

## **MS&AD Holdings Conference Call (August 8, 2023)**

### **FY2023 First Quarter Results Briefing - Q&A Summary**

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: Total of AUL, MS Re, AISE, ACS and other businesses

AUL(MS Amlin Underwriting Limited), MS Re (MS Reinsurance \*),

AISE(MS Amlin Insurance SE), ACS(MS Amlin Corporate Services Limited)

\*Brand name launched by MS Amlin AG in September 2022

**Q1:** I would like to ask you about the news reported . What is the Group's approach to dealing with the two problems of price-fixing for the renewal of coinsurance policies and Bigmotor's fraudulent insurance claims? Also, can you tell us whether this issues have a significant impact on fire insurance and voluntary automobile insurance's future price increases, and whether it is serious enough to lead to a review of business practices in the medium to long term?

**A1:** First of all, we take the inconvenience and concern caused to our customers and people in the market very seriously, and we sincerely apologize. We recognize that we, as a group, need to give top priority to dealing with our customers regarding each issue. We conduct fact-checking, customer response, and analysis of the cause, and based on the results, we strive to prevent a recurrence.

At this time, we do not anticipate that these issues will have a major impact on the revision of rates for fire insurance and voluntary automobile insurance.

Also, whether it leads to a review of business practices, coinsurance is a system that is convenient for both the insurance company and the customer. For an insurance company, it works very effectively in terms of risk diversification and risk management. Without coinsurance system, when customers insure for huge risks, they will be forced to divide the risks in various ways. It is not impossible that one insurance company takes huge risk and arrange reinsurance, but in that case, there is a possibility that it will be difficult to secure sufficient capacity in a stable manner unless reinsurance is properly prepared. In this sense, I assume that the current coinsurance system will not be changed easily.

Next, the purpose of the automobile repair factory induction system is to introduce good factories to customers who have suffered an accident. We deeply regret that this problem occurred at a place that we had certified as a good factory. However, if the factory that we have introduced is a good factory, customers who suffered an accident will be able to repair it quickly, and it will also be possible to repair it with high technology at a reasonable price. Therefore, we think that it is also meaningful to continue this while taking various measures to prevent this problem from occurring.

**Q2:** Loss ratio in voluntary automobile insurance seems to be getting worse than planned. Since the ADI is getting worse, I think the reinsurance inward from overseas entities is

probably getting worse. Please tell me how much the accident frequency and average payout per claim deviate from the plan in Japan.

A2: On the right side of the document page 25, we have listed voluntary automobile insurance's loss ratio of MSI and ADI, excluding natural catastrophes. While MSI is up 5.1 points from the same period of the previous year, ADI is up 8.4 points. However, if we exclude the reinsurance inward from overseas entities, it is up 5.5 points. Now, when combined with MSI, the increase of 6.8 points described in the document on page 24 is up 5.3 points.

Compared with the initial plan, the accident frequency and average payout per claim are the unit prices of the vehicle damage and property damage liability coverage, both of which are above the assumption. Regarding the accident frequency, we planned a slight decrease in the full-year plan and a 2% point decrease in the first quarter, but on the contrary, it increased by 2% point. For average payout per claim, we planned a 3% point increase in the first quarter, but it increased by 7% point.

SQ1: How do you recognize the cause of the deviation from the plan? As for future trends, should we focus on them as factors to be aware of for the full year plan? Also, other insurance companies have announced that they will raise prices in January 2024, what is your view on voluntary automobile insurance's premium revision?

SA1: We are very concerned that average payout per claim has significantly exceeded its plan, but we expect that the frequency of accidents will settle down to a certain extent toward the end of this fiscal year.

There is no doubt that the rate increase in voluntary automobile insurance is a necessary situation, but we will carefully consider it in light of recent media reactions, and we will inform you about the timing and details of the insurance rate revision once we have decided.

Q3: In response to the reports on the media, please tell us your current thoughts on the impact on financial management, including shareholder returns, from a short-term and medium-term perspective.

A3: At present, we believe that the financial impact of the issues which have been reported on the media will be limited in both the short and medium term. We intend to respond to the shareholder returns in line with the information already announced.

Q4: Regarding fire insurance in MSI, I am aware that the loss ratio was high due to large accidents last year. EI loss ratio decreased compared to the same period of the previous year, but the actual loss amount was high compared to the same period of the previous year even excluding the effects of natural catastrophes. What are the factors behind this? Please tell me about the details of incurred losses of overseas natural catastrophes at ADI, since they are also higher than the initial forecast.

A4: With regard to fire insurance losses at MSI, excluding natural catastrophe losses and the impact of foreign exchange rates, we believe that the level is about the same as the same

period last year. Incurred losses arising from natural catastrophes have actually decreased.

The losses of overseas natural catastrophes at ADI were also affected by Typhoon No. 2 at overseas entity, resulting in an increase from the same period last year.

SQ1: As for MSI's fire insurance losses, there were large accidents last year, and as a result, the fire insurance losses should be reduced compared to 1Q result in last year.

SA1: Since MSI has adopted simplified loss ratio calculation method, the incurred loss was calculated by taking into account past loss ratio trend. Therefore, it does not mean that the loss amount decreased as a result of last year's large accidents.

SQ2: Is it correct to understand that there was no large accidents?

SA2: That's correct.

Q5: As MS Amlin adopted IFRS17, interest rate fluctuations have greatly affected changes in fair value of insurance liabilities. What is reference interest rate used here? Also, please tell me the number of years of duration of liabilities and whether market valuation fluctuation of insurance liabilities will be eliminated if the mismatch between the duration of assets and liabilities disappears in the future.

A5: MS Amlin's debt duration is dollar-centric/roughly 3 years. The first quarter was impacted by a 20~30 basis points decrease in interest rates. We are currently working on asset/liability duration matching, and the impact is expected to decrease in the future.

SQ1: The impact of changes in insurance and liability in fair value appears to be very large year-on-year. Is it possible to deduct the impact of this change in fair value in the calculation of group adjusted profit in the future?

SA1: Until now, profit and loss of MS Amlin were directly reflected in group adjusted profit, including the impact of marked to market. MS Amlin's handling of the impact of interest rate fluctuations in group adjusted profit will be considered as a continuing issue.

Q6: The reduction of strategic equity holdings in Japan seems to be progressing at quite a high pace, selling 51.2 billion yen in the first quarter. Please tell me whether there are many sales plans for the first quarter in the full-year budget and whether the reduction of target for the full year is expected to increase.

A6: The progress rate of strategic equity holdings sales is currently high, but target sales amount for the full year remains unchanged.

- Q7: Was the -30 million pounds of interest rate changes in MS Amlin's insurance finance expenses factored into the plan at the beginning of the year? Do you think that you are making progress in ALM matching by prolonging the duration of assets, and as a result, you will not be able to fully recover the losses incurred in the first quarter, even though interest rates increased in the second quarter?
- A7: Interest rate fluctuations are not factored into the beginning of the year plan. The negative impact of the increase in interest rates between April and June is expected to decrease, because the prolongation of duration of the asset side is being executed gradually.
- Q8: With regard to MS Amlin, if we calculate the profit and loss on insurance services on a base excluding natural catastrophes, the full-year forecast is 560 million pounds, while the first-quarter result is 89 million pounds, which is far from the full-year forecast. What are your thoughts on this point?
- A8: The progress of earned premiums is not proportionally in MS Amlin and the second half earned premiums will be bigger than the first half. Therefore, the first quarter insurance service profit and loss and the conventional underwriting profit tend to be lower. In addition, the proportion of the earned premium booking in the second half year will be getting higher because of the large increase in written premiums now.
- Q9: With regard to Mitsui Sumitomo Primary Life Insurance, the impact of interest rate and exchange rates remained positive at 2.7 billion yen, but quarterly net income was 14.3 billion yen. Does this mean those profits increased due to target hits caused by the weak yen?
- A9: In the first quarter, target hits occurred, which is positive compared to the plan. However, since target hits also occurred in the previous year, the main reason for the positive quarter over quarter is the increase in profit margin.
- SQ1: Is it fair to assume that the profit above the first quarter estimate will remain on a full-year basis?
- SA1: As you understand, the portion of the increase in profit margin is shown as actual figures. However, the impact of interest rates and foreign exchange rates are still highly volatile, and under the current structure, interest rate increase is negative and yen depreciation is positive. If interest rates and foreign exchange move in an unfavorable direction, there will be losses.
- Q10: Please tell us about the progress of MSI and ADI in first quarter compared to the plan on page 22. With regard to investment, we can understand that the progress of MSI and ADI is good against the plan, both in individual and in aggregate, due to the reduction of strategic equity holdings. In terms of underwriting profit, MSI recorded 23.4 billion yen in the first quarter, 58 billion yen in the full-year plan, ADI recorded 3.6 billion yen in the first quarter, and 50 billion yen in the full-year plan.

A10: In terms of the underwriting profit, in domestic business, the impact of natural catastrophes, mainly Typhoon No. 2, and losses in voluntary automobile insurance were slightly higher, so underwriting profit in the first quarter was in a difficult situation. On the other hand, in investment, under favorable market conditions, the progress of the sale of strategic equity holdings has been rapid and we have made a profit on the sale. Although it is difficult to say what the quarterly figures are relative to the full year due to the timing of natural catastrophes, we recognize that the underwriting profit is slightly lower than the plan and higher than for investment.

SQ1: The underwriting profit before catastrophe reserve is shown in the document on page 21. According to this, the underwriting profit of MSI is 19.6 billion yen, which is good progress against the full-year plan of 70 billion yen, and ADI is lower than the plan. How should we understand this?

SA1: As I explained earlier about overseas natural catastrophes, ADI is different from MSI in that part. As for voluntary automobile insurance, both companies have the same trend in Japan, but there is a difference with MSI overseas, and there is a difference between MSI and ADI in terms of divergence in plans.

Q11: Regarding the news which has been reported on page 2 of the document, please tell us what kind of discussions are being held at the board of directors. In addition, it has been reported that Fair Trade Commission has started questioning four non-life insurance companies. Please also tell us what kind of discussions are being held regarding what is suspected to be contrary to the public nature while each company is trying to resolve social issues.

A11: At board of directors at holding company, the discussion has been made about how to take actions at MSI and ADI. As I said at the beginning, it is important for holding company to monitor the proper functioning of this cycle, in which MSI and ADI conduct fact-checking and analysis of the cause of this incident, and take sincere measures to deal with customers and prevent recurrence. As I said at the beginning, holding company takes it seriously that they have caused customers and the market various annoyances and concerns regarding matters that are contrary to the public interest. We recognize that it is of utmost importance to fully respond to customers, and we intend to promote various initiatives.

SQ1: Is it correct to understand that when detailed survey results are released, we will come up with specific monitoring methods and measures to prevent recurrence?

SA1: That's right. We are still in the process of investigation, but we will analyze the true cause based on the results of the investigation and take measures to prevent recurrence.

Q12: With regard to the profit until the first quarter of 2023 or until around July, please tell us the progress evaluation and the achievement possibility of the group adjusted profit plan (350

billion yen).

A12: In the first quarter, there were a lot of losses due to natural catastrophes both in Japan and overseas, and although it was a difficult situation, investment, which was doing well, covered these losses. Domestic life insurers posted high first-quarter earnings despite volatility at Mitsui Sumitomo Primary Life Insurance Co., Ltd.. Although international business's progress rate appears to be low, its insurance services profit and loss, particularly at MS Amlin, have generally progressed as planned, and as a whole, we believe that the company will be able to meet its plan. In addition to natural catastrophes and market fluctuations, we recognize that loss ratio in voluntary automobile insurance needs to pay close attention.

Q13: ESR has increased significantly since the end of March 2023, but if it approaches or exceeds 250% due to macro impact or accumulation of internal reserves, can we expect that the timing to consider shareholder return will come soon?

A13: Based on the disclosed shareholder return policy, we will consider the possibility of additional returns.

SQ1: Recently, the domestic 30 year interest rate has risen. Could you tell me whether the interest rate rise is positive for your company in terms of ESR?

SA1: The current ESR interest rate sensitivity is positioned to negatively affect the ESR regardless of whether interest rates rise or fall, partly due to the impact of tax effect.

Q14: Regarding the issue of price fixing, is it correct to understand that insurance premiums for corporate fire insurance are not high? Also, under domestic law, I think there is a possibility that it will become an illegal action, then, is there a situation that reinsurance will not be triggered due to breach of reinsurance contract?

A14: Basically, the insurance rate is determined by underwriting for each case, and in addition, the rate is determined by the insurance conditions, so we think the insurance rate is appropriate for each case.

I think you can understand that there is basically no case in which a reinsurer does not have to pay reinsurance claims. The reinsurance contract is called Follow the Fortune, but if the original insurer pay under the terms of the original contract, the reinsurer basically pays, so we do not expect that this case will make it difficult to collect the reinsurance claim.

Q15: Regarding MS Amlin, at the briefing held in May 2023, you said that there is room for upward, but in this briefing, you said that the progress is as planned. Where is the gap? Also, please tell me sensitivity of interest rate fluctuations.

A15: In the first quarter (January-March) of MS Amlin, in addition to the impact of a decline in interest rates, there was a transient negative impact due to the transfer of insurance

liabilities in previous years. The former is expected to recover a certain amount by an increase in interest rates from April to June, but the transient impact is not considered to be recovered.

On the other hand, as the increase in insurance premium rates is larger than expected, there is still a possibility that the second quarter and future contracts will be able to be underwritten at a favorable level, and that profits will rise as earned premium's increase. As for risks, although ALM is being matched, market fluctuations will be affected to a certain extent, particularly in investment, and I would like to keep a close eye on them. Interest rate sensitivity will be reported in due course.

<Supplement explanation>

At MS Amlin, each entity has assets and liabilities in multiple currencies and for various duration. At present, it is difficult to show sensitivity against interest rate fluctuations because the matching between assets and liabilities is increasing.

In the first quarter of 2023, the average interest rate of major currencies fell by about 25 basis points against the average duration of insurance liabilities.

This resulted in an impact of -£30m on insurance finance expenses (interest rate fluctuations).

Q16: Regarding natural catastrophes in Japan, I understand that there have been heavy rain and hail disasters in various places since July. Please let me know if you have a tentative estimate of the loss amount. Also, please tell us your current thinking on whether there is a possibility of increasing the overall natural catastrophe budget for the full year based on this.

A16: Since July, we are still in the process of totaling natural catastrophe losses, and we are not at the stage where we can present specific figures. Depending on the content, we would like to consider whether the annual plan needs to be revised.

Q17: Regarding strategic equity holdings, you explained that the amount of strategic equity holdings sold in the first quarter is an advance of the full-year plan. If the underwriting profit of domestic non-life insurance declines from the plan due to the factors of voluntary automobile insurance loss ratio and natural catastrophes, could you tell us whether there is a possibility of raising the amount of target sold in strategic equity holdings as it was last year?

A17: The reason for raising the amount of target sold by strategic equity holdings during the period last year is not directly related to the underwriting profit. Target increase was determined based on the reduction of the amount of risk in our company and the market view of strategic equity holdings. We do not intend to accelerate the sale of strategic equity holdings immediately to make up for the current period's insurance underwriting profits that are unlikely to reach target.

Q18: Please tell us when you expect to revise the rate in voluntary automobile insurance.

A18: We are aware of the need to revise the rate, but we are considering the timing and details.

SQ1: I think the rate revision will be approved by the Financial Services Agency. May I not consider the risk that the rate revision will take time, such as reviewing the data due to BIGMOTOR issues?

SA1: With regard to the rate increase in voluntary automobile insurance, it is assumed that advisory rates calculated by General Insurance Rating Organization will increase the rate, and the procedure has been completed. Each company is at the stage of determining the range of revisions and the details of revisions while calculating additional rates, etc., so we do not expect that the rate revision by each company will be delayed.

SQ2: Will General Insurance Rating Organization correct the data? Or are they already completed the assumption of correction?

SA2: There is a newspaper report that we will review if the fraudulent insurance claim made by BIGMOTOR is enough to affect the rate. If it is to be reviewed, I think each company will reconsider the rate revision based on the revised content disclosed by General Insurance Rating Organization

Q19: With regard to the issue of coinsurance, I think domestic insurance companies have ceded to overseas reinsurance companies. If the rates offered by the original insurer are deviating from the market rate, I am concerned that the reinsurance company, for example, may increase the reinsurance commissions or not accept them because the risks are not clear. Please let me know if there is anything I should consider in relation to the reinsurance company.

A19: From a reinsurance perspective, it is important that the ceded contract is underwritten with appropriate terms and rates for risk. On the other hand, since the issue of coinsurance is related to price adjustment in the coinsurance mechanism, we do not assume that risks underwritten by domestic insurers will be difficult to underwrite in the reinsurance market. In addition, I think your question is probably about facultative reinsurance. But each company has different reinsurance policies such as retention of the risks, arranging treaty reinsurance, and arranging facultative reinsurance. I understand that the reinsurance contract shall be negotiated individually between the original insurers and the reinsurers.

SQ1: I think part of the problem with coinsurance is that the market rate and the actual rate did not match, but is it irrelevant? Is it correct that the insurance rates were offered according to the market rate?

SA1: We don't think the rates are distorted by coinsurance. Looking at coinsurance as a whole, fire insurance, which is mainly handled, is in the red. In other words, coinsurance does not result in higher premiums.

Regardless of whether it is coinsurance or not, especially for corporate

properties, rates are set individually to reflect individual risks, the situation in loss ratio in the past, the maintenance status of the property, etc., so I hope you understand that premiums are not distorted because it is coinsurance.

End