MS&AD Insurance Group Holdings
2nd Information Meeting of FY2020 (Held on November 27, 2020)
Q&A Session Summary

The Q&A Session Summary at the Information Meeting held on November 27, 2020 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)

Hippo: Hippo Enterprises Inc.

DIFI: Direct Insurance Financial Investments Ltd.

Q1: According to your initial fiscal-year plan, expense ratios in domestic non-life insurance were to increase significantly, but now you have lowered the amount of the increase. Why have you lowered the amount of expense ratios increase by just under one point for this and next fiscal year?

A1: We have been working actively this year to reduce expenses and have noted our outlook for domestic expense reduction on p. 27 of the materials under “Business Style Reforms.” Our initial full-year plan was to reduce domestic expenses by 20 billion yen by FY2021. We also decided to work on reducing expenses another 50 billion yen by 2023, and to get a head start on these efforts as well instead of waiting until the next medium-term management plan. We expect the effect of this to be additions to the previous 20 billion yen in both FY2020 and FY2021, respectively. The 50 billion yen in additional reductions will come from, in addition to the effects of various digital investments and business efficiency improvements we have already implemented, things like going paperless via online reforms and reducing stamp duties by not issuing insurance policies, which will improve productivity in a broad range of sectors. We are also revising various company policies in light of the impact of COVID-19, which we expect will have significant early expense saving effects, including on transportation expenses and business trip expenses, etc. These measures allowed us to come up with about one point in additional expense ratio reductions for FY2020 and FY2021 over our initial plan.

Q2: What are your views on domestic non-life insurance business expenses and profitability of automobile and fire insurance in the FY2021 plan?

A2: We haven’t really changed system-related expenses because system development is progressing as initially planned, and we expect the cut-over to follow on schedule. Our expense reductions include, in addition to improved efficiency from the systems we have already developed, the cumulative effects of reexamining printing and distribution costs at a zero basis. Although at the beginning of the year we expected the top line of the domestic non-life insurance business to decrease due to the impact of COVID-19, it has slightly increased, so we expect that positive trend to continue into next fiscal year.

Automobile insurance losses decreased significantly April through May, but the degree of that decrease has since narrowed, so we are forming our next year outlook based on that trend.

Although fire insurance losses are trending up due to an increase in small-scale damages such as defacement, we do not expect losses to increase significantly. Although there is also a trend toward increases in major losses due to facility aging, etc., we have already been aware of this trend and are focusing our efforts on improving loss ratios, so we are making our plans with this effect in mind.

SQ1: Of the losses besides those from this term's natural catastrophes in fire insurance, what do you think will happen next fiscal year to the portion that is increasing due to the impact of COVID-19?

SA1: We anticipate the losses that have increased due to the impact of COVID-19 will mostly not occur next fiscal year.

Q3: When do you expect fire insurance to return to profitability? Also, will the framework itself change for fire insurance premiums in Japan due to your alliance with Hippo?

A3: We will reexamine our rate system toward raising rate levels and improving profitability in our January 2021 product revision. We also anticipate that the impact from the large-scale natural catastrophes in FY2019 will be incorporated into future revisions of the reference rate, so we expect to continue revising our products and rates. We are also steadily advancing various measures, such as disaster prevention proposals, and there is no change to our aiming for a return to profitability by the early stages of our next medium-term management plan.

Since the form of natural catastrophes and fire risk vary by country, bringing products themselves into Japan is not the goal of our alliance with Hippo. Hippo's strengths lie in its approach to resolving issues with fire risk, and we decided on the alliance so we could incorporate its knowhow with respect to data aggregation and analysis methods, etc. So, we are not going to change the framework for fire insurance premiums, and are, instead, targeting more robust services and more advanced products.

Q4: In addition to your strategic alliance with Hippo, you have published releases in rapid succession, including "Joint Research and Development of IoT Cyber Security Analysis Service with Vdoo (October 29, 2020)" and "Development of Knowledge-Sharing Database across Group Companies (November 16, 2020 [published in Japanese only]).” What value do you expect from these various projects? Also, which projects will exhibit the quickest effects? Additionally, how do you differentiate your programs from those of other companies in retaining talented employees?

A4: For example, through our alliances with DIFI in Israel and with Hippo, we are promoting investments in the development of services that create positive results for policy holders and insurance companies alike, that, for example, “communicate and prevent risk,” that is, “prevent accidents,” and “minimize the impact of accidents and reduce damages by shortening recovery time.” All of these investments include both short and long-term efforts and are expected to have the effect of lowering our combined ratio. We expect product and sales reinforcement via MS1 Brain to have short-term effects, and that the development of other services will have the effect of lowering our combined ratio over four to five years. Also, as an example of our global efforts, we are strengthening over-the-counter sales through alliance with the BPI Bank in the Philippines through the use of MS1 Brain.

In order to create an environment for activating such digital investments, we believe it is important to improve the abilities not only of employees in specialized fields, but of all employees. As is disclosed on p. 21 of the materials, our Group is building a full range of programs and mechanisms for enhancing the capabilities of our employees. We believe our Group is superior in the way we use the infrastructure we invest in to improve the capabilities of our employees, which leads to good circulation.

Q5: Which department will be a central player in promoting CSV × DX? Also, how many DX specialists have been enrolled, who’s in charge, and what are their specialties?

A5: Corporate Planning Department plays a central roll for CSV × DX at the holding company, and they are allying with departments in charge of digital matters at the holding company. Furthermore, all operating companies have departments for promoting DX. We have about 100 people who are directly involved in DX, such as people who are good at IT, data scientists, or people who are good at talking to partners about digital matters. Enrollees include not only employees who joined as new graduates, we’ve made sure to engage in activities while ensuring diversity by including people who worked as data scientists at other companies, and people who have done digital-related work, etc. As to how familiar the department heads are with DX, I have been doing insurance at this company for a long time, but, as a CDO, I have skills in leading DX units.

Q6: You indicate on p. 19 of the materials that you are targeting 5 billion yen in annual sales at RisTech. Will those sales be in the form of insurance premiums or consulting fees?

A6: The 5 billion yen indicates sales from data businesses and data sales. We count insurance premiums separately, and those rose to about 17 billion yen last fiscal year.

Q7: How are you considering future growth opportunities via reorganization of the international business, and what effects are you expecting it generate?

A7: Head Office is playing a central role by assembling major overseas management teams and talented people, and promoting discussions. As to when this will generate any effects, we plan to show that in next medium-term management plan. We are currently examining our medium- to long-term strategy with our key overseas members, which will form the base of next medium-term management plan, in combination with an overall optimal perspective and each region's unique growth strategy. The specific themes include, among other things, horizontal deployment of effective reinsurance policies, asset management, and digital technology on a group basis. As shown in the figure on p. 25 of the materials, since DX use methods via AI, etc. and human assets vary by country and region, we are promoting overseas DX deployment efforts suited to each country and region. For example, London has Lloyd's, which has a lot of information including information on reinsurance. At the Group we're considering converting this information into data ahead of other companies. That would allow us to do more advanced insurance underwriting. For example in Asia, where populations are increasing, we are planning to deploy MS1 Brain from the Head Office of MSI, with the goal of increasing profits over the short term. Meanwhile, Israel is special because new technologies are being born there, and so we are thinking about investing in collecting information from the initial development stage and creating an effective mechanism for the devices and systems that the group wants to work on, and then building a hub for absorbing digital technology.

Q8: Please tell us about your efforts to reduce profit volatility in insurance underwriting and asset management in your international business.

A8: I can list initiatives for non-cat risks that are proving successful in MS Amlin. Although COVID-19 was a special factor this fiscal year, basically, in order to accumulate profits we are steadily improving our loss ratio in non-cat risks which have low volatility. We are also making efforts to shift to higher layers of natural disaster risk and to reduce underwriting of lower layers.

Fair value accounting, including for international life insurance, directly affects investment profit, and is thus one of the causes of increased volatility. Holding down risks we take during operations is one way we are reducing the impact of market fluctuations, another, and this is something MS Amlin is working on, is shortening durations as much as possible by combining long and short bonds. By combining long and short bonds and matching durations, we are targeting investment profits on the credit spread, thereby suppressing the effects of market fluctuations.

Q9: What's the impact of the hardening included in MS Amlin's full-year outlook?

A9: Although it varies by category, for example, rates for North American natural disaster policies increased about 20% on average in June and July, and, depending on the policy, rates may increase by about 50%. Non-cat lines have been increasing annual rates for the past few years, and have thus increased rates cumulatively by about 15%. Rates increased 6% on average in the first half of this fiscal year as well, which is a larger increase than originally expected. Although it's difficult to tell how much rates will increase next fiscal year since the degree to which they will increase varies based on category, such as direct and reinsurance, risk content, and liability/property insurance, etc., we expect hardening to continue. Furthermore, the impact on profits from rate increases in this fiscal year's underwriting is expected to be around 5 billion yen.

SQ1: If hardening continues in the reinsurance market next year as well, does that mean that there will be an even bigger effect from rate increases at MS Amlin? The breakdown of the factors for increasing international business profits for the next fiscal year on p. 22 of the materials lists + 4 billion yen of MS Amlin profits in addition to COVID-19 loss shedding effects. Does this mean that the hardening has not been factored into the list?

SA1: We also expect that the increase in MS Amlin profits next year will be due to, first, hardening, and second, the effects of product lines withdrawn in this fiscal year. In addition to hardening, we have also factored in the fact that we expect the effects of the policy condition improvements we have already made.

Q10: We understand that the idea with respect to MS Amlin is to focus on the bottom line and not pay much attention to the top line, but what are your thoughts with respect to the top line from the next medium-term management plan?

A10: MS Amlin is making good progress in terms of profit recovery. Since we also expect market hardening to continue, we are actively taking risks and incorporating them into our plans for next year and beyond in areas where MS Amlin is strong.

SQ1: As you continue to realize rate increases that are equal to or larger than the market, what additional efforts, such as hiring underwriters, etc., are you considering?

SA1: MS Amlin group's core company which operates Lloyd's business is strengthening its underwriting by hiring Andrew Carrier, who is well-known in the market and has a proven track record, as its new Chief Underwriting Officer. It has also hired Yohan Slabbert, a well-known person in the market with a background as the CEO of a major syndicate, as its new CEO, and is planning a growth strategy with these two leading the way. Although MS Amlin is realizing rate increases at market levels, I will provide supplementary information showing that MS Amlin is boldly reviewing lines that have been unprofitable so far and that are thus having a negative effect on overall top line growth rates.

Q11: You list about 120 billion yen as your profit target for the international business in your next medium-term plan. Does that mean you're expecting some future acceleration in Asia, the Americas, and Europe in addition to MS Amlin? Also, while we think that MS Amlin is the reason for of your RoR, we don't think you can say it has achieved adequate results overseas. You say you will continue expanding the international business, but is it possible you will make efforts to, for example, be selective and focused, and, if so, what would the criteria be?

A11: We believe that the international business, besides MS Amlin, will see even more accelerated growth in the future. Economies are growing in all countries and regions, especially in Asia. For example, ASEAN has a very young population of 650 million with an average age of 29. India is also a very young country with a population of 1.3 billion people with an average age of just 25. There is no doubt that the middle classes in these regions will grow and that their markets for insurance will expand. Furthermore, they are very familiar with digital technology, and we have already planted seeds there that are achieving results, including the largest e-commerce website in Indonesia, and sales of overseas traveler's personal accident insurance on the largest domestic online travel agency in Thailand. We can deploy these efforts horizontally, and we are also implementing country and region-specific digital gimmicks that we expect will grow bigger going forward. If we increase these kinds of low-risk businesses and they grow, we believe they will have a positive impact on RoR as well.

We are always studying being selective and focused, including small bases of operation, from the perspective of finding ways to more efficiently enhance earning power. That extension may mean quitting businesses themselves, but please understand that studies are never premised on selling.

SQ1: There are examples of large companies in Europe and the US focusing on specialization and narrowing their business areas and regions. We think this is due to a judgment that they aren't meeting the cost of capital. Do you think such an idea could occur at your company in the future?

SA1: In order to increase our corporate value, we believe we have to think about what strategy is best while keeping in mind the perspective you have pointed out.

Q12: If there are prospects of improving profitability at MS Amlin you're currently working on, will you consider large-scale M&A in developed countries like the US next? Also, in terms of timing, will that be an option in the current medium-term plan or in the next one?

A12: We are always looking at overseas M&A opportunities. The US, which is the world's largest market and is growing, is one target we've been investigating for some time. While we are naturally also investigating large-scale projects, this does not mean we are only targeting large-scale projects. The US market itself is a rich and diverse one, and thus our ongoing investigations of it include niche sectors as well. There are also several candidates, including DX projects, in Asia, where we are strong. The US and Asia are our priority regions, but we are still considering the appropriate timing.

Q13: While we believe that there are various ways to think about the strategic equity holdings risk amount, what are, not your current levels, but your ultimate prospects and targets?

A13: We set targets for the percentage of Group risk amount, and fair value percentage of consolidated total assets. There is also the concept of looking at it in comparison to net assets, however, since asset management at insurance companies utilizes insurance liabilities, it is, if anything, best to look at it in terms of total assets. In response to your question about what we will ultimately do, I don't have any particular answer at the moment, but we would like to consider the matter from a variety of perspectives.

Q14: We think that strategic equity holdings have become must less sensitive to risk. Should we interpret that to mean that so-called top and peak risks have been suppressed? We also believe that, in an environment of low interest rates, dividend income is undoubtedly an attractive source of income. What do you think?

A14: We keep our target for strategic equity holdings requests at less than 30% of group risk. Although, at 28.9%, we are achieving this target at the present time, we also recognize that the percentage of strategic equity holdings risk compared to our total risk is still large, and thus, to control risk, we likely face the issue of continuing to reduce our strategic equity holdings. We will discuss the pace of reduction internally in our process for formulating the next medium-term plan, and would like to show our decision in the plan.

As you point out, the allure of assets under management is that when you sell strategic equity holdings in exchange for other assets, you create an environment where it is difficult to obtain returns that equal stock dividends. As we aim for a portfolio that maximizes our return on risk, we will consider the risks the group can take from the perspective of risk taking.

Q15: In your interim results, you postponed the dividend increase and prioritized the share buyback. What is the thinking behind this, and what are the conditions for increasing dividends this term?

A15: We prioritized the share buyback because we recognize that the current stock price should be higher. We will determine dividends based on our financial results at the end of the fiscal year, our capital situation, and the economic outlook. We will meet the expectations of our shareholders with the idea of returning profits to shareholders based on stable and increasing dividend trends.