

# **MS&AD Insurance Group Holdings**

## **2nd Information Meeting of FY 2016 (Held on November 25, 2016)**

### **Q&A Session Summary**

**Below is a summary of Q&A session from the Information Meeting held on November 25, 2016**

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.

**Q1: Slide 39 states that your Vision is to create a world-leading insurance and financial services group. From your company's perspective, could you explain your numerical targets and strategies on and after FY2018?**

A1: The target of FY2017 for Group Core Profit is set at 220.0 billion yen and ROE at 7.5% in current Next Challenge 2017. We have not yet determined how many years the next medium-term management plan will take, but in terms of what we are aiming for in the medium-to long-term, we would like to aim for ROE of 10% level. When calculating how much earnings we need, I think this would be difficult to achieve with organic growth alone. In this respect, it is true that M&A is one effective option.

Therefore, I believe that aiming to create a world-leading insurance and financial services group is not enough to achieve numerical targets, but I think goals to achieved would be to have overseas ratio for 50% level of our business portfolio and ROE of 10% level. In the next medium-term management plan, we would like to be able to indicate a roadmap for achieving this if possible, so please understand that we are working toward this at present.

**SQ (follow-up): You have already been in line with the current medium-term plan, but do you believe the distance between you and your competitors or benchmark companies has been reduced?**

SA: In terms of distance to our competitors, we use companies such as AXA, Allianz and AIG as a benchmark for our ROE of 10% and the overseas ratio of 50%.

We will certainly carry out Next Challenge 2017 and be on a same level playing field in terms of ROE indicators and overseas ratio etc.at least in our next management plan

Looking at the present scale alone, we are in the best ten groups centered on

non-life companies in the Fortune Global 500. I believe that being in the best ten including bottom line will be required for superiority in terms of scale in order to challenge much larger-scale natural disasters in the future as well as new risks such as cyber security.

The three Japanese mega non-life insurance groups are expanding in slightly different regions overseas, and I think this sound competition will enable each of the groups to join the top-tier worldwide and drive the global market.

**Q2: The 2017 target for group core profit is set at 135.0 billion yen for the domestic business, but last time you mentioned that this takes into account the increase in consumption tax. The increase in the consumption tax rate has already been postponed, and some other companies have changed the figures in their medium-term plans based on the postponement of the tax hike. Please explain why you have not changed this numerical target this time.**

A2: The positive impact of the postponement of the increase in the consumption tax rate is expected to be less than 20.0 billion yen on a Group Core Profit basis.

However, the macro market environment has become unstable and both positive and negative factors will be expected in the future, and we have indicated 220.0 billion yen as a target for Group Core Profit without making any revisions because we would like to ensure that we surely clear the 220.0 billion yen mark.

**Q3: Slide 8 on “Domestic Non-Life Insurance Business” explains that there is still room for growth in the domestic non-life insurance business because the corporate and commercial sector will grow further centered on casualty class, but I suppose that the household and personal sector will begin to contract due to technological innovation and changes in risks. What are your thoughts on how much the ratio of household and commercial business will change when looking three or four years ahead, for example?**

**Based on this, could you provide a outlook on whether it is possible that your source of earning will increase further as the ratio of household and commercial business changes in the future, or whether it will eventually peak out in the medium-to long-term?**

A3: We have stated that our combined ratio will be 95% in the medium-to long-term.

In the relationship between an insurance company and consumers, we believe that the result of efforts to decrease the expense ratio will probably be an improvement to a stable level of around 95% when combined with the loss ratio.

The combined ratio that exceeded 100% for several years in succession three years ago resulted in weakened insurance companies, and we believe that this impedes the provision of coverage within Japan. With regard to the contraction and expansion of the market, in the range of the past

four or five years, the number of cars owned has not decreased, and although sales of new cars have been a little tough, and I think this trend will continue for some time.

Looking at the number of new housing starts, I don't think this will decrease suddenly. However, although I think the effects of the decline in the birthrate will undoubtedly emerge when considering a decade or two from now, there is no need to be too pessimistic when considering a range of the next four to five years.

In terms of the ratio of insurance premiums to GDP in each country, there will be room that penetration ratio will be up in Japan, especially for casualty sector more than property insurance. The penetration ratio of casualty is expected to increase.

The insurance business itself began with hull and cargo, and expanded to fire insurance and later in forms such as automobile insurance, aviation insurance. Fire insurance did not originally cover natural disasters, but it now mainly covers natural disasters, demonstrating that the insurance business has changed a role according to changes of risks.

I believe that the provision of coverage for risks is our *raison d'être*, and that the insurance business itself will be transformed if that role will be eliminated.

**Q4: Please explain why the ratio of penetration of insurance has been low in Japan as shown on Slide 8. Also, should the assumption that this will reach a level on par with Germany, for example, over the next five years actually be seen to be a realistic assumption?**

**In addition, assuming that the penetration rate increases, will Japanese players reap the benefits, or will it be necessary to consider the possibility that foreign players will enter in Japanese market?**

A4: The timing of the increase in the penetration rate of insurance in relation to GDP is largely dependent on the legislative system and social awareness of each country, so I don't believe it will change immediately.

We would like to propose insurance coverage able to cover a variety of accidents to make insurance more useful for everyone by developing each product with the approach that we can provide coverage for these kinds of things too. For example, in the high indemnity cases caused by bicycle accidents to be talked, both the injured party and the party at fault in a bicycle accident are covered by bicycle insurance if insured. I think our PR is not enough in this area.

I think we need to take steps to develop products ourselves, and make an effort to promote sales of by our agents and ourselves.

I would appreciate your understanding that we are not too pessimistic about the domestic market.

**Q5: The EI loss ratio for voluntary automobile insurance has decreased to the lowest level in the industry. (MSI: 57%, ADI: 55%)**

**Meanwhile, growth in the number of contracts is negative for both companies when only**

**looking at non-fleet figures. Please tell us the reasons you are struggling with these numbers of contracts.**

A5: We have proceeded with reorganization by function aiming for simultaneously achieving growth and improved efficiency, but we have not been able to really focus on all. One of the reasons the number of contracts decreased is that focusing on improvement of earnings had an effect on the decrease in the number of contracts. As for reorganization by function, initial plan for stage 1 was successfully completed, and we have seen a positive uptick, we will further enhance the initiatives to increase the number of contracts from second half of this fiscal year.

**SQ (follow-up): As for the revising voluntary automobile insurance premiums next year if possible, could you explain how you will differentiate these in terms of what area you will focus on to increase the number of contracts?**

SA: It has been reported in newspapers and other media, we have released voluntary automobile insurance for young people and focused on young customers, however our premiums were somewhat inferior to those of other companies. We are aiming to improve on this point and further develop young customers.

**Q6: Please explain two points regarding the business expansion in Asia relating to Slide 30. First, please explain your thoughts on the future business development in Australia. Also, please describe your thoughts on business in India. India has made significant policy swing in order to reduce structural inflationary pressure and increase India's ability to grow in the medium to long term. At present, the economy is extremely disrupted and share prices are depressed, but I personally think it is a very good opportunity to invest in the long term. In particular, I think your company will become a major life insurer in India in the future. What is your stance and thinking concerning additional investment in India at the present time?**

A6: First, in the Australian and New Zealand, we have an alliance with QBE, meanwhile, ADI is expanding in retail business in cooperation with Toyota. The Australian market is appealing but the non-life market is an oligopoly. I don't think it is a situation in which we can intentionally make an acquisition to gain a dominant position in the market, so our non-life business in Australia will basically involve expanding through the alliance with QBE. Meanwhile, we would like to proceed in step with Toyota in the retail business.

We are conducting our non-life business in India with Murugappa Group based in Chennai and have increased our investment ratio from 20% to 40%. We also steadily increasing our involvement in management through measures such as dispatching directors.

Meanwhile, we are operating our life insurance business in New Delhi, and although we are in

talks with a merger with HDFC, this has not reached the stage of receiving approval, and we are not able to make any official disclosures. We will become the second largest life insurance company if the merger with HFDC goes through. Our investment ratio has decreased slightly, we would like to consider whether we will further increase our investment ratio in the future once the merger has been completed.

We are steadily conducting both life and non-life business with reliable local partners, and would like to move forward in step with India's development.

**SQ (follow-up): With regard to Australia, is it correct to understand that at present, you basically do not have any intention to do business in areas other than non-life insurance, such as annuities and wealth management?**

SA: Please understand that we are not considering areas other than the non-life insurance business at the present time.

**Q7: Other mega non-life insurers have plans to strengthen specialty business in the USA. Could you tell us about your plans?**

A7: The United States is the largest insurance market, and we have responded to interviews from the media saying that we would like to carry out M&A if there are any good deals.

However, we do not intend to make acquisition a goal in itself. Amlin already has a large portfolio in the specialty area in the USA, and we are not thinking about buying know-how through acquiring a company. However, we will consider companies that have excellent risk management and will complement areas where we remain weak such as guarantee insurance, political risks and agricultural insurance.

As we aim to reach the top level globally in our next plan, we will continue to look for opportunities, since the reality is that we won't be able to reach the desired level of profit through organic growth only.

**Q8: I have the impression that overall fluctuations in the market have been amplified in the form of Amlin's net investment income being affected.**

**In the calculation of Group Core Profit, you have excluded capital gains and losses in domestic non-life insurance, but is it possible that you will consider making some form of adjustment for Amlin's net investment income?**

A8: In line with the British accounting rules, in the calculation of Amlin's net investment income market value fluctuations are reflected in gains and losses as they are, but no adjustments are made in the calculation of group core profit (\*). With regard to whether we will include capital gains and losses on shares in domestic non-life insurance in the future, some rival companies have already taken this step, but we do not have any plans to change the definition of core profit

at the present time.

Please understand that we would like to consider this based on discussions with investors while monitoring ESR targets and future international accounting standards in our next plan.

<Correction>

In the explanation given at the meeting, our comment could be construed that Amlin's net investment income marked with an asterisk (\*) above is excluded from Group Core Profit, but it is actually included and a correction has been made.

**Q9: Originally, the target for ESR was 200%, but it is my impression recently that you don't necessarily need to return to 200%, and the range of 135%-200% is acceptable. In the briefing materials of the Information Meeting six months ago, there was a slide stating that ESR would exceed 190% by FY2018, but this time it is not mentioned. I would like you to confirm whether your view on ESR has changed from before.**

A9: ESR is 169% as of the end of September, but we will take steps such as reducing equity risks and accumulating earnings towards the end of the fiscal year, and we forecast to recover by around 6 points. After reaching 200% in end of March, 2015, it fell by over 20% with the acquisition of Amlin, but I think we will be able to recover to the 200% level by FY2019 through such factors as the accumulation of earnings and further reduction of strategic equity holdings.

**Q10: You are accelerating the sale of strategic equity holdings, and I think you are expected to sell more than 100 billion yen over the year. The two other mega non-life insurers are also selling at a pace of around 100 billion yen per year.**

**In the next medium-term management plan, will you maintain the pace of 100 billion yen per year, or will you continue with the pace that has been accelerating?**

A10: In the medium term, we would like strategic equity holdings to account for no more than 10% of the Group's total assets.

They currently account for around 12%, so we need to reduce the remaining 2% with a sense of speed and ensure this falls within 10% as soon as possible.

When comparing the three mega non-life insurers, I think our group has the highest weight of strategic equity holdings, so we would like to speed up the sale.

Meanwhile, we have already sold 1.5 trillion yen in strategic equity holdings since 2003, and the most heavily weighted Mitsui Sumitomo Insurance is around half of the level of its peak in 2001. In terms of reducing the amount of risk, please understand that we are steadily fulfilling our commitment to investors regarding the sale of strategic equity holdings.

We will ensure the execution of the sale of 500 billion yen during the current medium-term management plan. Of course, we would like to do this with the understanding of issues, and we

would also like to lower the level to 10% of total assets in our next plan.

**Q11: Your company basically uses a confidence interval of 99.5% for ESR, which is presently at 169%. The other mega non-life insurance groups have also begun to release figures with a confidence interval of 99.5%, and when comparing the three mega non-life insurance groups, one group has a very high number and another has a low number obtained by deducting restricted capital.**

**When comparing apples to apples, your company's figures seem low, could you explain any characteristics of the method you use for calculation?**

A11: The confidence interval of 99.5% is, by international standards such as Solvency II, a sufficient level for once in 200 years. ESR is calculated using internal models, and we understand that the content of these is not necessarily the same in each company. The risk factor is probably different, and we make comparisons on a Solvency II basis and an internal model basis, but based on our past experience, we may perceive equity risk somewhat conservatively. However, this is carried out in coordination with our Risk Management Department, and these figures have been set as being necessary for our risk management.

**SQ (follow-up): If you were to conduct an M&A deal now for 500 billion yen, do you have a specific image of, for example, how much funding you would want through subordinated bonds?**

SA: Rather than adopting an approach of how much we would like to direct toward M&A, we would like to conduct M&A if the M&A would enable diversification of risk, create business synergies and lead to the medium- to long-term development of the Group.

For example, our capital buffer is currently just under 2 trillion yen, and we can determine the extent we can invest within if we exclude our own minimum buffer from this. Even if ESR is somewhat down for a short period of time, we would like to execute such deals if it is a good chance to expand earnings and ESR can be raised in the long term.

Our policy is to focus on Asia and also work in Europe and the Americas.

However, rather than doing everything by ourselves conducting M&A, etc., we would like to act efficiently by utilizing alliances as much as possible in places such as Africa and Central and South America.

We cannot become number one in every region, so we are focusing on Asia and Lloyd's as our main focus. We would also like to take action in the United States if a good opportunity arises because it is the largest market. I think we have some room to think with flexibility at the present stage.

I will say this to avoid misunderstanding. We by no means have an intention to keep ESR down because we do not want to increase shareholders returns. I think it is just that we are being somewhat conservative to aim for a level which we can stably build in the medium to long term to the level of ESR 200% that is equivalent to AA rating. We are now conducting a comparison of internal models with Amlin and have found that we are too conservative in some areas, while there are areas where we are conversely a little too lax. We would like to evolve by making such adjustments.

**Q12: You announced the share buybacks of 30 billion yen in October, with regard to shareholders returns, when calculating back from the total shareholder return ratio of 50%, it means that the remaining funds available for share buybacks have fallen below 10 billion yen for this fiscal year.**

**However, the total shareholders return ratio of 50% is simply a guideline or target for that time, so could you tell us about its flexibility?**

A12: As you can see in the table on Slide 37, it is flexible in the medium term, and not necessarily fixed at 50%.

As for dividends, our basic policy is to maintain stability, and we aim to increase our dividends in the medium run. Meanwhile, we will repurchase our own shares flexibly, and as opportunities arise with due consideration to market conditions and the state of our capital.

Your calculation indicating that we currently have 10 billion yen available is correct. However, earnings may increase, and if we see an opportunity to repurchase more our own shares based on market conditions such as the share price, we will carry this out as opportunities arise and in the medium run within our commitment to investors. We basically want to meet your expectations.

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