

## **MS&AD Holdings Conference Call (November 19, 2018)**

### **FY2018 2Q Briefing Q&A Summary**

**Below is a summary of the Q&A session from the IR conference call held on November 19, 2018.**

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

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

MSI : Mitsui Sumitomo Insurance Co., Ltd.

ADI : Aioi Nissay Dowa Insurance Co., Ltd.

MSI Aioi Life : Mitsui Sumitomo Aioi Life Insurance Co., Ltd.

MSI Primary Life : Mitsui Sumitomo Primary Life Insurance Co., Ltd.

MS Amlin : MS Amlin plc

ReAssure : ReAssure Jersey One Limited

Q1: Regarding the decision on additional provision for the catastrophe reserves on this occasion, what level did you adopt for the target balance of the catastrophe reserves? Also, what is your view regarding the provision ratio for next fiscal year?

A1: As the balance of the catastrophe reserve will be decreased caused by a series of large-scale natural catastrophes, we will make an additional provision to raise the balance of the catastrophe reserve to a certain level. We want to raise the balance of catastrophe reserve up to the level matching with the same scale of natural catastrophes losses, although we do not think that the same scale of natural catastrophes will occur next year. The balance at the end of the previous fiscal year will be a target in the sense that it has been funded to that level once. We will consider the target balance in light of our future policy on retention in the reinsurance arrangement and the state of the reversal of the catastrophe reserves for the current fiscal year.

Furthermore, we will consider the provision ratio for next fiscal year as a part of the consideration for next fiscal year's plan.

SQ1: Don't you think the provision amount will be insufficient if the MSI's provision ratio for fire insurance is kept at the current 5%?

SA1: We will take such points you mentioned in consideration.

Q2: As there have been many years when actual natural catastrophes have exceeded the assumptions in company forecasts, it seems your company needs to raise the assumptions of natural catastrophes and the provision ratio for catastrophe reserves. Raising the provision ratio would have a large impact on profit, so can we assume that the most likely scenario is that you will further accelerate the sale of stocks?

A2: We decide the assumed full-year amount for natural catastrophes in light of the expected amount calculated by the model and past actual losses. Therefore, this fiscal year's actual results will be

reflected in the assumption for next fiscal year. Moreover, our reinsurance arrangement will also have an impact. The provision ratio will be as answered before.

We do not necessarily determine the sale of stocks by considering only the balance of the catastrophe reserves. We will sell the stocks based on the plan.

Q3: What is the proportion of commercial lines in the net incurred loss of ¥184 billion from natural catastrophes? In addition, while fire insurance premiums will be raised in personal lines next year, will it also be possible to raise premium rates for commercial lines?

A3: We can not disclose the proportion of commercial lines in the net incurred loss from natural catastrophes because we did not calculate it separately at this time. Next, regarding commercial lines, we have been managing income on an expected value basis for some time and we have revised the premium rates by each policy in light of setting appropriate rates. Therefore, we may possibly raise premium rates for commercial lines as well.

Q4: How much are you expecting to recover from reinsurance on natural catastrophes for the full year?

A4: We expect to recover ¥279 billion for the three major wind and flood disasters.

Q5: One of the systems for claims reserves to deal with natural catastrophes is the system to fund ordinary claims reserves as well. Is this system applicable on this occasion?

A5: This time, both MSI and ADI prepared earnings forecasts while considering that it was not necessary to count in additional ordinary claims reserves.

Q6: Am I correct in understanding that even if there is substantial reversal of catastrophe reserves at the end of the fiscal year, the balance of the catastrophe reserves will exceed the minimum level?

A6: The catastrophe reserve system entails determining a certain reserve target and accumulating reserves. It is not a system that requires the specific amount in excess of the determined level.

The amount to be accumulated is not determined on a single fiscal-year basis. Rather, we will accumulate reserves by considering the reserve plan, etc.

Q7: What is the background behind the downward revision to MS Amlin's full-year forecasts? In addition, would you please explain the impact of the North American hurricanes and the recent forest fires in California, which has not been included in these actual results?

A7: The main reason is that we are expecting the degree of improvement in the incurred loss on non-cat risks to fall to around 70% to 80% of the level we forecast at the beginning of the year, mainly due to two factors. The first is that the competitive environment surrounding the non-cat risks business is still severe. The second is the reinforcement of supervision by Lloyd's in light of this severe competitive environment. This reinforcement of supervision has forced us to assume a more

conservative loss ratio.

Our estimate of the full-year incurred loss on natural catastrophes for MS Amlin is ¥17.6 billion. This factors in Hurricanes Florence and Michael, etc., but not the Californian forest fires. We are currently in the process of collecting information regarding the amount of damage from the Californian forest fires, but there are differences in terms of comparison with last year's forest fires in California such as changes on reinsurance schemes, and we believe we will probably be able to cover a certain amount of the losses from reinsurance.

Q8: The full-year underwriting profit/loss forecast for MSI has been lowered by ¥53 billion from the initial forecast. What is the factors for the change from the initial forecast for this underwriting profit/loss before reflecting catastrophe reserve and the impact of natural catastrophes for the current fiscal year?

A8: We revised the initial forecast in light of an increase in reinsurance premiums due to reinstatement additional premiums and an increase in major losses for fire insurance as well as previous fiscal-year natural catastrophe losses such as heavy snowfalls (Note: Regarding the above question Q8, we could not answer this in the teleconference and provide a response in this Q&A summary).

Q9: As several large natural catastrophes have occurred in Japan this fiscal year, how do you think the reinsurance cession costs will change for Japanese non-life insurance companies next fiscal year?

A9: Negotiations will take place from the end of the year onward regarding the cession program, which will be renewed on April 1, 2019, but while the actual results of the recovery of reinsurance in the current year will be reflected, the soft macro market environment will also have an impact. Negotiations are likely to progress in light of such factors. I cannot comment on whether costs will increase or decrease.

Q10: Why has the forecast for "investment profit and other" of domestic non-life insurance increased by ¥59 billion from the initial forecast?

A10: We provided a breakdown on page 35 of the teleconference materials. The main reason is that we raised the forecast for gains on sales of securities at MSI by ¥49.3 billion from the initial forecast.

SQ10: Am I correct in understanding that the increase in gains on sales is the result of flexibly increasing the sales amount in response to a rise in the stock market?

SA10 : In addition to gains on sales of stocks having increased due to the rise in the market, gains on sales have also arisen as part of our investment management.

Q11: At MSI Primary Life, earnings forecast are improving in the second half, with forecast ordinary profit and net income being raised by ¥7.9 billion and by ¥3.0 billion respectively. What is the reason for this?

A11: As MSI Primary Life sells foreign currency-denominated products, policy reserves on the liability side and foreign currency-denominated assets held on the asset side are strongly influenced by changes in interest rates and foreign exchange rates. For that reason, ordinary profit has been revised upward by ¥7.9 billion from the initial forecast. In addition, net income, which excludes the impact of interest rates and foreign exchange rates caused by the provision and reversal of the price fluctuation reserve, has been raised by ¥3 billion from the initial forecast. Because though profit has declined on a year-on-year basis, the first-half result was favorable compared to the initial forecast.

Q12: Group Adjusted Profit has been revised downward, but what is the reason for increasing the dividend in spite of this?

A12: MS&AD Holdings announced a management target calling for Group Adjusted Profit of ¥350 billion in FY2021. However, when engaging in dialogue with investors and analysts, we felt that some people had doubts about the probability of achieving this target because we had maintained our year-beginning dividend forecast. For the current fiscal year, we have been forced to revise down Group Adjusted Profit due to the impact of multiple natural catastrophes, but business performance excluding natural catastrophes is progressing steadily and MS&AD Holdings' management are confident about achieving the target in FY2021. We decided to increase the dividend during the fiscal year partly in order to fill the gap between the view of the stock market and the view of our management.

Q13: Assuming that 60% of this Group Adjusted Profit forecast of ¥180 billion is a source for shareholder returns, the source for shareholder returns amounts to ¥108 billion. If we then deduct the forecast dividend, there should be room to conduct a share buyback of around ¥20-30 billion. Why did you decide not to conduct a share buyback in the first half of the year?

A13: Our shareholder return policy is to return 40% to 60% of Group Adjusted Profit as a benchmark, and as we intend to conduct share buybacks flexibly, we do not actually decide to regularly conduct share buybacks in the first half.

Q14: While needing to make provisions for catastrophe reserves, which are substantially an internal reserve, how do you balance this with shareholder returns?

A14: We intend to meet the expectations of investors based on our shareholder return policy. We have not changed our policy to provide returns from Group Adjusted Profit (Group Adjusted Profit is not affected by catastrophe reserve provision losses or reversal gains), with 40% to 60% of Group Adjusted Profit as a benchmark.

Additional comment by MS&AD Holdings:

The forecast amount of sales of strategic equity holdings for the full year is ¥118 billion.

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