

MS&AD Insurance Group Holdings

1st Information Meeting of FY2021 (Held on May 28, 2021)

Q&A Session Summary

The Q&A Session Summary at the Information Meeting held on May 28, 2021 was summarized as follows.

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)

MSFC : MS First Capital Insurance Limited

Q1: What was the purpose of announcing this earnings target of 500 billion yen by 2030? Did you set this target to reflect the fact that your global peers have earnings in the range of 500 billion to 1 trillion yen? Secondly, does the outline of your future business portfolio on page 81 of the presentation refer to 5 or 10 years in the future?

A1: Next fiscal year marks the start of our next medium-term management plan. In the interest of the strategy of this plan, we need to think about things from a long-term perspective. 2030 is the end goal of the SDGs. We consider our CSV to be core to our strategy. When we set our target for 2030 of “working as a corporate group that supports a resilient and sustainable society,” we want you to understand that we are talking about what our quantitative targets should be. The outline for the future on page 81 of the presentation is the product of our simulation of how we will look around 2030, based on projected numbers for that period. There may be changes in the business environment and disruptive competitors may emerge. However, this is our best estimate given the likely environment ahead, and our target reflects where we hope the fruits of our strategy will ultimately take us.

Q2: It seems likely that there will be major changes in the business environment before 2030, and I think your company needs to be resilient in the face of those changes. From your perspective as CEO, what aspects of the company would you say exhibit your resilience?

A2: The biggest prerequisite to resilience is a sound financial structure. Furthermore, I think there is a growing global consensus that companies need to be tackling climate change and similar problems in order aim to achieve a sustainable society. We have been integrating our CSV approach over the course of the current medium-term management plan, and we think it has really taken root within the company. Over 90% of employees say that they think their own jobs tie into our CSV. Combined with our digital transformation

initiatives, we have really brought our business to the next level. Our insurance products have always been fundamentally about compensating insurance holders for financial losses, but we have also begun selling products that help prevent incidents from occurring in the first place, and products that help facilitate recovery in the event that an incident does occur. This includes dashcam-type automobile insurance as well as health management support insurance and cyber insurance. In our Sustainability Contest conducted last year, the winning project was a technology that predicted changes in dairy cattle behavior using sensors attached to their collars. Dairy farmers watch the movement of their cattle 24 hours a day, but with this technology, they would be freed from that overworked schedule. Meanwhile, our company can benefit by attaching something like personal accident insurance or medical insurance to that sort of product. Examples like this are becoming more common. We would like to develop this approach on a global basis, growing as a group, bolstering earnings, and boosting our capital position to ensure the company is resilient to any changes that may be coming.

Q3: Why did you use an IFRS basis for the earnings level of 500 billion yen that you are aiming to achieve by 2030?

A3: We plan to shift to doing all of our reporting on an IFRS basis beginning with our FY 2023 financial statements. We are approaching our next medium-term management plan as covering a four-year period beginning in FY 2022. Including the final fiscal year of that plan that will mean three fiscal years of reporting on an IFRS basis. We also expect financial reporting on an IFRS basis to be standard practice globally by 2030, so these steps are in line with that expectation.

Q4: Another corporate group in the non-life insurance business has set a target of around a 92% combined ratio for private insurance in FY 2023 (excluding compulsory automobile liability insurance and residential earthquake insurance). How does this seem compared to your own company's plans?

Also, what does your company consider most important to bringing your combined ratio to the same level in that period?

A4: I think the other group's target levels are quite ambitious. Based on the current accident statistics in the domestic Japanese automobile insurance market, insurance premium rates are likely to decline by 2023. Given our current strong combined ratio in voluntary automobile insurance, the targets set by this other company would seem to be extremely challenging. Our Group is working to bring down our combined ratio by focusing on aggressively cutting expenses especially in the domestic non-life insurance business. As stated on page 28 of the presentation, by 2023 we hope to cut expenses in the domestic non-life insurance business

by 62 billion yen relative to 2019.

In fire insurance, our loss ratio worsened last year due to major losses and an increase in minor losses in damage-causing accidents associated with the increase in working from home. Although it will depend on how advisory rates (reference loss cost rates) are revised in the future, we plan to raise premiums and improve our loss ratio through various initiatives currently underway to improve underwriting results, thereby lowering our combined ratio by both cutting expenses and improving our loss ratio.

Q5: According to an article from April, a member of management said in an interview that you would be creating a 500 billion yen fund for foreign M&A and that 60% of that fund would be directed toward North America. Is it true that you have changed over to this approach of creating an investment fund?

Also, how has your M&A team been bolstered compared with that at the time of acquisition of MS Amlin and others?

A5: We will not be creating an investment fund. I believe what was stated in that article is that we want to build up earnings in the tens of billions of yen in our international business and push those profits even higher in the future in order to grow our overall earnings. In the course of that strategy, our general idea was to invest 500 billion yen in our businesses. Our basic Group strategy has not changed: we allocate capital to operating companies according to our Group strategy, and the operating companies invest those funds.

As for our M&A team, we set up an organization in the holding company in April to keep a close eye on business investment across the entire Group. This organization includes personnel with extensive business investment experience, bolstering our handling of entire deals. In collaboration with the relevant departments at each respective operating company, we will narrow down target deals to hone in on. Moreover, in the due diligence process, we hope to enlist the support of more members with past experience in this area to increase the quality of due diligence. Although we're currently using only people from within the company, we are interested in appointing more external talent to shore up our organization even further. Since the acquisition of MS Amlin, we have brought in a lot of new expertise and learned new lessons, including the M&A experience of First Capital and others. Drawing on this, our M&A departments are leading the charge in exchanging opinions and sharing information in relevant departments of the company as we consider potential future investments.

For example, International Business Day for investors and analysts on March 5, MS Amlin Underwriting Limited CEO Johan Slabbert gave advice drawing on his past experience of investing in the U.S. MGAs. In this way, we are drawing on personnel within the Group and other internal and external resources to bolster our overall positioning in this area.

So that is a summary of how we are approaching our M&A candidates, listed and analyzed

from a variety of perspectives in line with the Group's strategy for international business. We intend to draw on our past experience to conduct disciplined M&A.

Q6: Are there any particular business lines that you are focusing on in deciding what investments to add or remove from the company's portfolio in your efforts to strengthen it?

A6: We plan to focus closely on portfolio changes in the next medium-term management plan. For each business line, we will be looking primarily at whether earnings are higher than the cost of capital and whether we can increase enterprise value, before then assessing strategic importance and growth to decide what investments are candidates for being added or removed from the portfolio. We will be looking not simply at current performance, but also at future growth potential that could contribute to enterprise value.

Q7: What can be done to improve the profitability of MS Amlin other than increasing rates? Additionally, I believe that MS FC could increase earnings by reducing ceded reinsurance and increasing holdings. What is your policy on this moving forward?

A7: Under the newly appointed Chief Underwriting Officer at AUL and AAG, we are rearranging our portfolios to be stronger and more profitable while also working to improve the profitability of current portfolios and changing over to a more disciplined underwriting governance system. Moreover, natural catastrophe risks introduce a lot of earnings volatility, so by reducing the amount of lower-layer underwriting and increasing the amount of higher-layer underwriting, and also by changing MS Amlin's ceded reinsurance scheme we are working to reduce volatility in our portfolio. While increasing the profitability of these businesses, we will also aim to achieve top-line growth that has been decreased by restraints on underwriting. We expect this to impact our bottom line due to decrease in both the loss ratio and the expense ratio.

MS FC will cut down on fluctuations in earnings by lowering the retention rate and ceding reinsurance. Since the current portfolio is strong, we are earning profit commissions from ceded reinsurance accounts that contribute to stable earnings. We could certainly consider increasing our retention, but our current approach of ceding reinsurance and earning solid commissions from that activity is producing sound results, so we are likely to continue this approach for the time being.

Q8: How are underwriting profits for fire insurance currently and what is your outlook for the future?

A8: In FY2020, the fire insurance business saw many major losses in the corporate segment and an increase in damage and defacement in the household segment. Our outlook for FY2021 is that major losses will drop to some degree in the corporate sector, but that damage and

defacement in the household segment will hold steady, without dropping significantly. Separately, loss ratios remain high for products for housing complex management associations due to aging of housing complexes and other factors, so we hope to improve our products by further subdividing risk categories. For large contracts, we are working to do this through a combination of improving our products and providing advice to prevent recurrence. For the household segment, we are improving products by adjusting premium rates to more appropriate levels, reflecting risk classification, etc.

Q9: Are you satisfied with how you currently calculate ESR and the current fair value range? Other non-life insurance groups have adjusted their ESR target ranges in their new medium-term management plans. As a result, both groups explained that they were able to keep ESR within the modified range and continue to provide the current level of their shareholder returns. What about your company? If ESR remains over 220% stably, can we expect you to increase shareholder returns and take on additional risk in your business?

A9: We believe we calculated ESR appropriately and our target range is sensible. However, we do plan to improve our methods in our next medium-term management plan to reflect actual conditions in finer detail, and if necessary while transitioning to IFRS, we may reconsider our target range. If levels over 220% were to become stable and we lacked opportunities for risk-taking including business investment, expansion of shareholder returns might be a valid option. However, we would decide whether levels over 220% should be stable based on a thorough examination of market conditions.

Q10: As it is hard to control volatility in the life insurance industry, I understand that you are pushing ahead with initiatives to curtail volatility while keeping an eye on the cost of capital. What is your approach to implementing measures to control the cost of capital?

A10: Lowering the cost of capital will lead to a higher stock price, so we know this is an important issue. In essence, we think reducing business volatility is key to lowering the cost of capital. One example of our Group's initiatives in this area is MSA Life's efforts to reduce interest rate risk. The Group is highly sensitive to interest rate risk, so we try to reduce fluctuations across all businesses by balancing asset and liability sensitivities at MSA Life. At the same time, we have comparatively large reinsurance coverage in the non-life insurance segment, and we are striving to achieve an earnings structure to keep earnings volatility low even in the face of large-scale natural catastrophes. Moreover, since the strategic equity holdings account for a substantial amount of our overall risk, we will control this by continuing to sell the strategic equity holdings. We think it's important to combine various initiatives like this to keep business volatility down and thereby reduce the costs of capital as much as possible.

- Q11: You met your targets for reducing strategic equity holdings one year in advance, but you have not been able to stably maintain those holdings' proportion of Group risk under 30%, which is your target. I know that market factors influence these positions, but would it be possible for you to set more aggressive annual sell-off targets or targets for strategic equity holdings of total risk?
- A11: Although there were some market factors, we already met our targets once in FY2019. But you are correct that things have slid back to where they were previously. We consider these sorts of phenomena to be part of the risk of strategic equity holdings. We achieved our 5-year sell-off target of 500 billion yen in four years, and we also plan to sell off another 100 billion yen this fiscal year. We know that some companies in other industries have announced they will sell off all strategic equity holdings. We hope to decide what policy to take with respect to our strategic equity holdings after taking full and proper consideration of the positions of proxy-advisory firms and heightened awareness of governance issues, while also finally conducting deeper discussions on the topic in the run-up to the next medium-term management plan.
- Q12: If you achieve 300 billion yen as the Group Adjusted Profit for FY2021, can we expect returns on the order of 50%, i.e. the median total return ratio?
- A12: We have made no changes to our policy of providing shareholder returns in the 40–60% range for the Group Adjusted Profit. 50% is within that range.
- Q13: After the transition to IFRS, will the realized portion of capital gains be deducted from the earnings used to determine shareholder returns?
- A13: The figures on page 8 of the handouts are simply earnings levels on an IFRS basis and do not reflect a different approach to determining shareholder returns. Capital gains are not included in earnings in IFRS, but that does not mean that we will be deducting capital gains from the earnings used to determine shareholder returns for this reason. We will be determining our post-IFRS approach to shareholder returns in the process of creating the next medium-term management plan.
- Q14: Page 45 of the handouts discusses the possibility of generating earnings in the data business. Have you actually advanced to such a stage in that business? Other companies have reported figures in the software business on the order of tens or hundreds of billions of yen. Has your company had similar success?
- A14: In terms of efforts to achieve insurance segment profitability, we launched the RisTech data solutions initiative in 2018 and have worked with a total of 260 corporate clients to achieve premium growth of 17.5 billion yen. In addition to increasing premium growth, we also have

initiatives aimed at avoiding declines in earnings and improving earnings. We are also pursuing “embedded finance” initiatives, which at operating companies is sometimes called “Built-in Connect” or the “Digital Solicitation Platform.” At e-commerce providers, this means embedding a solicitation framework into their platform for insurance solicitation purposes. We believe that this will need to be made somewhat more general-purpose in order to commercialize it into a profitable business, so we will be working to achieve our plans in this area. We have several case studies to examine for the software business, including overseas with respect to sensor-related software. In this area, as well, we will be working based on a core focus on achieving profitability in the future.

Q15: There was some explanation of “embedded finance” in the data business. Will this be a game changer in the Japanese non-life insurance market, or will it have a more restrained effect like being a new e-commerce outlet?

A15: At the current stage, we do not think it will be a game changer. However, we will be selling integrated and embedded products in the interest of promoting user friendliness and usability.