

# MS&AD Insurance Group Holdings Small Meeting 2020 (Held on March 16, 2021)

## Q&A Summary

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

MS&AD: MS&AD Insurance Group Holdings, Inc.

MSI: Mitsui Sumitomo Insurance Co., Ltd.

ADI: Aioi Nissay Dowa Insurance Co., Ltd.

MS&AD Ventures: MS&AD Ventures, Inc.

Hippo: Hippo Enterprises Inc.

Next Insurance: Next Insurance, Inc.

Ping An: Pin An Insurance (Group) Company of China, Ltd.

Q1 : With regard to MS1 Brain, how much quantitative effect is expected regarding the positive impact on the acquisition of new contracts by doing “Needs Forecast” and “Next Best Action” presented in the video? Or is it already coming out? Please tell me what kind of positive quantitative effect can be obtained by using AI, even if it is a trial calculation.

In addition, I would like to know if you can use these tools to help insurers, who have little direct contact with policyholders, become more focused on direct sales and less dependent on agents.

A1 : I will explain regarding the effect of MS1 Brain's “Needs Forecast” and “Next Best Action”. It is difficult to grasp numerically whether the contract was closed by the function of MS1 Brain or closed by the original recommendation from the agent. However, as we have examples which the contract acquisition rate for life insurance went double using its function, it was a positive effect on the top line. At present, there are still a limited number of insurance lines covered by MS1 Brain. As the number of insurance lines covered by MS1 Brain continues to increase, some insurance categories may be more effective, while others may not. I think the challenge here is how to create good algorithms to make optimal proposals for customers, and how to make them more sophisticated.

The second question is whether the insurance company will sell insurance directly in the future by contacting customers instead of selling them through its agents. MS1 Brain incorporates not only data held by our company, but also held by agents. The system is designed to support the optimal sales by agents with such data, so it is not designed to allow insurance companies to conduct direct sales.

Q2 : How does your company compare MS1 Brain algorithm development with other non-life insurance groups? Also, how do MSI and ADI work together to make use of this?

A2 : We are the only company that has such an AI-powered agency support system. It may not be accurate because it's about other companies, but I heard that the Tokio Marine Group will start a similar system in the next fiscal year. In terms of competitiveness, MSI has been implementing this system for more than a year since February last year. I think it will take a certain amount of time for all of our distributors to become fully familiar with the system, and if we continue to use the system, we will be able to accumulate more customer data and improve our analysis, so I understand that we will be able to further increase our competitiveness by quickly establishing the system. Also, regarding the use of MSI and ADI, although both companies are sister companies, there are differences in the composition of insurance and the strength of channels. We are cooperating with each other to avoid double investment while sharing various information, and I think we will consider it if we can use MS1Brain well with MSI and be sure that it will be effective for both companies in the future.

Even if we decide to use it for ADI, we understand that we can respond with a sense of speed because the system infrastructure for analysis already has a common part.

Q3 : What is MS1 Brain doing today and what is expected in the future of MS1 Brain?

A3 : MS1 Brain contributes to the expansion of the top line by proposing new insurance products and reviewing coverage to customers. In addition, by incorporating the functions of MS1 Brain into the business processes of agents, it will improve business efficiency and contribute to a significant reduction in costs and enhance sales capabilities. On our company side as well, by streamlining the work of sales employees, it will be possible to secure time for them to engage in more creative and development-oriented work, and to advance changing and upgrading roles. Our vision for the future is that the business model utilizing MS1Brain will take root in our agents, and that all of the provision of optimal products and services to customers will be completed by utilizing MS1Brain. Unfortunately, not all of about 38,000 agents, or all of our employees at our company, have a complete understanding of and use of MS1 Brain. In the future, we hope that all agents and our company employees will be able to make full use of this system, and that we will be able to provide customers with higher added value and experience value.

Q4 : If MS1 Brain allows agents to increase their top lines, I think they can increase their net profits even if the commission rate goes down. Can you imagine that DX can reduce the commission rate?

A4 : When the business model changes due to the spread of DX, the sale of insurance will also change, and the difference between agencies with high sales quality and those with low sales quality will also increase. Then the commission rate will also change. In the first place, if DX becomes widespread, the role of agents will change fundamentally. The commission rate and the role of agents are important issues that our company must address seriously.

Q5 : What advantages does your group's digital strategy have over global insurance companies?

A5 : According to one survey\*, MS&AD is the second largest insurance group in terms of the number of digital investment following Ping An of China. One of our group's advantages is our aggressive approach for investment like those. Our vehicle which realize the investment activities is MS&AD Ventures. Using data, MS&AD Ventures select and invest the companies which can provide know-how globally. We believe this investment model will give our group a long-term competitive advantage.

In the global competitive environment, we have another strength as the characteristics of Japanese companies. This is because we are aiming for DX utilizing the number one agency network in Japan. The US and European insurance companies seem to be shifting their focus from agency and broker businesses to direct business in terms of DX, but they have to pay a lot of advertising fees to get the data. In the US, like Amazon, there is a trend to shift from internet to real world and get real data. Agents have valuable analog data related to customers. By incorporating these data into MS1 Brain and combining it with data held by our company, we can expect to develop business not only in Japan but also in Asian countries.

Further more, through a partnership with Toyota Motor Corporation, we collect and process automobile driving data to provide customers with new value in the form of connected automobile insurance. Another advantage of our group is that it has a corporate network that can make use of the digital initiatives of Japan as a whole, including collaboration with the Mitsui Group and the Sumitomo Group.

\*FinTech Journal (06/10/2020)

What is Insurance Tech?

- Commentary about examples and the impact on the Japanese insurance industry -

Figure 3. Specific insurers is driving investment in InsurTech.

URL : <https://www.sbbit.jp/article/fj/38025>

Q6 : Has the Safe Driving Report on page 18 of the handouts "MS1 Brain and RisTech" already been implemented as a service? Also, is this report based on your own analysis of data accumulated in vehicle equipment? If you were to serve tens of thousands or even 100,000 vehicles, what kind of infrastructure would you have in place in your company that could handle the vast amounts of data you have not handled before?

A6 : The Safe Driving Report is now ready for implementation through PoC and is scheduled for release in fiscal 2021. This is an attempt to produce a combined report of data from vehicles equipped with digital tachometers and data held by our company. Digital tachometers do not capture images like drive recorders, but can be installed in commercial vehicles such as trucks and taxis to collect more detailed and accurate data. We plan to make an analysis report from this data and provide it to our customers. The amount of data will increase, but it will be lighter than the image. We have already built a system to store video data of 800,000 vehicles for dashcam type car insurance on a group basis, so there is no problem with the handling of such structured data. Data scientists and engineers who handle data are employed in-house. In addition, we have established a system that enables data analysis both inside and outside the company in cooperation with subcontractors and are making preparations.

Q7 : I understand that the basic approach is to investigate the needs of end users and sell various services and products. It was explained that insurance agents, not end users, are the key, but we should focus on collecting information from end users, such as customizing using genetic data and setting insurance premiums using driving propensity data.

A7 : One of our Group's strengths lies in its ability to provide end users with the best solutions that incorporate various types of information obtained through agents, something that the US or European insurance companies do not have. We will make

various proposals by combining the personal data of customers and external data obtained by insurance companies and agents. It's not that we don't focus on customer data and behavior. Even in the US, the data can be utilized quite equally, and we believe that excellent data can be collected by not only our company. Startups like Hippo and Next Insurance say, "We just utilize a lot of free data and do not want to disrupt the insurance industry." We believe that by utilizing various purchasing data and developing various activities, while also cooperating with agents, we will create unique solutions. We think it's important to combine data from different sources. The direct approach to the customer is part of the strategy, but depending on the process, it may be better to go through intermediaries, as Hippo went from a complete D to C (Direct to Customer) strategy at the outset and then hired an agent. The one who can use both well would become the winner.

Q8 : Please tell us how MS&AD Ventures is evaluated within the group.

A8 : By collaborating with companies in which we have invested, our group has already implemented a number of services in Japan, and we are highly evaluated for high performance in both financial and strategic aspects.

In the Group, CVC (Corporate Venture Capital) is required to realize both financial and strategic returns (How much new value is added to the group). Financial returns are evaluated by comparing with industry indicators, and strategic returns are evaluated over a period of three to five years. It is expected that one or two of our investments will be very successful, but we think it is too early to tell at this point. Also, since it is a venture investment, we invest on the assumption that there will be a big difference in returns among invested companies.

I understand that the mission of CVC is to launch a variety of new businesses in addition to insurance in order to provide safety and security over the medium to long term.

Q9 : I think that smart cities are still in the stage of collaboration with local governments, but are you actually realizing the acquisition of insurance contracts and the increase in market share? Also please tell us about your future outlook.

A9 : Currently, it is not evaluated by KPI etc. At this point, we are proceeding with smart city initiatives, keeping in mind that we will firmly provide our services that can contribute to safety and security, rather than considering the timeline of insurance contract acquisition itself. End