MS&AD Insurance Group Holdings
2nd Information Meeting of FY2019 (Held on November 27, 2019)
Q&A Session Summary

The Q&A Session Summary at the Information Meeting held on November 27, 2019 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: MS Amlin plc

Q1: Please explain the reason why the overseas operation of ADI would not integrated in the reorganization of the international business. In addition, please let us know whether the group has the direction that the two domestic non-life insurance companies be integrated in the future?

A1: The telematics and mobility service business and the Toyota retail business as ADI's international business are operated in collaboration with Toyota Motor and they would not included in this reorganization because it is necessary to be consistent without separating domestic and international business in ADI due to problems with a variety of schemes and systems.

First, we planned to reorganize the international business of MSI and established a system directly managed from the head office, but we are thinking the next step. We will continue to monitor the environment while considering options enabling organizational strength to be best exhibited, acceleration of growth, and greater efficiency.

We have not discarded the option of a merger of MSI and ADI, but if the combined ratio of the domestic non-life insurance business is below 95 percent as it is at present, we believe there will be a greater effect on earnings by capturing the needs of customers to accelerate growth rather than temporarily slowing growth by proceeding with a merger prioritizing efficiency.

Meanwhile, we have other options for improving efficiency including promotion of sharing by the Group to prepare for merging and separating certain functions. In the future, we will also have the option of business models by business type based on the current format if separation is easier for customers to understand once digitalization progresses and the business structure of various business models changes.

In any case, I don't think it's time to stop growth and improve efficiency. As a matter of fact, both MSI and ADI have grown steadily in line with market needs, and have shown to be at the top level in terms of revenue growth. There is a common understanding within the Group that if the combined ratio exceeds 100% and efficiency becomes the most important issue; we will be able to merge immediately.

Q2: The target for Group adjusted profit of the international business is 117 billion yen for FY2021. The target for Group adjusted ROE is 10 percent for FY2021. How will this reorganization of the international business help you achieve these targets?

A2: The goodwill impairment loss brought about by this business reorganization and the decrease in future depreciation of goodwill have not been reflected in Group adjusted profit, but the cost reduction of 10 billion yen will have a positive effect on the amount after tax. In any case, we believe that we will need to reform our growth strategy in the international business in Stage 2 because the profit recovery of international business has been delayed as a whole.

Although it is necessary to re-examine the target of Group adjusted ROE of 10 percent due to fluctuations caused by factors such as the occurrence of natural catastrophes and the reduction of strategic equity holdings in addition to fluctuations in adjusted net assets, we will proceed to consider this to enable the target to be achieved by the end of FY2021.

Q3: What is the forecast for the reinsurance business? In addition, can we assume that the enterprise value of MS Amlin's reinsurance business remains unchanged since the time of acquisition?

A3: Reinsurance premium rates have risen by double digits both last year and this year for some lines. Furthermore, in addition to the rise in premium rates, we believe that the reinsurance market continues to be promising due to the overall growth of the market achieved by incorporating growth in emerging countries.

In this environment, MS Amlin prudently selects business for underwriting by devising a method of underwriting natural catastrophes to minimize the impact on periodic profits and losses. MS Amlin also works to balance regions for taking risks for underwriting appropriately.

We believe that these initiatives will enable us to grow reinsurance revenues while striking an appropriate balance with general risk.

As you can see, reinsurance companies have grown in line with the Group's expectations at the time of the acquisition, and we recognize that their corporate value has not declined since the time of the acquisition.

Moreover, as you know, the reinsurance company has grown as we had expected at the time of acquisition, and it is our view that its enterprise value has not declined since when it was acquired.

Q4: What do you think the highlight of cost reductions in Stage 2 will be? You have stated that you can reduce costs by 10 billion yen simply by terminating the overseas regional holding companies under MSI, but are there any other areas with the potential to enable such cost reductions?

A4: We plan around 10-billion-yen cost reduction associated with the reorganization of international business. It includes cost reduction by MS Amlin. For example, there are operating companies for Lloyd's, reinsurance, and European direct insurance under the holding company and they form a single group, but the functions that had been required of the holding company for this, such as the functions of consolidated accounting and management of subsidiaries, will no longer be required as they become directly controlled by the head office, therefore the personnel and non-personnel expenses related to these can be reduced. The same also applies to the regional holding company in Asia. As for cost reductions in the domestic non-life insurance business, the system investment we have conducted to date that has been completed during the current medium-term management plan will have an effect. The contribution to profit has a delay of six months to one year after release, but the effect lasts for several years. Specifically, we expect to save approximately 15 billion yen per year by reforming the online systems, and approximately 12 billion yen per year through the joint claims services system, “BRIDGE”.

Q5: What is the percentage of domestic natural catastrophes’ risk in relation to the total risk? You have disclosed the risk percentage of strategic equity holdings, so I would appreciate it if you could explain the amount of risk for fire or domestic natural catastrophes in the same format. In addition, how can you reduce these risks other than by raising direct premiums as the cost of reinsurance is expected to rise?

A5: The total amount of risk underwritten in domestic non-life insurance was approximately 480 billion yen as of September 30, 2019, and natural catastrophes such as windstorm, flood and heavy snow accounted for just over 370 billion yen. As for the risk of domestic natural catastrophes, we basically control the risk based on the effective reinsurance. This fiscal year, we introduced joint reinsurance coverage of MSI and ADI to standardize the level of retained risk within the Group.

We will seek the best method from the perspective of economic rationality and ROR for addressing a possible change in reinsurance premiums at the renewal of the contract next fiscal year.

Q6: The reinsurance premium rate for typhoon risk is forecasted to rise around 10 to 20 percent next fiscal year. How do you intend to respond to the expected increase in reinsurance costs?

A6: We are now discussing for more efficient reinsurance scheme for the entire Group and preparing for the next renewal, which includes variety of reasonable reinsurance coverage, joint arrangement by MSI and ADI, reinsurance coverage to reduce fluctuations in periodical profit and loss, and will create a reinsurance scheme to improve ROR and earnings based on economic rationality.

Meanwhile, reinsurers do not provide coverage for domestic risks in Japan without mutual trust with them. In order to maintain stable relationships with reinsurance companies, the Company needs to set insurance premiums at an appropriate level in the direct insurance business in Japan and thereby cede to reinsurance companies at an appropriate rate. In some cases, it will be necessary to raise premium rates. In addition to this, as a direct insurance company, we believe it is necessary to provide advice on loss prevention and loss mitigation to companies and individuals, and to propose the renewal of aging facilities and the introduction of loss prevention equipment.

Q7: Corporate properties suffered considerable damages in various regions nationwide due to natural catastrophes. Do you have any plan to raise the premium rates of fire insurance for corporate market in the future?

A7: The premium rates for large companies are arranged one by one on their conditions, and their rates and conditions are revised depending on the loss ratio on their policy renewal every year.

Regarding condominium management associations for older properties with high loss ratio, we are dedication increase ROR of the business by raising premium rates and revising insurance conditions which include setting deductibles.

Q8: Can you expect a timeline where profitability of fire insurance quickly becomes positive? In addition, what is the momentum of the industry?

A8: We had planned to have underwriting profit of around 13 billion yen and for fire insurance to become positive by FY2021 through the product revision in October, but it has become quite difficult to make a profit during the current medium-term management plan due to factors such as the increased burden of reinsurance premiums associated with the occurrence of natural catastrophes last fiscal year and this fiscal year. In particular, the contract periods of many fire insurance policies for individuals are long-term, and it takes considerable time to take enough effect by revision of premium rates. Meanwhile, we will pursue to recover profitability during FY2021 by providing loss prevention and loss mitigation, and appropriately raising premiums, for corporate markets. In the medium to long term, we would secure earnings in fire insurance by the initiatives including designing products that enable the combined ratio in this area to reach 95 percent, loss prevention and loss mitigation, and appropriately increasing the insurance premium.

Q9: I believe there is a mismatch of coverage and payment for major transportation companies and railway companies which are unable to adequately recover insurance claims from their insurance policies. What is your company's view on this matter?

A9: We provide as much coverage as possible based on appropriate insurance premiums and conditions for what we are able to underwrite as an insurance company when companies appropriately recognize their risks and share them with the insurance company. If a mismatch does occur, it may be due to insufficient explanation on our side, but in order to avoid such mismatches as much as possible, we will continue to endeavor to implement efforts in accordance with our business model of finding risks, conveying them to the customer, and proposing appropriate risk solutions.

Furthermore, this fiscal year, we have begun fully utilizing RisTech, which uses the latest technology to analyze past data, predict what kind of accidents will occur, and make proposals to corporate customers. This is a business aimed at loss prevention and loss mitigation while simultaneously considering new ways of applying insurance by matching the loss data we have accumulated with each customer's internal data to predict future risks in their business or their industry.

Still around 70 percent of individual customers have insurance coverage for flood risks, so that we are endeavoring to provide insurance for flood risks. We will continue such efforts to enable the stable provision of insurance coverage in the future.

Q10: The forecast for net income in FY2019 remains unchanged at 200 billion yen. However it appears that you are fixated on the accounting profit of 200 billion yen, such as providing an additional catastrophe reserve for MSI but not for ADI. Will you continue to fixate on achieving the initial forecast of 200 billion yen by changing the amount of the additional provision of catastrophe reserve or increasing gains from the sale of strategic equity holdings if an unexpected event occurs in the future?

A10: Our stance of working with an awareness of both accounting profit and Group adjusted profit remains unchanged. The reason why we have not changed our forecast for net income is that we determined that we fully expect to have income of 200 billion yen by taking steps such as the reversal of the catastrophe reserve. Even if an unforeseen event occurs, we will continue to take action with awareness of the achievement of our earnings forecasts.

We are aware that the catastrophe reserve for fire insurance is currently somewhat inadequate, which is why we made an additional provision of 30 billion yen in the catastrophe reserve for MSI. The reserve ratio of ADI was set high at 12% from the beginning of the year, and we do not believe any additional provision will be required under the current conditions. Our forecast for net income has remained the same, but we may change the amount of the additional provision to the catastrophe reserve if an event such as heavy snow occurs.

Q11: How much funding surplus do you think you have due to hybrid bonds? Assuming the execution of M&A at a level of around twice the PBR, what is the size of an M&A you could execute? In addition, would it be possible to perform a larger acquisition by taking additional action such as reducing the risk of strategic equity holdings?

A11: Our current capital buffer is just under 2.2 trillion yen, and we have an M&A investment surplus of around 100 billion yen assuming that we maintain an ESR of 180 percent or higher and do not perform any special procurement of funds or risk reduction, etc. Meanwhile, it is possible to be more flexible about the M&A investment surplus considering risk reduction by taking steps such as reducing strategic equity holdings, accumulating earnings, and the earnings arising from new investment.

It is our view that funding through hybrid bonds is possible up to around 500 billion yen. Our basic policy is to perform M&A with our own funds or by using procurement methods traditionally deemed to be economically reasonable when procuring funds and this policy will remain unchanged.

Q12: Can we expect shareholder returns in FY2021 to be 40 to 60 percent of Group adjusted profit of 350 billion yen as initially forecast?

A12: Our targets for Stage 2 are to achieve Group adjusted ROE of 10 percent and maintain ESR in the range of 180 to 220 percent, and our policy of stably providing shareholder returns in the range of 40 to 60 percent of Group adjusted profit remains unchanged.

Q13: Please explain your view on shareholder returns for the full year.

Do you make your decision with the expectation value (total return calculated by applying 50% of the median value between 40% and 60% of the shareholder return policy to the group's revised profit for the initial forecast) from the beginning of the year in mind? In the previous fiscal year, in response to the occurrence of large-scale natural catastrophes an upper limit of 60% was applied on the total return ratio. Will this approach be the same in the current fiscal year?

A13: We intend to provide returns in the range of 40 to 60 percent, but we will try to meet investors' expectations by using the upper limit as much as possible if we make a downward revision to Group adjusted profit.

We have also shown such a positive approach to shareholder returns through the repurchase of our own shares valued at 20 billion yen during this interim period.

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