MS&AD Holdings IR Day (held October 4, 2021)
Q&A Session Summary

Below is a summary of the IR DAY Q&A session held on October 4, 2021.
Note that company names will be abbreviated as follows.
MSI Aioi Life: Mitsui Sumitomo Aioi Life Insurance Co., Ltd.
MSI Primary Life: Mitsui Sumitomo Primary Life Insurance Co., Ltd.
MS Amlin: Total of each business, with a primary focus on AUL, AAG, AISE, and ACS
[AUL (MS Amlin Underwriting Limited), AAG (MS Amlin AG),
AISE (MS Amlin Insurance SE), ACS (MS Amlin Corporate Services Limited)]
MS First Capital: MS First Capital Insurance Limited
Challenger: Challenger Limited

Part 1 Growth Strategies for the Domestic Life Insurance Business

Q1: You have indicated that you anticipate an additional 40 billion yen in profits to come from the introduction of IFRS. Can you give us a breakdown of how much of that increase will go to each company, and explain why?

A1: On a J-GAAP basis, new policy acquisition costs are recognized in the first contract year, but on the IFRS, the cost burdens are leveled out as the costs are recognized as the contract period progresses, depending on the contract period. Although things will remain the same for the whole of the insurance period, as both of the Group's two life insurance companies are expanding in scope, the new policy acquisition cost burden is becoming heavier under J-GAAP. Shifting to IFRS will level out those costs, thereby adding around 40 billion yen in profits.
At present, we are looking at a simple calculation of the totals for both companies, and so we will need to forgo disclosing the respective breakdowns for MSI Aioi Life and MSI Primary Life.

Q2: MSI Aioi Life currently has around 20 billion in J-GAAP based profits at present, likely has earning power of around 40 billion yen on an IFRS basis, and dividends to the Holding Company are set at over 5 billion yen. In order to increase investments and shareholder returns, the Holding Company will need to recover cash, but if, on an IFRS basis, approximately 50 billion yen in profit is generated in FY2025, what do you anticipate the annual dividend will be, approximately?

A2: Cost recognition and cash movement will work differently under the IFRS. New policy acquisition costs are cashed out at the time a policy is formed, but in IFRS profits, only costs corresponding to the period in question are recognized. When considering dividends, we will need to first confirm whether liquidity has been secured before considering the possible dividend amount. The amount of cash generation to be achieved will be determined in the course of determining planned values.

However, we will expand future cash generation by building on the number of policies in force and expanding investment income, which we believe will result in greater dividends for the Holding Company.

Q3: If you are engaged any index management or product management, other than your engagements in ROR, in order to boost the quality of profits and fungibility, what are they?

A3: As we explained previously, product management centers on ROR.

At the same time, we are carefully calculating the profitability period (referred to as the investment recovery period) and IRR for each product. For example, income guarantee insurance, which is our principal product, currently has a 7 year investment recovery period due to the characteristics of fixed-term insurance products. Whole-life basis medical insurance is currently designed with an investment recovery period of about 15 years. The average period for all products is 11 years, and thus finding a way to shorten this period will be an issue for product design going forward.

Furthermore, the average IRR for all products is 9.6%.

Correction: Corrected to 9.6%, as the average IRR was incorrectly reported as 9.2% at the Q&A session.

Q4: Will the profit to be returned to shareholders of life insurance companies represent any modification to the IFRS-based profit? Further, will your shareholder return ratio decrease if your company's overall profits increase due to your implementation of IFRS?

A4: We are considering using an IFRS profit basis for the numerical management targets for the next medium-term management plan, but calculation methods for profits that will form the basis of shareholder returns, and policies for return ratios and other matters will be the subject of future deliberations.

SQ1: As the interest rate hedge ratio is rising, the impact of economic fluctuation risks on ESR is likely to grow smaller. Will you be considering how to incorporate factors like this into your Shareholder Return Policy going forward?

SA1: Yes. As sensitivity to fluctuations in interest rates is decreasing significantly, we will be considering how to reflect this in our shareholder return policy going forward.

Q5: What are your targets for MSI Aioi Life's top line on an overall basis, not just on an occupational basis?

A5: Traditional sales efforts that primarily focused on professional channels had average annual growth rates of between 4% and 5%. If we can achieve our target of 5,000 groups and 500 billion yen by focusing on the occupational market, which was largely not included in the expansions described, over the next 10 years, we can realize additional growth of 4%. Therefore, on an overall basis combining both elements, our goal is to achieve 8% growth.

Among the successful examples of initiatives in the occupational market this year is solicitation targeting the retirees of major automobile manufacturers. We were able to secure a large number of policies through this solicitation, and gained a renewed appreciation of the strong demand for whole-life based medical insurance in the occupational market.

Q6: How did you determine the 50-billion-yen annual reinsurance amount to Challenger? Furthermore, what proportion of the total amounts of reinsurance by your company is being reinsured to Challenger?

A6: When deciding on reinsurance conditions and ceding amounts for Challenger, the Company conducts a return on risk comparison and judges whether there is sufficient benefit to doing so. First, the total credit exposure to Challenger is determined based on the status of collateral, etc. that has been received by Challenger. And we also confirm that, even if approximately 50 billion yen in reinsurance premiums is paid to Challenger each year, this amount will stay within the amount credited to Challenger. As the recent investment environment has become more difficult due to the decline in global interest rates, we believe that reinsurance is an effective way of diversifying investment methods and investment risk dispersion. Note that the Company generally performs investments for fixed products on its own, and it will be sufficient if you understand that reinsurance is limited to certain cases, and that Challenger has been appointed as a reinsurance company.

Q7: You've explained that professional agents, dealer channels, and cross-selling are extremely crucial aspects of the MSI Aioi Life's business model. But taking into consideration the fact that the Japanese life insurance market is already almost completely saturated, and that finding customers to purchase completely new life insurance policies is extremely difficult, are we correct in surmising that you will be working to take policies from other companies? Also, can you go into more detail as to why customers will be changing their policies to your company?

A7: Some have pointed out that the market is quite saturated, with approximately 90% of households enrolled in life insurance, but on the other hand, as times change, so do the needs of consumers. Consumer needs in terms of insurance products are changing: for example, consumers are switching from traditional fixed life insurance products to whole-life medical insurance products, or to long-term income guarantee insurance. The Company's greatest strengths lie in automobile insurance and fire insurance, plus the fact that we have close points of contact with our customers, and we will use our nationwide facilities to provide proposals that match the times. Providing various forms of information through these points of contact will serve as the fundamental concept of the model we seek to achieve, where we protect our customers as a full-service destination for both life and non-life insurance needs. We are currently deploying a form of information provision through professional organizations called the "customer friendly movement." We would like to further deepen our involvement in this business by increasing the depth of contact with our customers through information provision by, for example, explaining to them how they can use medical insurance against the backdrop of COVID-19, and how they can receive payments on claims without becoming hospitalized through quasi-hospitalization in the form of at-home medical care and receiving medical care at hotels.

Q8 From a holding company perspective, please tell us how MSI Aioi Life and MSI Primary Life are positioned in the portfolio, including cash efficiency.

A8: The life insurance business experiences far less volatility than the non-life insurance business, and enjoys a more stable cash flow in the long term. From a holding company perspective, life insurance enjoys an extremely unique risk dispersion position. In terms of growth, while the domestic life insurance business is widely understood to be quite saturated, both MSI Aioi Life and MSI Primary Life offer product lines that differ slightly from those offered by traditional life insurance companies. MSI Aioi Life offers products in areas such as medical, nursing, and income security, while MSI Primary Life offers asset-building products via different channels to markets that life insurance companies traditionally do not cater to, and we believe that both companies still have significant room to grow. As for cash generation, by further building on the number of policies we have in force, we expect that both the cash realized from those policies and the cash realized through asset management will grow even further. Both life insurance companies still have the potential to realize even greater growth, and by allocating capital to the companies to maintain growth, and distributing the cash realized through this growth to holding company, we hope to create a cycle of returns to our investors.

Part 2 Growth Strategies for the International Business

Q1: The Asian non-life insurance business combined ratio is starting to drop. Though this is likely due in part to the decrease in traffic rates brought about by COVID-19, please discuss your fundamental combined ratio levels based on factors such as price competition, resumption of business, and the results of digital investments. Please also explain your medium- to long-term combined ratio targets.

A1: We believe that the improvements to the combined ratio were not due merely to the reduced traffic rates brought about by COVID-19, but were also realized through the selection of appropriate risks to undertake when underwriting, and efforts with respect to the payment of claims, both of which are efforts we have been engaging in for many years. Therefore, even as the economy reopens, and activities start to improve in various areas, we do not believe that the loss ratio will return to past levels.

As for our combined ratio outlook for FY2022 and beyond, we are currently putting a plan together and cannot share specific numbers with you, but we believe that improvements to our combined ratio will continue, including in critical fields such as automobile insurance.

Q2: You previously described insurance underwriting synergy pertaining to Asia, but are you engaged in any efforts to maximize synergy across multiple countries, particularly any efforts involving technology?

A2: We are engaged in a variety of insurance underwriting efforts, such as training and sharing know-how. We share the knowledge of experienced underwriters across various regions, and though we previously did so face-to-face, for the past year and a half we have been sharing this knowledge online. Sharing information online, has allowed us to include a greater number of responsible parties at overseas entities in our information sharing efforts than before.

Further, MS First Capital has underwriters that specialize in complex commercial risks and infrastructure risks, etc. By spreading their knowledge to other regions, we hope to be able to underwrite many businesses in each region, and thereby help expand our product areas. Furthermore, we are working to expand synergy further by implementing training, etc. in the digital area and ensuring that the benefits of MS First Capital’s unique expertise and technologies can be enjoyed throughout Asia as a whole.

Q3: What are the quantitative and qualitative aspects of the synergistic effects? For example, in terms of quantitative aspects, what is the current status of the top line and costs, and what levels can you expect to see as you move toward 2030, and, in terms of qualitative aspects, what areas do you plan to expand further, including areas other than digital?

A3: We currently do not have any numbers on hand pertaining to our quantitative outlook for the synergistic effects. We are looking at accumulating our Group synergies from a variety of different angles, with a particular focus on our next medium-term management plan for next year onward.

In a qualitative sense, we are taking the lead on digital initiatives, and are engaging in efforts such as claims processing using AI, as well as the deployment of MS1 Brain and RisTech to overseas entities. In areas other than digital, we are considering various fields such as products, claims services, personnel compensation systems, and asset management with the participation of each department at headquarters. In this way, we plan to continue examining ways to properly utilize the know-how and other advantages of the Group.

Q4: What is your image of percentage of the Americas business to 170 billion yen profits forecast for the international business in FY2030 after the investments in US specialty insurance companies, etc.?

A4: This will depend on the scope of the business investments we advance in the future, as well the timing of when those investments begin to see results, but we anticipate a range of around 30 to 50 billion yen.

Q5: With respect to natural catastrophe risk evaluation, at last month's thematic meeting you described your climate change response, including the technological elements. Are you sharing technologies both domestically and internationally? For example, on page 49 of the material, you explain that you will be shifting underwriting to regions that are highly profitable. Are you judging profitability on your past track record? Or, are you using various technologies to analyze profitability, including the future forecast?

A5: Whether domestic or overseas, natural catastrophe risk measurements for the Group are based on the AIR model. There are also measurement models other than AIR such as RMS, etc., and at present we conduct overall management by ensuring perpetual monitoring of risk levels and expected values for each region principally through AIR, while also combining multiple models as necessary. Management methods are standardized throughout the Group.

Regarding the judgment of profitability indicated on page 49 of the material, we currently use a natural disaster model for this, but at a fundamental level, models forecast the future with reference to past historical data. As the current model does not fully reflect the effects of climate change in some respects (for example, whether or not winter storms have become more likely), we will need to consider such elements in our underwriting.

Q6: What are the potential impacts of Hurricane Ida? Does the hurricane have something to do with the fact that the underwriting limits for natural disasters in “Nationwide” regions as described on page 49 of the material is 32% higher than for 2018?

A6: On page 49 of the material, we have described the status of initiatives being taken in each region to limit the volatility of natural disasters. For example, California experiences high risks of wildfires, the Midwest is at risk for cold waves and floods, and the coasts of Florida are at high risk for hurricanes. We are paying close attention into how one-time risk levels change in recurrence intervals of 10 years, and are advancing efforts to diversify risk by reducing underwriting in specific high-risk regions, and shifting some underwriting to other regions.

There are no regions in the United States that are completely safe, and we anticipate there will be an impact from Hurricane Ida. Hurricane Ida made landfall in the pink region on the map, which is the state of Louisiana, made its way to the Northeast, and caused flooding in New York. The risk limit for the Northeast has been reduced by 18%, and efforts are underway to limit flood risk, but, we expect that there will be the damage done to the regions between the hurricane’s point of landfall and the Northeast, and in addition to the natural catastrophe reinsurance assumption business there will be impacts on underwriting items for corporate property, cargo, and transportation, etc.

Q7: Please explain, to the degree you can, the amount of the impact on MS Amlin caused by the floods in Europe and Hurricane Ida.

A7: The impact of the floods in Europe on AUL will likely be limited. With respect to Hurricane Ida, as AUL has underwritten a lot of accounts of reinsurance, we expect that claim evaluations will take some time. By the time the Company receives the data, brokers in the US first issue notices to primary insurance companies, and the primary insurance companies thereafter aggregate the loss data; a process that is executed before any recovery of reinsurance starts. Therefore, when assuming loss at an early stage, we verify exposure using models such as RMS and AIR, and perform calculations with reference to the market disaster scale ($25 to $30 billion). As for Hurricane Ida, given that the hurricane occurred in August, we expect to see a certain degree of impact in the third quarter, and we anticipate that it will also affect FY2021 business performance. Ida was not a once-in-a-decade disaster, but more like a once every 75 or 100 years disaster. It did not decrease in scale after making landfall in the Southern US, and even caused damage in the Northeast, so we expect it will lead to major losses throughout the market as a whole.

SA: I would like to provide supplementary information regarding the impact on the Group as a whole.

While the floods in Europe will not significantly impact AUL, we expect impacts at AAG which is the reinsurance company in Switzerland, AISE and local Group companies other than MS Amlin, which are direct insurers on the European continent. Recent reporting indicates that flood losses for the market as a whole totaled €10 billion, one of the highest losses in history. Our present forecast indicates that the levels for the Group as a whole are likely to be between 1 to 2% of this total market loss.

As for Hurricane Ida, according to the forecasts of modeling companies, the total losses for the insurance industry as a whole are reported to be between 20 and 30 billion US dollars. Although we are reducing the retained risk for natural disasters in North America, based on past performance, we may see approximately 1% of that amount affect the Group as a whole, not just MS Amlin.

However, in any case, since providing any definitive reports at this stage will be difficult, we will report on this matter at another time.

Q8: With respect to page 52 of the material, what items are highly profitable, and are you striving to increase profits from them? Also, please share with us any examples you may have of any synergies realized following the reorganization of your international business.

A8: Firstly, in order to achieve our target combined ratio, we will continue to increase rates, and will remain highly selective about underwriting. Thanks to the fact that we were able to selectively target high-margin items through selective underwriting, and the fact that we achieved rate increases in almost all items (9% increase in the first half of 2021 compared to the planned 7%), profitability increased in many items. And while we expect to be able to increase rates in 2022 due to the impact of Hurricane Ida this year, among other factors, we do not expect to be able to reach 2021 levels. To achieve our target combined ratio, we are continuing underwriting strategies that do not rely on rate increases.

With respect to specific profit increases, we believe the items listed on the left side of page 52 of the material have high rates of growth. Examples include political risks, energy, political violence, and onshore energy. As these items have strong profitability, new participants are steadily growing, and we will continue careful underwriting, which will include existing business. Furthermore, the Company also boasts strong cargo insurance, and we are seeing profits there too.

With respect to synergy, as we underwrite business in the United States, we believe we will be able to expand cooperative initiatives, such as utilization of US entities of the Group as a primary insurance company.

<Supplementary Information>

At the IR Day session, there was no answer on how the head office departments are involved in the formulation of the AUL's premiums increase plan for specific lines. We will provide the answer as a supplement below.

The development of AUL's business plan is carried out through regular meetings attended by the management of AUL and the relevant departments of the head office. In the course of this process, the main areas where AUL aims to increase premiums are also taken up, and the appropriateness of the plan is verified by the relevant departments of the head office while confirming the underwriting system, the outlook for financial results, and, if necessary, the impact on the amount of risk.

Q9: You indicate that you seek to be the number one company not just in the ASEAN region, but throughout all of Asia, and that business on the Chinese mainland will likely be critical in achieving this goal. What is your present status, and outlook, for business in mainland China?

A9: Asia is a critical market for the Group as a whole. After several years, we have secured the number one position in ASEAN with respect to the top line. In order to achieve our future target of being the number one company in Asia overall, our considerations cannot be limited to ASEAN, and must include China and India as well, which have both seen significant development in recent years.

We are presently deliberating how to advance our business in these two markets through strategy meetings with our current international businesses, and other similar venues. Although we would like to further expand our business in China and India, both are massive markets that present significant risks as well as opportunities. We would like to explain specific strategies when the next medium-term management plan is announced next year.

In the Chinese market, although major foreign capital companies continue to expand, local competitors in the form of massive state-owned companies retain control over significantly large portions of the market. Therefore, our Group has collaborated with local competitors such as the China Pacific Insurance Company, and has worked to strengthen and expand these partnerships in recent years. In addition, entrepreneurial companies have been emerging in China, particularly in the digital field. Our intention is to deploy the ideas and technologies that emerge from China in the ASEAN market, and utilize them to develop the retail and corporate fields.

Q10: We understand that one of the factors behind AUL’s expense ratio for the first half exceeding the Lloyd’s Average was a decrease in the denominator insurance premium, but can you tell us about your forecasts for your expense ratios in the future?

A10: With respect to the expense ratio, although earned premiums decreased from 2.5 billion pounds to 1.5 billion pounds through more selective underwriting and other similar efforts, as actual costs did not decrease by the same proportion, this ultimately resulted in an increase to the expense ratio. On the other hand, as AUL pursues further growth and insurance premiums expand in the future, we will control increases to actual costs via insurance premium comparisons, so we expect that the expense ratio will improve going forward.

At the same time, we will pursue cost reductions through various efforts such as the optimization of work processes and the utilization of data technologies. Specifically, we are considering the utilization of applicable MGA know-how via outsourcing of work processes and investments into MGAs that own these technologies.

Q11: You have noted that your company intends to utilize digital as a growth engine in Asia, but as a Group, your company is investing in American FinTech and InsurTech companies. What can you tell us about any collaborative efforts taking place within the Group? Furthermore, will you realize synergy by investing in local InsurTech companies in Asia, and, if so, what is your investment budget? How do you feel about future investments in tech and platformers in Asia?

A11: We plan to utilize digital capabilities in our efforts to expand the retail field in Asia, and are paying close attention to information transmitted by Silicon Valley, global digital hubs (Tokyo, Singapore, London), and other similar locations. Various projects have been emerging recently. We cannot comment on the budget for investments in digital companies today, but we will be considering business investments in projects that are rational and appealing.

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