billion yen in FY2022? Also, if shareholder returns were discussed at Director meeting in response to the Tokyo Stock Exchange (TSE)'s request, please tell us about it.

A3: Our policy is to return 50% of Group adjusted profit to shareholders through dividends or share buybacks. Therefore, approximately 86 billion yen, or 50% of Group adjusted profit of 172.7 billion yen in FY2022, is the basic amount returned under this policy. On the other hand, the dividend is 200 yen per share for a total of 107 billion yen, which has already exceeded 86 billion yen. The portion exceeding this amount is positioned as an additional shareholder return. Consideration of additional returns included stock price, ESR, adherence to the trend of increasing total returns (excluding FY2021, when there were many upside factors) and short term liquidity, which led us to conclude that we purchased 20 billion yen of our own shares. The board of directors agreed with our basic policy. On that basis, there was a discussion that balanced shareholder returns should be achieved after considering the balance with other stakeholders, wage increases for employees, agent and customer support. We are conscious of the 1.0 of PBR mentioned by the TSE, and we hope to exceed 1.0 of PBR by increasing profits to improve ROE and by pursuing various initiatives to reduce the cost of capital ratio.

Q4: The outlook of voluntary automobile insurance indicates that profits will grow in FY2025 due to a decrease in the frequency of accidents, but are you planning to raise prices? Also, outlook says fire insurance will be profitable, but some other companies use less than 90% as an indicator for fire insurance combined ratio, so what do you think is the appropriate level?

A4: In voluntary automobile insurance, the frequency of accidents has been on a downward trend due to the spread of safety equipment despite of increasing traffic in reaction to Covid19 , but the unit cost of insurance claims has been on an upward trend, with the unit cost of property damage increasing by about 20% in FY2022 compared to FY2017. This is attributed to increase of the price of vehicles themselves and in the unit cost of parts due to the higher functionality of vehicles. As a result of this increase unit cost and decrease in frequency, the amount of insurance payments is on the rise, and we believe that repricing is an option. The profit in fire insurance did not reach the plan due to a significant increase in major accidents and natural catastrophes compared to the previous fiscal year, but other losses are showing improvement effects and are improving as the portfolio is improving. In this situation, we will continue to reduce our non-cat losses and have an outlook, which can achieve a surplus in FY2025 even if the specific large loss and natural catastrophe settles down to normal levels. Furthermore, we will aim to achieve a level of profitability even if capital costs are included.

Q5: According to page 13 of the handout, the FY2023 profit of the domestic non-life insurance business has been reduced by 60 billion yen compared to when medium-term management plan was formulated 1 year ago. On the other hand, in FY2025, the last fiscal year of mid-term management plan, the reduction was limited to 15 billion yen. We believe that the factors that led to the reduction are structural and continuous factors, including inflation, and it does not seem that you can achieve this through the initiatives outlined in medium-term management plan. Please tell us about the initiatives that you have factored into the plan in order to limit the decline to 15 billion yen. Among other things, I heard that raising the rate is something to consider and not explicitly factored in, but what other initiatives are there?

A5: The first point is top-line revenue growth. In casualty insurance, developing small and medium-sized companies and strengthening efforts to address new risks are upward factor against the plan. In voluntary automobile insurance, the top-line increase is being factored in by strengthening telematics insurance enhancement.

Although the rate increase is not decided yet, it is factored into the plan with a tentative figure.

As described on page 12 of the handout, during FY2022, we increased the IBNR for domestic and foreign inflation and for large losses such as casualty Insurance in preparation for the FY2023 plan. In addition, we have accumulated the IBNR for fire insurance and other businesses and reversal of initial year balance for marine insurance and other businesses, which can be reversed if the balance deteriorates in FY2023. In addition, we are strengthening measures against large losses that we have already taken. Specifically, we are analyzing industries with high losses and reviewing underwriting conditions. We will review conditions and consider raising premiums for high-risk industries and contracts, even if no accidents have occurred. We will also strengthen to control the line size and reduce the exposures depending on the situations. Since fire insurance has a relatively short tail, we expect that large losses will subside. However, casualty Insurance has increased its IBNR to prepare for the future, as there is a high risk of long tail, although it has taken measures to handle past year claims in liability insurance.

In addition, we partially sold foreign bonds in response to rising hedging costs and to contain costs from FY2023 onward.

Q6: I think the cost of capital ratio of 7% on page 17 of the handout is the level derived by CAPM. Other non-life insurance groups show similar levels, but your company's market cap relative to group adjusted earnings is about 7times, and I understand that the cost of capital applied is a little higher. Please tell us what your company thinks about that. Also, if the required cost of capital is higher than 7%, I think you need to not only increase ROE but also move forward with efforts to drastically reduce the cost of capital ratio. Please let me know if you have any ideas not only about general initiatives as described in the materials, but also radical portfolio changes.

A6: As you pointed out, the cost of capital ratio is derived from CAPM, which we check regularly and most recently we believe to be 7%. We recognize that the cost of capital ratio implied by the market is higher than that. Therefore, we have a great awareness of the challenge to reduce the cost of capital ratio. The first reason for the high cost of capital ratio is that profit volatility is high, especially in the international business. The second reason is that the weight of strategic equity holdings is high, and market fluctuations have a significant impact on net assets. The third reason, which we believe has already been addressed, is sensitivity's mismatch with interest rates on assets and liabilities in the domestic life insurance business, which is similar to the case with the major domestic life insurance companies.

In response to these issues, we believe that we have finally been able to bring the first measure, which is to control earnings volatility, centered on the international business, to a structure that enables stable earnings, centered on MS Amlin. We believe that it is extremely important to demonstrate as a track record that we can consistently generate profits in the international business. In addition, natural catastrophe risk is also a source of profit volatility, and as we have shown on page 32 of the handout, we believe that the downward trend in overseas natural catastrophe risk will have a positive effect.

We have also, to a considerable extent, addressed Sensitivity mismatch in interest rates on assets and liabilities of the domestic life insurance business in recent years.

In addition, strategic equity holdings is one of the top risk categories in our company, and we recognize it seriously for our reduction efforts. As shown on page 33 of the handout, we aim to reduce our strategic equity holding to half the level at the end of September 2022 by increasing the reduction of 400 billion yen in the Medium Term Plan Target to 600 billion yen and reducing them at the same pace for 4 years in the next Medium Term Plan. By proceeding with these initiatives, we believe we can steadily reduce the cost of capital ratio.

SQ1: In the past, you have been forced to keep and struggle low profitability businesses. From that perspective, what are your initiatives for exit deals?

SA1: We believe that reviewing the business portfolio is an important point from the perspective of increasing ROE rather than lowering the cost of capital ratio. You mentioned struggle, but we think MS Amlin is finally seeing the results of its struggles. After all, it is important to produce returns that exceed the cost of capital ratio over the long term, and we will look for this in individual businesses. We also take into account the strategic importance of each business to achieve long-term target. There are some businesses that we are considering to exit, but as we have discussed in the past, there are others, and we also have a perspective on how the current initiatives will develop in the future, so we would like to refrain from commenting on individual businesses. In any case, we believe it is important to reshuffle our business portfolio, and to be more specific, we have seen examples such as the domestic fee-based nursing home business that we withdrew from in the last fiscal year, and we would like to assess the status of each business and work on it.

In addition, the awareness of capital efficiency among the CEOs of our overseas entities has increased significantly, including our plans to achieve an ROE of 10%. We will continue to make solid efforts to review our business portfolio.

Q7: Regarding shareholder returns, you have explained that you intend to return 50% of Group adjusted profit, but as for the dividend portion, will it increase in line with the increase in Group adjusted profit, or does target want to increase the dividend by several tens of yen every year?

A7: Of the 50% return of Group adjusted profit, dividend payout ratio targets a level between 35% and 40%.In line with the increase in Group adjusted profit, we would like to increase the dividend by designating this dividend payout ratio as target. In terms of the basic return, the share buyback will be carried out within the range of 10% to 15%, which is the difference from 50%. We will decide whether to implement the additional return flexibly depending on the situation.

SQ1: If financial markets are not in chaos, can we expect another dividend increase in FY2024?

SA1: It is difficult to answer because this is an assumption, but we want to maintain a stable dividend growth trend, so we hope to maintain the dividend growth trend in FY2024.

Q8: You note the amount of reduction in operating expenses for FY2024 and FY2025 in terms of investments in large systems, but what kind of outlook is it for other operating expenses?

A8: As for the reduction of operating expenses from FY2024 to FY2025, as described on page 24 of the handouts, we will implement the planned reduction of personnel in mid-term management plan and reduce personnel expense. In addition, we believe that we will be able to reduce expenses in non-personnel expense by improving efficiency through various digital transformation. We will provide a supplementary answer regarding the specific amount of reduction.

< Supplementary answer >

As for the reduction of operating expenses, we have made good progress ahead of schedule as described on page 24, and plan to reduce costs by about 14 billion yen in FY2023 and by about the same amount over 2 years from FY2024 to FY2025. Although some of the increase of expenses will be expected due to changes in the business environment, the expense ratio is expected to improve as we expect to expand the top line from FY2024 to FY2025, including optimization of premium rates.

Q9: Will MSI Primary Life need an injection of capital when interest rates rise? Also, are you considering integrating MSI Aioi Life and MSI Primary Life?

A9: MSI Primary Life does not envisage a situation in which additional capital would be required under the current circumstances. In the last fiscal year, we increased the foreign currency standard policy reserve due to the impact of rising U.S. interest rates, but the impact of interest rate fluctuations has calmed down. We believe that the integration of MSI Primary Life and MSI Aioi Life would be more beneficial to the overall corporate value of the Group if we did not implement the integration as they have completely different business forms and considerably different risk profiles, but instead operated as separate entities. The combined profits of the 2 domestic life insurance companies have been consistently over 40 billion yen since FY2020, and we would like to further strengthen our life insurance business.

Q10: Have you tried to offer embedded non-life insurance products in partnership with platform companies?

A10: We are continuing to study embedded insurance products. Built-in insurance products come in many forms, but for example, we recently released a business alliance with a company to provide free mobile batteries to local government shelters in the event of disasters, supported by insurance. We hope to expand our product offerings with embedded and attached products while also confirming the needs of our customers. We also continue to have conversations with various platform companies, and we are conscious about this issue strongly.

Q11: I would like to ask you about cases where you do not see efficient growth investments listed as one of the guidelines for considering additional shareholder returns. Are there any cases that qualify as efficient growth investments, including overseas M&A, at this point in time? Please tell me the status of your consideration.

A11: As for the market environment for business investments, I understand it to be a difficult situation because there continues to be a high level of valuation for large companies such as specialty insurance companies in North America. On the other hand, we made an investment in Transverse last year, and we believe there will continue to be opportunities for investments in the growing North American MGA market and small investments in startups. We would like to maintain a cautious stance while implementing the plan. Also in Asia, we are always looking for opportunities.

Q12: Please tell us about cases where you think capital efficiency improvement, etc. described in the guidelines for considering additional reduction, is necessary. Am I correct in understanding that when ROE is assumed to fall below the target, you will consider it as you did this fiscal year?

A12: We believe that there are various situations where we think capital efficiency improvement is necessary. One of the options is to make additional shareholder returns when capital efficiency in target can not achieve it. Capital efficiency has been gradually improving due to the ongoing share buybacks, and we believe that such aspects need to be considered in making a comprehensive judgment.

Q13: Regarding MS Amlin's business plan, please explain how you have factored in the impact of the hardening of the reinsurance market and rate increases.

A13: In FY2022, the rate was raised by about 14~15%. In response, we plan to raise the rate by about 10% across MS Amlin in FY2023.In fact, in the January 2023 renewal, we achieved a rate increase that far exceeded our plan, and the situation continues to be very hard, so we expect to achieve a rate increase in FY2023 that far exceeds the 10% than we factored into our plan. For FY2024 and 2025, we are preparing our plan by keeping the rate level unchanged. Therefore, even if the current hard situation turns soft after FY2024, our plan is structured to absorb the changes.

SQ1: When you look at the reinsurance cycle in terms of two or three years, what is your perceived position now?

SA1: For the next fiscal year and beyond, although there are various factors, so far there are no factors to ease supply and demand, such as capacity inflows from the capital markets, and we expect the hard situation to continue even if there is a slight reduction in the next fiscal year and beyond.

Q14: Do you think that the ROE Target indicated on page 14 of the handout, "Stably 10% or higher," is ambitious enough as some other global companies see target at 20% level due to favorable business environment?

A14: We believe that ROE in the insurance business should be around 12% as one of the standard indication. As you have pointed out, this is a very important topic, and we believe that we must always pursue initiatives to achieve a higher ROE. For FY2025, the final year of mid-term management plan, we are setting the target not at 10% but at 12%, but currently it is below 10%, so we would like to first clear "10% in a stable manner" and move on next.

As we explained earlier, we believe that the factors that will increase ROE are now in place, such as MS Amlin's improvement in profitability, but we would like to steadily carry out these initiatives first and continue our efforts to improve ROE.

Q15: It may be temporary, but given the current favorable investment environment, including interest rates and stock prices, it looks that investment policy is somewhat conservative. With the amount of capital and the amount of risk to spare, you can probably take more risks.

A15: As the Group's investment strategy target, we have a basic policy of first maintaining our financial soundness and then ensuring that we carry out ALM (matching of interest rate sensitivity between assets and liabilities) and liquidity risks management. In addition, we allow each group company to take risks based on its own judgment. However, the assumption of taking risks is that group companies will build a sufficient system to maintain financial soundness.

As you pointed out, there have been few effective domestic investment opportunities in recent years, and as described on page 30 of the handout, the Group has been investing in overseas private equity (PE) and other investments as a common group initiative. The Group has been pursuing the upside by securing overseas investment opportunities as a whole after preparing other group companies to join investment Company (MSR) established in New York by MSI with over 20 years of experience in PE investment, starting this fiscal year.

MSI is also pursuing what it calls the "Alpha Project" to increase returns by investing in various asset classes. Specifically, it is a project to take risks of overseas credit risk and private assets, which we have been preparing for several years. We will also utilize this platform in each group company and expand it to the entire group.

On the other hand, as for your suggestion that investment as a whole is not actively taking risks, it does not necessarily mean that we are not taking risks, considering that investment includes the risks of strategic equity holdings.

End