The following is a summary of the Q&A session at the International Business Small Meeting held on July 19, 2022.

The following abbreviations are used for company names.

MS : Mitsui Sumitomo Insurance Co., Ltd.
AUL : MS Amlin Underwriting Limited
AAG : MS Amlin AG

Q1: How much have political violence and political risk categories contributed to underwriting profits until fiscal 2021? Please tell me the AUL and AAG separately.

A1: (AUL)
We are unable to provide profit margins for each category, but the category in question has performed extremely well over the last 10 years, with high profit margins. We view the Ukraine-Russia conflict as a special event. The premium rate is expected to increase in the future in response to this event, and we believe that our profitability will further increase.

(AAG)
Within the underwriting portfolio, the size of this class is not very large, but the margin is high. The insurance premium rate is expected to increase in the future, and we intend to continue underwriting as AAG because we will be able to secure medium- to long-term profit.

Q2: In our forecast for fiscal 2022, we expect a loss of 60 million pounds for property and cargo and a provision of 64 million pounds for uncertainty. It's been a few months since the beginning of the year, but what are your thoughts about that estimation at this point? Please tell us about your thoughts regarding insurance losses, particularly with respect to aircraft leases, if possible, your assumptions when you developed your plan for the beginning of the year.

A2: (AUL)
There are several ways to factor insurance losses into the plan. The first is IBNR. As it stands now, we have not yet received any specific insurance claim and only a few claim notifications. Normally, the claim handling flow is to investigate damage after receiving a claim notification and book a reserve for outstanding claims, but the IBNR estimates a relatively high probability of expected losses, such as insurance losses on property. With respect to marine insurance, as the port remains closed and
vessels are unable to use it for a period of approximately 180 days, there is a provision that allows insurance claims to be filed, which is not an actual loss situation, but IBNR is booked.

The second is a preliminary loss estimate. This includes insurance losses on aircraft leases, which are highly uncertain and are estimated as a conservative response.

(AAG)
The basic approach is the same as AUL. Unlike AUL, there is no exposure to aircraft leasing.

As for political risk, there is a possibility that the exposure may be reduced by the invocation of the cancellation clause. In addition, even when a claim notification is made, it is expected to take considerable time before the dispute is actually resolved and damage investigations are conducted at the site.

SQ1: Do you still think that the loss estimates included in this year's earnings forecast, which were released a few months ago, are enough?

SA1: There is no new information that should change the figures I explained at the information meeting in May.

Q3: What measures are you taking against inflation? Also, is there any difference in the current situation with respect to the assumptions used in preparing the earnings forecast?

A3: (AAG)

We expect an inflationary impact as a margin when we increased reserves at the end of last fiscal year. With reference to past pricing, factors such as short tail or long tail are factored in according to the event. Although the current inflation situation is not far from what we expected at the end of last fiscal year, we will carefully consider the need for additional measures.

The effects of inflation need to be considered in terms of insurance rates, business plans, as well as reserves. The impact on rates is the range of rate increases. Inflation is currently moving at a rapid pace, but we are prepared to take into account the inflationary impact of the January and April renewal rate increases. In the June and July renewals, we also arranged a rate increase that takes into account the impact of inflation. In addition, we take a conservative approach in formulating our business plan for the next fiscal year and take inflation into account.

(AUL)
AUL also incorporates inflation into its pricing model. However, not all events are equally affected by inflation, so we divide the impact of inflation into three levels, high,
medium and low, and adjust them accordingly. At the end of 2021, we also set aside reserves for outstanding claims in light of the impact of inflation. We will continue to underwrite based on inflation trends and the characteristics of each class. For example, property and other assets may partially offset the impact of an increase in reserves due to an increase in insurance value caused by inflation, which in turn increases premiums. On the other hand, in casualty classes where there is no immediate inflationary impact, we will develop an asset management policy while taking into account the duration (tail) of reserves. Holding bonds with high interest rates and long durations will also help limit some of the risk of future reserve fluctuations.

Q4: What is your view of the inflationary impact? I understand the mechanism of raising insurance premiums due to the increase in the price of goods and the cost of claims, but on the other hand, depending on the competitive environment and the economic situation of customers, I think there are cases where your company is not able to raise insurance premiums as expected. Can you tell us whether current inflation is a level that can be considered by the so-called rule of thumb of the past, or whether some special measures will be needed in the future in a slightly unusual environment?

A4: I think the current inflation environment is influenced by multiple factors. First of all, the inflation rate, which is normally about 2 ~ 3%, has risen to about 4 ~ 5%, and further, due to disruptions in the global supply chain, I suppose inflation has accelerated above the same level. As China's production situation recovers and demand and supply are balanced, price levels should be restrained, but I expect it will take some time. In addition, energy and chemical supply issues arising from the conflict between Ukraine and Russia have had a major impact on the global economy. I don't know when it will end, but once this problem is resolved, I think the pace of inflation will settle down. In Europe and the United States, we assume about 2 ~ 3% as the normal rate of inflation, and we also factor in the same level of inflation in normal pricing, but in the current situation, we are in an environment where actions beyond this level are necessary.

Q5: You comment that the reserve against inflation is at a sufficient level, but does that mean that it is sufficient for the next year and beyond on the assumption that inflation will peak next year? Also, with regard to social inflation, I think there are rulings in North America that will increase the loss of insurance companies, and I would like to know about reserves to prepare for that.

A5: As for inflation, we have booked reserves with some assumptions. We set a slightly higher inflation assumption in this term's plan. There may be some adjustments, but I think we can generally cover the inflation scenario over a period of time. Social inflation
Q6: I suppose that most of the decrease in AAG premiums is due to a reduction in natural catastrophe exposure, so please tell us about this. How much exposure of natural catastrophe do you plan to reduce between 2022 and 2025?

A6: AAG had excessive exposure to natural catastrophes. In the reinsurance business in continental Europe in general, the risk of natural catastrophes is underwritten in conjunction with other events, but AAG underwrote a large percentage of its business in isolation. We believe that these circumstances contributed to our performance in 2021. In 2022, we are working to reduce our natural catastrophe exposure by around 20%, especially by underwriting natural catastrophe risks in isolation. Following reductions in the January and April renewals, the June renewal reduces Florida’s exposure by 75%. It also reduces all natural catastrophe risks in Japan. As a result of these efforts, we have reduced the risk of natural catastrophes by approximately 25%. Although we are not considering further reductions at this time, we will consider future underwriting policies depending on price and market trends.

Q7: You want to reduce the risk of natural catastrophes, but if you look at the capital markets, there is a growing number of investors globally who prefer to take natural catastrophe risks. On the other hand, it is said that insurance companies like your company are not able to do business with natural catastrophe risk, but what is your view on this, such as whether the expected return is different because they can not be diversified, or they are not able to do business because the cost of financing does not match, or some other reason? Also, could you tell us if that situation will not change in the future?

A7: The reason for the reduction in natural catastrophe exposure was that the ratio of natural catastrophe exposure to the overall portfolio was large and the balance among the categories was poor. Therefore, we aim to build a balanced portfolio by reducing natural catastrophe exposure. We would also like to diversify our risk by expanding our non-natural catastrophe business and improve the profitability of our overall portfolio.

Q8: Looking at the graph on page 4 of the AUL document, 1/3 of the accounts are generating most of the profit and we have seen improvements, but is it possible to increase the premium rate for the remaining 2/3? And which business lines see rates going up more
A8: The figures in this material are for 2021 and we have not disclosed 2022 figure yet, but as you can see, the accounts on the left side of the graph are in a situation where the profit level is higher. The curve starts to flatten in the middle of the graph, but the part shown in green is profitable. On the right side of the graph, there are a few red areas where AUL is focused on improving profitability. Of these, there is no problem with accounts that underwrite in packages with good performance accounts on the left side of the graph, for example, and that have secured profits when combined, but when underwriting alone, we are working diligently to improve profitability. We are also making a positive contribution to our portfolio in the areas shown in green, but we will continue to aim for higher profitability. We believe our portfolio will improve further in 2022 and the red portion of the graph will be shorter.

Q9: What is the effect of transferring a portfolio of prior years to the outside through reinsuranc

A9: AUL transferred assets and liabilities of a portion of the UK P & C portfolio to third parties through reinsurance transactions on 1st January this year. As for the remaining portfolios of the categories that were withdrawn in the past fiscal year, since the natural catastrophe risk is too large or the underwriting at the bottom of the market cycle is not appropriate for the pricing and no improvement in profitability can be expected, we are considering measures to move the portfolio to an external parties through reinsurance transactions, etc. and separate it from the AUL portfolio.

Q10: Your Company takes a very aggressive M & A strategy stance, but what is your most recent pipeline, valuation?

A10: First of all, the M & A in 2021 was conducted by MS, and AUL is also collaborating on research and analysis of the deal. The current valuation situation in the market has been quite high over the past few years, so we have taken a careful and cautious stance to avoid buying high. We also believe that we can reduce the overall amount of investment by, for example, buying enough stock to give us priority rather than a 100% buyout. Given the current market environment, we will not take an overly aggressive stance in M & A.

Q11: What are the potential impacts of a recession? Are you expecting a decline in numbers of policies and an impact on premium rates due to stagnant business activity?

A11: The impact of a recession also depends on the composition of the portfolio, but if there is a logistical slowdown, for example, it could have an impact on marine cargo insurance.
The increase or decrease in assets also affects the insured value of property insurance. Stagnation in economic activity could mean fewer insurance accidents. Overall, we expect growth in both the top and bottom lines to remain flat or slow in both the direct and reinsurance segments.