MS&AD Insurance Group Holdings
1st Information Meeting of FY2022 (Held on May 25, 2022)
Q&A Session Summary

The Q&A Session Summary at the Information Meeting held on May 25, 2022 was summarized as follows.

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

MS Amlin：Sum of business segments including AUL (MS Amlin Underwriting Limited), AAG (MS Amlin AG), AISE (MS Amlin Insurance SE), ACS (MS Amlin Corporate Services Limited)

Q1: Currently, your market capitalization is about 5 times the profit target of 470 billion yen for fiscal 2025. With the PER of around 5, it looks like the market is not confident of your profit growth. What are the sources of profit growth in the future? In the international business, in particular, if you recover the negative impact of the situation between Russia and Ukraine of 20 billion yen, you can post a profit of 84 billion yen for the current fiscal year, but next fiscal year's profit is expected to be 115 billion yen, a substantial increase in one year. Please tell us the reason for the profit increase in the next term.

A1: With regard to profit growth in the international business from this fiscal year to the next fiscal year, we have lowered our plan for investment profit for this fiscal year in light of the downward pressure on investment profit from the beginning of the year to the present at MS Amlin, but we expect that to recover next fiscal year. In addition, we expect to make business investments that are not large in scale, and we have included in our plans the accumulation of profits from these investments.

Looking ahead to fiscal 2025, we plan to expand the top-line and increase profits in MS Amlin and Asia, supported by the market hardening. In MS Amlin, in particular, AUL has already secured the basis of the profit growth, and AAG is in the process. Both companies plan to expand their top lines and achieve profit growth following to the market hardening.

Q2: In the domestic non-life insurance business, you plan to achieve a sustained and significant increase in profits (up 76 billion yen from the current fiscal year) through fiscal 2025. The increase in fire insurance premium rates is expected to improve profits significantly. How about a reduction in expenses? According to page 59 of the materials, you plan to reduce the expense ratio by 2 percentage points by fiscal 2025. Since the net premium income is 3 trillion yen, the amount of reduction of business expenses is equivalent to about 60 billion yen before tax. Please tell us the premise of the reduction of business expenses and whether it can be regarded as a commitment.

A2: The green areas in the figure on page 20 show the growth of profits in the domestic non-life insurance business. The factors contributing to the increase in profits include improvement in fire insurance profitability and growth in casualty insurance, and reductions in expenses are allocated to each insurance line and included in these. For example, we plan to improve the profitability of fire insurance by 58 billion yen, but not all of this is due to the revision of rates. This also includes the improvement in expenses. A reduction of approximately 50 billion yen in expenses has been factored into the plan. This 50 billion yen reduction is a commitment from our management. Accordingly, we intend to expand profits in the domestic non-life insurance business by improving the profitability of fire insurance, reviewing the rates and underwriting conditions, reducing expenses, and increasing earned premiums, especially for casualty insurance.

SQ1: As of November last year, I think the disclosure was based on the assumption that large-scale system investment for growth would almost disappear in FY2025. Expenses in the insurance industry, including life insurance companies, will rise considerably this fiscal year. I am concerned that another system investment may prevent the expense ratio from going down in the industry as a whole in fiscal 2025. What do you think about that?

SA1: Improving the expense ratio of the domestic non-life insurance business has been an important issue from the past. We aim to achieve the target of 31.7% in fiscal 2025. As for how to look at investment for growth, we will manage it so that the expense ratio does not easily increase. As we explained earlier, we are committed to reducing expenses by 100 billion yen by fiscal 2025 compared to fiscal 2019.

In addition, based on the "One Platform Strategy" described on page 26, we will draw on the strengths of each company, clarify differences, and proceed with integrated operations to achieve results. This cost reduction is not included in the medium-term plan announced this time, so please understand that this is an addition to the planned results.

Q3: Regarding the concept of the investment pipeline, the upper limit of the target range of ESR has been increased by 30 points, as described on page 45. If you multiply the risk amount of 2.4 trillion yen by 30%, it comes to 720 billion yen. Could you tell us how your view on business investment has changed from the previous mid-term plan and how you have assumed such an amount?

A3: As you pointed out, the ESR target range increase of 30 points is equivalent to about 700 billion yen. As for business investment, we will consider various investment opportunities flexibly. Currently, valuations of M&A are very high in overseas markets, and there are few investment opportunities to achieve solid returns. However, it is natural for the situation to move in response to changes in the environment. For example, we would like to have a certain amount of funds to act flexibly when valuations fall sharply, such as in the Lehman shock.

Q4: With respect to shareholder returns on page 46, dividends were previously indicated in the DOE, but the dividend standard has been removed this time, and the basic return is now indicated just as 50% of the adjusted profit. What are your priorities for dividends and share buybacks? In addition, at the bottom of the additional return section on the right hand side, there is a description: "When it is determined that capital efficiency improvements are required." Please tell us what indicators are used to determine that capital efficiency improvement is necessary.

A4: In terms of shareholder returns, we have set 50% of the adjusted profit as our basic return, but this does not mean that we have changed our basic approach. In the past, it was within the range of 40% to 60% of the Group Adjusted Profit, but we were asked several times which figure from 40% to 60% we would use. For this reason, now we have clarified that a half will be returned. Also, because of the relationship with the additional return, it we take the range from 40% to 60%, it is conceivable that the return may still be within the range of the regular return in the case where the basic return is set at 40% and the additional return is set at 20%. Therefore, we first set the basic return at 50%, and then clarified that any portion exceeding the basic return would be flexibly used for additional return, and gave examples of cases in which additional return can be considered. We have had DOE at around 3% in the previous medium-term management plan, but we decided not to use it because we thought it would be better to avoid having dividend levels tied to this indicator. For the decision on additional return, capital efficiency is determined based on ROE.

SQ1: If the ROE falls below what percentage, will additional return be made? The total shareholder return is shown on page 12 of the presentation. You have been increasing the total return amount until now. However, since the Group Adjusted Profit exceeded the plan in the previous fiscal year, if we assume a return of 50% of the Group Adjusted Profit forecast of 300 billion yen for this fiscal year, we may not reach the level of the previous fiscal year. Are you particular about continuing the trend of expanding the total return amount?

SA1: There are no specific criteria for determining additional return, such as ROE percentage. We see ROE as one of the indicators for making decisions in various circumstances.
As for the expansion of returns, we will place importance on a stable dividend increase per share. There may be some case where we have difficulty to maintain an increase in the total return amount as the volatility of profits will become larger in the future.
Therefore, I hope you understand that we do not place the highest priority on increasing total return.

Q5: With regard to shareholder returns, when do you consider additional returns that are flexibly implemented? How do you see the ratio of shareholder return to adjusted net assets?

A5: We will consider how to make additional return every fiscal year. Regarding the ratio of shareholder return to adjusted net assets, the increase of this ratio can be achieved through either capital adjustment or profit expansion, but basically I think it is necessary to balance both. We could focus on profit growth, but we will look at both capital adjustments and profit growth.

Q6: I think it will be difficult to implement additional returns when capital efficiency improvement is required. For example, even in the event of a weakening profit, it is conceivable that a V-shaped recovery could be projected and the ROE would rise if this were achieved. In addition, under the new definition of ROE, the element of changes in unrealized gains/losses on strategic equity will be eliminated, but there will continue to be various variables, and I believe that the amount of capital may differ from the assumed amount after the transition to IFRS. At what stage do you decide whether you need to improve capital efficiency? If the ROE is expected to fall sharply below the initial forecast of 10%, is this the case? Please tell me in what kind of case it is concretely applicable.

A6: The materials show examples from various points of view. We will consider whether to make additional return every fiscal year. As for the example that you mentioned, about whether additional returns should be considered in the event of a significant fall below initial forecasts, the answer is we will consider it. However, as we explained earlier, we will not implement it mechanically, but consider various factors such as the current market environment and liquidity conditions.

Q7: The Adjusted ROE of the previous mid-term plan was 9.5%, but excluding transient factors, I think it was a little below the target of 10%. I understand the improvement in overseas profits and domestic growth in the current medium-term plan, but what is your commitment to achieving ROE? Please tell us if there is a change in the way of thinking from the previous mid-term plan.

A7: As you pointed out, the ROE of the previous mid-term plan is a little less than 9.5%, excluding the transient profits. Excluding these, the ROE is 8.3%. This was partly because the equity component, which is the denominator of the ROE calculation, was inflated by the rise in stock prices. In terms of net assets based on the assumptions of the Nikkei stock average at the time the plan was formulated, including transient factors, I think it was close to 10%. Although the previous mid-term plan targets were partially affected by the market, the current mid-term plan is based on the concept of net assets by excluding unrealized gains on strategic equity holdings from net assets. As we transition to IFRS accounting standards in fiscal 2024 and beyond, IFRS-based profit does not include gains on the sale of strategic equity. Therefore, we want to make sure that the denominator is consistent and that capital efficiency is measured purely in relation to our management performance, excluding impacts of market fluctuations. We are determined to fulfill our commitment to achieve the indicated ROE, because the ROE of the current mid-term plan will be free from the effects of market fluctuations and noise that was present during the previous mid-term plan.

Q8: You say that improving the capital efficiency of ROE is important, and management is committed to that. On the other hand, making the ESR risk model conservative and broadening its range may be an action that considerably reduces the incentive for the management to take risks. Please tell us what kind of comments and reactions you received from outside directors during the discussion of this medium-term management plan at the Board of Directors meeting.

A8: The Board of Directors had a considerable number of discussions on the medium-term management plan, each time receiving a large amount of input from outside directors.

Improving ROE, in particular, is one of the most important issues for our Group, and we argued that it is necessary to take risks and take on challenges to increase profits. There was no indication that expanding the range of ESR would lead to a conservative risk appetite. There has been some discussion about the need to take risks actively and work to grow profits and increase corporate value.
Again, there were many opinions from outside directors that encouraged us to take risks actively.

Q9: You said that in order to improve capital efficiency, a certain ROR rate will be set and a review will be carried out. If the risk of strategic equity holdings is allocated to the domestic non-life insurance, I think this business domain will have the lowest ROR. I have an impression that the sale of strategic equity should be carried out at a speed many times faster than the figure shown now, and it is a little too lenient. What do you think about that?

A9: We intend to sell strategic equity at an annual worth of 100 billion yen. The sale of strategic equity requires proper dialogue with issuers to gain their understanding. Dividend income from strategic equity is also important for our Group, so we plan to proceed with this process while keeping a balance in mind. For strategic equity, ROR is considered individually, taking into account the amount of interest and dividend income for each stock, and the amount of underwriting profit related to strategic equity holdings. The results of the verification are submitted to the Board of Directors for discussion. Many of the strategic equities we hold as a whole have high returns, and ROR, including underwriting profits, is reasonably high. However, as a whole, we recognize that strategic equity holdings are a peak risk, so we have determined that we will continue to reduce them by approximately 100 billion yen per year.

Q10: Regarding the Group Adjusted Profit for the international business, there is a difference of about 20 billion yen between 92 billion yen for FY2022 and 115 billion yen for FY2023 after adjustment for incidental factors, and the profit increase seems small, except for MS Amlin. Is there any reason?

A10: One of the factors behind the expected increase of approximately 20 billion yen in profit in the international business other than MS Amlin from FY2022 onward is a slightly conservative plan for the loss ratio improvement in different countries and regions. In addition to this, we plan to increase profits by 18 billion yen through business investments. The increase in profits from existing businesses is not so large, but please understand that this is a conservative estimate.

Q11: To what extent will MS Amlin reduce the risk of natural catastrophes in the future? Also, is there a possibility of further reducing the risk of natural catastrophes by 30% or 40% if profitability cannot be improved? If so, please tell us how much the ESR will improve.

A11: We are fully aware of the need to reduce the risk of natural catastrophes, and are working to achieve a 20% reduction from the previous fiscal year. The wind and flood-related risks in the United States will be renewed in June and July, so we will reduce them at that point as well. We expect to continue further reductions in the next fiscal year and beyond. At the same time, the non-cat risk portfolio of AUL, which operates the Lloyd's business, has improved significantly. In AUL, the ratio of reinsurance is about 30%, of which about 50% is natural catastrophe risk. We will further reduce the risk of natural catastrophes, but the profitability of non-cat risks that absorb shocks from natural catastrophes is already improving. We are in the process of reclaiming the good contracts that we have cut in the process of cutting the top line, once again using our brand and the relationships with business partners. As insurance premiums are rising in the market as a whole, we will increase premiums, especially in the marine and energy sectors, and increase profitability at non-cat lines. We are also working to reduce the risk of natural catastrophes. We did not estimate what would happen if we further reduced natural catastrophe risk by 30% or 40%, but capital efficiency in AUL is not particularly problematic from the perspective of risk versus capital. We believe that there will be an environment in which the capital we have invested in the past can be used for dividends in the future, so there will be no particular problem in terms of ESR.

Q12: MS Amlin has reduced the risk of natural catastrophes and tightened underwriting of non-cat risks. I have an impression that the loss of up to 20 billion yen related to the situation between Russia and Ukraine is the biggest loss among the three major Japanese non-life insurers. It seems that the payment in case of big risks such as those related to Russia and Ukraine, last year's cold wave, and COVID-19 is the biggest among the three companies. This is characteristic of MS Amlin's underwriting, so when the risk occurs, is it inevitable that it will be the biggest risk among the three companies?

A12: We had COVID-19 and the cold wave in North America in February last year, and we are continuing to receive various surprises, such as recording the loss of Russia and Ukraine this time. I think that due to the characteristics of the Lloyd's business and reinsurance business, a certain level of loss is unavoidable to some extent. However, in the case of MS Amlin, the degree of loss due to risk events is too great for its underlying earning power, and we are working on improving this. For example, the UK property that was heavily affected by the COVID-19 loss was in the top right graph on page 35 of the presentation, in the portfolio of 2016-2018, but disappeared in the bottom graph, in the portfolio of 2019-2021. In other words, AUL stopped underwriting property in the UK after the COVID-19 loss, and the UK property that AUL withdrew from slightly affected AUL's profits in a negative way in FY2021. Nevertheless, AUL achieved its initial plan last year, and the results of improved underwriting at AUL are showing. The combined ratio of AUL in FY2021, excluding the impact of withdrawn lines, was 92%, which is lower than the Lloyd's average and shows a significant improvement. In fiscal 2021, there were cold wave losses in North America and the largest flood losses in the history of Germany. We continue to reduce the risk of natural catastrophes not only at MS Amlin but also at our head office. The loss of Russia and Ukraine this time is 20 billion yen. IBNR, which includes the damage mainly in property and marine, is 10 billion yen, and the remaining 10 billion yen cannot be estimated at present, so this is a preliminary margin reserve that was set up just in case. Not only MS Amlin but also the insurance industry and the reinsurance industry as a whole did not expect the loss of Russia and Ukraine this time. In the future, we recognize that it is necessary to grasp and manage such accumulation risks more strictly, not only in the case of war. In many ways, our core profitability has improved, and we believe that our ability to absorb other surprises in the future is increasing.

As shown on page 34 of the presentation, there was originally a holding company called Amlin plc. The core of MS Amlin was the Lloyd's syndicate, and AUL was the largest operating company. There was AAG, a reinsurance company, and AISE, a direct insurance company in continental Europe, to complement it. This was reorganized in January 2020 into a direct subsidiary of Japan's head office. In the past, AAG underwrote some risks to supplement AUL's underwriting capacity, but this has been eliminated since the reorganization. After withdrawing from unprofitable lines such as P&C in the UK, AUL has seen a slight decrease in the pie, while its portfolio has improved, with combined ratios in most lines falling below 100%. As the portfolio has been improved, we are now entering the stage of increasing the pie and enhancing the ability to absorb one-event losses. Natural catastrophe risks account for about 15% of AAG's portfolio, and we plan to lower this figure further. The relationship between AUL and AAG is also expected to grow by taking advantage of their respective characteristics, and AAG is working to improve its portfolio by expanding the lines in which it excels. By doing so, we are trying to enhance the ability to absorb one-event losses.

Q13: With regard to the impact of inflation on your business, you have factored in the impact of negative 8 billion yen overseas. On the other hand, I think there may be positive aspects such as rate increases due to inflation. How do you see the positive and negative effects of inflation from the perspective of management and how do you think it could affect the new mid-term plan?

A13: The two main effects of inflation are an increase in insurance claim payments and an increase in operating expenses and non-personnel expenses. The impact of insurance claims will be followed up by rate increases, and we expect this to have a certain negative impact on business performance. Even taking into account the impact of inflation, we will firmly control our expense ratio to achieve our fiscal 2025 target of 31.7%.

Overseas, we have accumulated 8 billion yen for the inflationary effects associated with Russia and Ukraine. In addition, we have accumulated a margin of about 9 billion yen for the inflationary effects at MS Amlin.

Q14: You have set an IFRS-based profit as a target from fiscal 2025, but if you switch to IFRS, you will not be able to count capital gain from the sale of strategic equity holdings, and you will not have a reversal/provision for catastrophe reserves. I think you will be more affected by natural catastrophes than before. With that in mind, will the target still be IFRS-based profit? Compared with companies that do not apply IFRS, the figures may change depending on whether there are natural catastrophes or not. Please tell us what you think about that.

A14: Under IFRS, the impact of catastrophe reserves is eliminated, the amortization of goodwill is eliminated, and the impact of mark-to-market accounting and market fluctuations is higher. For long-term policies, the acquisition cost of new policies is recognized on an accrual basis, depending on the insurance period, compared with the Japanese standard where the full cost is recognized at once. Capital gains on sale of strategic equity are not recognized. In total, taking these positive and negative factors into account, the IFRS-based profit will be between 20 and 30 billion yen, larger than the previous Group Adjusted Profit.

IFRS will be introduced for the purpose of enhancing global comparability by complying with accounting standards, and our Group intends to set targets for the medium-term management plan on an IFRS basis in line with this objective. The Group Adjusted Profit, which has been a management numerical target, does not include the catastrophe reserve profit/loss, so the impact of natural catastrophes is not significantly different from the IFRS-based profit. As operating companies' results will be disclosed based on the Japanese standard in accordance with the Insurance Business Act, we believe that it will be possible to make comparisons with other domestic groups that do not disclose IFRS-based profits.

Q15: In the voluntary auto insurance, you expect to see an increase in premiums despite other companies' plans for a decrease in premiums, so your plan seems relatively strong and robust. How do you evaluate your auto insurance compared to other companies? Do you plan to expand your market share in the future? Could you tell us about your relationship with Toyota and other prospects in auto insurance?

A15: Compared to other groups, our plan may seem somewhat bullish. As MS&AD, we are ahead of other companies in telematics automobile insurance with the products such as "Mimamoru Automobile Insurance," and we believe that we can increase premiums because of our stable sales force. Also, higher unit prices and the launch of new special clauses have been factored in.

Overseas, the sales volume of the Toyota retail auto insurance, which is being promoted in cooperation with Toyota dealerships, has recovered after falling temporarily due to COVID-19. Sales are steadily increasing and profit levels are increasing as a result of the development and sharing of telematics know-how in various countries.

Traffic is back up, so there is some volatility, but we plan to expand our auto insurance, including overseas.

Q16: Please tell us about the target for top line expansion in casualty insurance.

A16: I believe that there is still room for casualty insurance in the small and medium-sized enterprise market. It is an important pillar of our domestic sales strategy, including the introduction of a variety of new products and, in some cases, the creation of markets. We hope to increase premiums by making steady efforts here. As stated on page 58 of the presentation, we aim to increase net premiums written from 378.5 billion yen in fiscal 2021 to 460 billion yen in fiscal 2025.

Q17: As for the bubble chart for the sophistication of business management on page 42, what kind of items are you specifically considering for revision at this point? Please tell us about the decision process and timing of this revision.

A17: The targets of the revision are businesses that do not achieve sufficient ROE and ROR, and although we have identified issues and promoted initiatives in these areas, it is impossible to foresee any improvement. We started this kind of business management last year. I cannot give you specific details, but there are some businesses under review, and exits are also considered.