

MS&AD Holdings Conference Call (May 20, 2021)

FY2020 Briefing Q&A Summary

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

MSI : Mitsui Sumitomo Insurance Co., Ltd.

ADI : Aioi Nissay Dowa Insurance Co., Ltd.

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)

Phoenix : Phoenix Group Holdings plc

BoCommLife : BoComm Life Insurance Company Limited

Q1: MS Amlin's top-line is expected to grow in FY2021, but is this due to an increase in policies in force or due to rates? What are the contributing factors?

Also, can you offer any words of confidence on the probability of reducing the general loss ratio?

A1 : The top line takes into account the increase in rates and revenues mainly in lines that are performing well.

A reduction in loss ratio is not really an overreach. We will work toward achieving this goal.

Q2 : MS Amlin's full-year forecast for FY2020, announced in November 2020, showed that underwriting profit excluding the impact of COVID-19 was 118 million pounds, but the forecast for underwriting profit for FY2021 is 60 million pounds. I believe this includes the impact of the North American cold wave in February, but what is the actual expected recovery in underwriting profit for MS Amlin in FY2021 excluding this?

A2 : Underwriting profit of 60 million pounds is based on the impact of the loss of 73 million pounds caused by the North American cold wave in February. Therefore, 133 million pounds is the actual value of underwriting profit here.

Q3 : UK FCA is updating us on the progress of BI payment, but the pace of payment by MS Amlin looks poor in terms of the figures. What are the factors affecting payment time and is there a risk of increasing costs?

A3: BI has always been a line of business where it is difficult to determine the amount of payment. In addition, there are many types of products along with terms and conditions, and because the details of the judgment were complex, with various points of contention, it took time to settle on an interpretation. MS Amlin is sending video messages to policyholders and increasing the number of payment subcontractors in efforts to make early payments, and will continue to work toward making payments as soon as possible.

- Q4 : Group Adjusted Profit for FY2021 has remained at the same total of 300 billion yen since the previous announcement, and the breakdown by business has not changed significantly, but can you describe any notable differences in assumptions? There was a large increase in income of international business. Can you give us a breakdown of the factors of increase and decrease that have led to 80 billion yen?
- A4 : The market environment is assumed to be at the same level as the beginning of the fiscal year, so the assumptions for exchange rates and stock prices have changed from the previous announcement. There are some technical aspects such as the underwriting results for the first year, but this is a reflection of other initiatives that have been made so far. With regard to a breakdown of the factors behind the increase in profits in international business, the impact of COVID-19 is falling away and natural catastrophes are on a normal level, resulting in a combined total of approximately 67 billion yen. In addition, profits in the international life insurance business are expected to increase by approximately 16 billion yen due to the full year of profit of BoCommLife Insurance and the full year of dividends of Phoenix. The remaining 4 billion yen is down to cost reductions for MS Amlin and incorporates factors such as the hardening of the market.
- Q5 : The impact of the cold wave in North America has been recorded into the FY2020 results at approximately 10 billion yen, but this is not a large amount in relation to the overall profit scale. Can we assume that recording this into the previous fiscal year's figure represents a strong will and commitment to achieve the Group Adjusted Profit target of 300 billion yen this fiscal year?
- A5 : The financial results were processed considering its importance in accordance with normal accounting rules. As the domestic subsidiaries incurred some losses for the North American cold wave, we took into account that both domestic and overseas losses would be processed in the same way. We will work to achieve the Group Adjusted Profit target of 300 billion yen.
- Q6 : Is it correct to assume that there will be no loss for FY2021 in relation to COVID-19?
- A6 : With regard to COVID-19, we withdrew from direct business interruption insurance in the UK, which was significantly affected, at the end of January 2021, and we clarified the policy wording and attached exemption at the contract renewals of each policy for lines of business affected by COVID-19. Therefore we did not expect further losses into the FY2021 plan.
- Q7 : Please tell us about the reinsurance policy from April 2021 onward and any changes in reinsurance costs.
- Other non-life-insurance companies have estimated that the amount of natural catastrophes

in Japan will increase by 20% or more, but your company has not estimated an increase by as much as 20%. In addition, the French reinsurance company SCOR announced in its financial results that it has significantly reduced the provision of reinsurance to Japanese insurance companies since April. In response to these developments, please explain how reinsurance arrangements have been made since April.

- A7 : In terms of reinsurance renewals since April 2021, these have generally been arranged through the same structure of reinsurance scheme as before. Some have slightly raised attachment points, but that is the extent of the changes. Reinsurance costs have not increased significantly.
- Q8 : In terms of underwriting insurance for MSI in FY2021, underwriting profit excluding natural catastrophes and catastrophe reserves increased from 98.6 billion yen to 133.5 billion yen. What kind of elements were factored into this? What do you anticipate in terms of automobile insurance and fire insurance?
- A8 : Firstly, we expect earned premiums to increase by around 40 billion yen. Incurred losses will increase due to a rebound from the previous fiscal year, particularly in automobile insurance, but we believe that incurred losses of fire insurance will decrease from the previous fiscal year, where major losses were compounded by an accumulation of IBNR. As for other factors, MSI bore the cost of the underwriting result for the first year in personal accident insurance, etc., in the previous fiscal year, so we expect a reversal this fiscal year.
- Q9 : What is the reason for the difference between the forecast of 80 billion yen in Group Adjusted Profit for international business in FY2021 and the forecast for net income for overseas subsidiaries?
- A9 : In addition to the profits of overseas subsidiaries, Group Adjusted Profit for international business includes factors such as profits from international business undertaken by MSI and ADI, and dividend income not from subsidiaries. What is different from previous years is that this reflects the reversal of the losses from the North American cold wave added in the consolidated adjustments. In addition, because the Group Adjusted Profit is defined to exclude special factors such as extraordinary income and losses, there will also be a difference in this regard.
- Q10 : The EI loss ratio for automobiles is expected to rise this year, and the trend for the three major non-life-insurance groups is similar, but it looks conservative. Looking at accidents that occurred up to March, it seems that the number of accidents has not increased that much. . Can you comment on MSI and ADI, respectively?
- A10 : Both MSI and ADI expect an increase in the automobile EI loss ratio in FY2021. The

frequency of accidents is expected to rise by nearly 10% from FY2020. The average payout per claim is also on an upward trend, and the loss ratio is expected to rise.

Q11 : In terms of the dividend policy, increases in dividends have changed from 10-yen increments in the past to 5-yen increments this time. Can you tell us about this?

A11 : Although it is difficult to state the reason for the 5-yen increments, we decided to increase the dividends by 5 yen each based on an increase to the Group Adjusted Profit for FY2020 compared to our forecast, and heightened confidence in the likelihood of achieving the Group Adjusted Profit of 300 billion yen in FY2021.

SQ1 : If the Group Adjusted Profit of 300 billion yen is realized without changing the policy on the total return ratio, does this mean you will return 40% to 60%?

SA1 : This year is within the period of the Vision 2021 Medium-term Management Plan, and there has been no change to the policy on returns.

Q12 : The ESR in FY2020 was well above the target level, and according to your company's explanatory materials, you are considering business investments, additional risks, and ways of strengthening returns. What should we make of this?

A12 : ESR at the end of FY2020 has risen to 235%, mainly due to the rise in stock prices. If this is not temporary, and it is constantly over 220%, we may want to factor this into the policy on returns as well. The policy is to balance strong returns to all of our shareholders with investment for sustainable growth, thereby improving corporate value.

Q13 : Is the 56.5 billion yen increase in incurred losses for fire insurance in FY2020 due to the (reported) fire at a semiconductor manufacturing plant? If so, it occurred in March, so if you assume the timing of the insurance payouts, is there a possibility that the catastrophe reserve may be reversed early in the first half of the fiscal year?

A13 : The increase in incurred losses for fire insurance in FY2020 is not due to any individual incident, but to an increase in losses from natural catastrophes, large losses and losses in personal fire insurance. Losses in personal fire insurance also include damage caused by small natural catastrophes. The provision and reversal of the catastrophe reserve is not tied to individual incidents, but based on a view of overall trends.

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