

MS&AD Insurance Group Holdings
The 2nd Information Meeting of FY2023 (Held on November 24, 2023)
Q&A Session Summary

The Q&A Session Summary at the Information Meeting held on November 24, 2023 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.

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

MSP Life: Mitsui Sumitomo Primary Life 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

MS Transverse: Transverse Insurance Group, LLC and group companies

MSR: MSR Capital Partners, LLC

InterRisk: MS&AD InterRisk Research & Consulting, Inc.

Q1: Please explain the holding company's overseas business management and profit planning approval process. Regarding MS Amlin, management has been tightened via MSI, and the volatility of profits has decreased considerably. However, the ADI's international business listed on page 30 of the presentation material has significantly declined, and the MS Americas business on page 29 has also been revised downward. I think the original plan might be too optimistic.

A1: Regarding international business, the holding company checked all business plans in advance. In addition, we are considering downsizing or withdrawing from operations at sites where profitability is poor. ADI's international business, which is showing poor results this fiscal year, is being checked by the holding company and will undergo a fundamental review.

The downward revision to the MSI's Americas business was caused by a series of large losses on Japanese clients and MS Transverse's delay in closing new programs due to a very chaotic reinsurance market in the first half of this year. With regard to MS Transverse, the reinsurance market has gradually regained stability, and we believe that it will be almost possible to achieve the expected profit plan from FY2024 onward.

In the ADI's international business, the results of our European subsidiaries, which mainly focus on automobile insurance, have deteriorated due to inflation, an increase in accidents following Covid19, the occurrence of large losses, and an increase in theft losses. The situation is similar not only in the Toyota retail business but also in the local

business, and counter measures are currently being taken. We are working with Toyota in Europe to raise rates, review conditions, and install a second immobilizer for theft losses, but it will take some time to recover our business performance.

As for local business in Europe, we are currently discussing with holding company a review of the business.

In overseas local business, other than in Europe, large losses occurred mainly in overseas Japanese clients, such as Typhoon No. 2 in Guam and the fire in Maui, Hawaii. To address these issues, we are reviewing underwriting conditions, setting sub-limits, controlling line size, and strengthening aggregate risk management. We are currently discussing the future of this business with holding company, and we are discussing the possibility of a fundamental review.

Q2: Regarding the domestic business, it has been suggested that other Japanese insurance companies will "review the sales channels and practices of domestic life and non-life insurance with the intention of reforming the company." Some companies also state in their explanatory materials that they will "create a new company." Please tell us to what extent you are aware of the need to review sales channels and business practices of domestic life and non-life insurers in light of the current events in Japan.

A2 In light of the current problems in Japan, we believe it is necessary to return to the Group's mission, vision and values, and prioritize how to restore customers' trust. We also believe it is necessary to review our sales channels and contact points with customers one by one in order to become a truly needed presence for our customers.

In terms of our sales channels, we believe that they must be an agency to provide truly high-quality risk solution services to our customers, and in order to do so, we need to take steps to improve our level at even agencies while utilizing various digital tools.

At the point of contact with customers, in the past, insurance has been a function of paying insurance claims in the event of an accident. In addition to this, the InterRisk, the core company of the Group, is working on the development of businesses that before and after compensation which is, disaster prevention, mitigation, and speedy recovery after accidents.

Q3: The Group's adjusted profit forecast for FY2025 was revised downward by about 30.0 billion yen for domestic non-life insurance businesses and upward by about 25.0 billion yen for international businesses from the initial forecast. Please tell us about the background of this revision.

A3: The change in the breakdown of profit by business in FY2025 was due to changes in the business environment from the time of the formulation of the initial plan. The domestic business was revised downward because natural catastrophes occurred more than the full-year plan in the first half of this fiscal year and automobile insurance losses were worse than expected due to the effects of inflation. On the other hand, the international business was revised upward because the profitability of MS Amlin is recovering due to improvement in the non-cat loss ratio, reforming of the underwriting portfolio, and hardening of the global (re)insurance market. As a result, we have

maintained our initial profit target of 440.0 -470.0 billion yen.

Q4: With regard to capital policy, assuming a revised group adjusted profit of 280.0 billion yen, the total shareholder return ratio is 49% when we add up the share buyback of 10.0 billion yen and the projected dividend. Since the basic return of 50% is set as a KPI, can we expect further share buyback at the time of the closing of this fiscal year? In addition, when considering additional returns, I think it is important to consider the group adjusted profit on real ability base. Please let me know if there is any change in profit assumption based on real ability compared to the beginning of the period.

A4: The revised group adjusted profit forecast of 280.0 billion yen is a conservative estimate, so if the final profit exceeds the revised forecast, that excess portion will be included in the base of the shareholder return. In addition, the guidelines for carrying out additional returns are shown in the document.

SQ1 Is there a quantitative image of real ability base profits? I think it will be between 280.0 billion yen and 350.0 billion yen.

SA1 We don't have any figures based on real ability base profits.

Q5: The forecast for the operating expense ratio continues to rise higher than the initial forecast. I'm aware of the effects of inflation and the external environment, but I think there is an increasing need to take drastic measures to reduce the business ratio, including the integration of the two companies. I would appreciate an update on this point.

A5: We believe there are three issues to be addressed in order to increase profitability. One of them is to reduce operating expenses. We have been working to increase business efficiency by improving business efficiency through large-scale system development and the integrated management of our middle-back operation through the one platform strategy. In addition, we believe that the merger of MSI and ADI will always be an important option in management. In the current business environment, we will constantly compare the effect of the merger on reducing operating expenses and the impact of the merger on, for example, downward share revision and the top line, and make decisions based on whether there is economic rationality. It is true that operating expenses are currently in the situation described on page 20, and if inflation continues or further accelerates, these will be factors that we need to consider. On the other hand, if we have already integrated systems and middle-backs in the one platform strategy, there may be situations in which the effect of reducing operating expenses in future mergers will be more limited than in a standard merger, so we will always make comprehensive decision including those.

SQ1 Could you tell us something from another point of view?

In the midst of the cartel issue, I think that by integrating only the headquarters functions of two companies, there will also be an issue of information

management. What do you think about this point?

SA1 From a customer relation perspective, I think it is necessary for the two companies to compete fairly in the direction that customers want. On the other hand, in relation to laws and regulations, it is permissible for two companies in the same group to share information about their customers. Based on these points, we have confirmed that our head office and frontline employees will respond appropriately to customers in accordance with their wishes from a customer-oriented perspective, and we are once again implementing thorough measures.

Q6: Regarding the review of the international business, could you please update us on the time frame and criteria?

MS Amlin is surely getting back, but I think you have spent a lot of time to get it back on track. I would like to ask you to be more specific about the time frame of the review, including ADI international business, MSI international business, and other areas, or what evaluation criteria you will use in the future.

A6: Several locations of ADI international business have been under consideration now, and we should achieve 6% as a minimum return on investment (ROI) of each.

We are conducting various initiatives to improve our business, which is less than 6%. We are scrutinizing market movements, environments, and contribution, significance, and division of roles in the international business of the Group.

MSI Brazil did not meet this ROI standard, so we proceeded with the examination and decided to separate the retail business, which was a main factor behind the deficit. It took us a long time to the decision, because we have been looking for various ways for important significance as a direct insurer for Japanese companies.

As ADI international business has continued to have a loss-making structure, we will examine various points of view and make comprehensive decisions with a sense of speed.

Q7: With regard to domestic natural catastrophes risks, given the high frequency of single events in which the excess of loss cover was not effective in this period, and many accidents other than wind and flood risks occurred, which caused losses accordingly.

Please tell us how you think about future risk management, including reinsurance strategies.

A7: Of the domestic natural catastrophes, hail disasters have affected voluntary automobile and fire insurance, but the statistics of the final loss are not finalized yet.

Appropriate reinsurance arrangements have cost commensurate with the risk, so we will consider from the perspective of economic rationality.

For secondary perils such as hail and heavy rain, we will also promote disaster prevention and mitigation measures in addition to the reinsurance arrangement.

For example, when a water pipe freezes in Hokkaido, by sending an alert to the smartphone and flushing water, a certain percentage of water pipes can be prevented

from bursting.

We are currently considering to deal with hail disasters. We also believe that it is also important to proceed measures to deal with secondary perils.

Q8: Regarding ESR on page 84, it is above the lower end of the target range, and how do you plan to use this buffer in the future? I think that overseas M&A was one of the main activities when formulating the mid-term management plan, but this time the ESR has been decreasing since June by taking some asset investment risk. Please tell me if there has been any change in the way you think about using the risk buffer in the future.

Also, there is an ESR impact of market price fluctuations at the bottom right of the same page. Compared with other companies, the appreciation of the yen and the rise in domestic interest rates are negative, and I think we can assume a market environment that would depress the ESR depending on the cases. Based on this situation of sensitivity to macro fluctuations, can you think of any measures to control volatility?

A8: I believe that overseas business investment is an issue that we must continue to consider from the perspective of regional diversification of risks, diversification of business categories, and enhancement of capital efficiency. We will continue to explore opportunities for business investment, partly because the portion of the financial results that can be recovered overseas was smaller than that of other companies. Without such opportunities, shareholder returns will naturally be an important option.

With regard to investment risk-taking, as described on page 32, MSR is utilized as a gateway to expand higher return assets, such as private equity. Although we are enhancing a well-diversified portfolio balance in asset management, we believe that the expansion of higher return assets is one way of using capital in order to improve corporate value, and we are working to do so.

As for the sensitivity of ESR, we recognize that our company is more sensitive than other domestic non-life insurance groups, and we must thoroughly analyze whether this is due to the portfolio or the ESR concept. We will continue to closely examine the portfolio of assets and liabilities that cause fluctuations in ESR. When we transition to IFRS in FY2025, not only ESR but also the bottom line will be facing volatility depending on the status of assets and liabilities. We would like to firmly control risks.

Q9: I think Toyota Retail automobile insurance losses account for some percentage of the ADI's total automobile insurance losses. I think the full-year forecast of Toyota Retail's group adjusted profit is a deficit of 5.7 billion yen, which is rather small. Will it improve in FY2024?

A9: The loss on ADI's automobile insurance is about 38.0 billion yen higher than expected, and overseas portion accounts for about 8.5 billion yen. The breakdown of 8.5 billion yen is 4.3 billion yen of foreign exchange impact and the rest is actual loss fluctuation. In addition to Toyota Retail business, our European subsidiary also operates a local automobile insurance business. Both companies loss ratio has increased and losses

have also increased. As for theft claims, loss trend has been getting back to normal levels in the UK due to immobilizers. In Germany, The theft claims has been increasing. We are currently taking various measures, and I think they will be effective. The other is about automobile insurance in the UK, where we are doing local business, and we are considering a fundamental review, and we are currently discussing with holding company.

We are still limited in what we can tell you, but I hope you understand that we are also taking these measures.

Q10: With regard to the structure for achieving profits in FY2025, how do you plan the sales amounts of strategic equity holdings in FY2024 and 2025? Also, how do you plan domestic natural catastrophes?

A10: Regarding the sale of strategic equity holdings, it will be difficult to proceed in FY2024 in the same way as this fiscal year, including by reaching an agreement with the issuer, and I believe that the gain on the sale will decrease. It is assumed that the amount of the sale will increase in FY2025 after the development of an agreement with the issuer in FY2024. With regard to domestic natural catastrophes, it is assumed that 127.0 billion yen will exceed the initial plan this fiscal year. However, the expected value plus α is estimated in FY2024 and 2025, respectively, and it is not expected that the amount of this fiscal year will be kept.

Q11: As for page 4, is it correct to understand that the development of checking guidelines based on past experience, etc. will improve fraudulent claim detection skills and prevent recurrence? Also, has there been any discussion on the review of the pros and cons of a repair shop concurrently serving as an insurance agent?

A11: In the past, it has been difficult for technical adjusters to detect cases of intentional fraud in the checking of individual insurance claims. In this case, we have been able to categorize several modus operandi patterns, making it possible for highly skilled technical adjusters to identify cases. We believe that by spreading this technology throughout the adjuster, we can detect cases to a considerable extent.

On the other hand, there is a view that there is a conflict of interest about the concurrent business of an insurance agent by a repair shop because the recipient of the insurance benefits also performs the insurance agent business. On the other hand, there is a view to the convenience of customers, such as being able to purchase compulsory automobile liability insurance at the same time when a vehicle inspection is submitted to a repair shop. Therefore, it is necessary to consider both points of view. Regarding the concurrent business of an insurance agent by a repair shop, it is necessary to establish a wall for the payment of insurance benefits and the sale of insurance, and our company would like to proceed with efforts from this point of view. Regarding the Financial Services Agency and the industry as a whole, I do not have the materials to answer at this time.

Q12: I have a question about the loss of the wildfires in Hawaii and Typhoon No. 2 in Guam

in the overseas business on pages 4 and 13. The wildfires in Hawaii may not happen many times, but Typhoon No. 2 in Guam could happen again at any moment. I think Tokio Marine has withdrawn from the Guam business. Please tell me the direction of your company's future business in Guam.

A12: Typhoon No.2 hit Guam directly in 21 years, and in the past, we have made steady profits. However, because of climate change, natural catastrophes are increasing around the world, so we will basically strengthen line size control, increase insurance rate, change underwriting conditions, set sub limit of liability, and carry out business reviews. At the same time, we will take into account the needs of our Japanese customers and negotiate terms.

Q13: I have a question about future sales trends of domestic nonlife insurance.
I am interested in future trends of sales channels after a series of incidents. I think the main sales channels were professionals, financial institutions, dealers, and repair shops. Please tell me whether these will change or remain unchanged.
Also, as an interesting initiative, there are examples of cooperation with platformers. Please let us know if there are any strengths or characteristics of your group. On the other hand, brokers may be considered as strong sales channels. What kind of impact do you have within your company business line?

A13: Your understanding of domestic sales channels composition is correct. Currently sales through agents account for more than 90%. I believe that future changes need to be made in terms of how we can provide products and services with high quality solutions to our customers. Agencies in existing channels need to acquire the skills and know-how to provide high quality risk solution services, and we need to support them. For example, Mitsui Sumitomo Insurance provides and supports a system called MS1Brain that supports agencies that use AI to provide more appropriate proposals to customers.
On the other hand, the stance of choosing insurance for customers has changed. For example, when it comes to automobile insurance, you buy a car and buy insurance at a dealer. Rather than asking a nearby agent, you search online and find out various options, then you ask the agent, and then you choose which channel you want to buy insurance through. In the future, I think we need to develop sales channels that are appropriate for the way customers choose insurance.

I think there is one way to cooperate with the platformers you gave us examples of. In fact, ADI has started to cooperate with Amazon about pet insurance and recommend pet insurance to people who buy pet supplies from Amazon. In cooperation with Platformer, I think we can develop sales of products suitable for integration into Platformer services.

In addition, regarding cyber risk, in addition to insurance products, we work with IT vendors to sell products that include before and after compensation services such as risk diagnosis and accident prevention to SMEs. Alternatively, MSI Primary Life sells asset-building products, and we partner with MINNA bank to sell products that enable you to build assets by completing your smartphone. In this way, we believe that various forms of channels will emerge depending on products and services.

As for brokers, I think that the role of brokers will increase in relation to the current price

fixing problem. After all, this is also the customer's choice, so if customers seek the services of brokers, there is room for further expansion in Japan.

As for sales channels, we would like to develop them as closely as possible to our customers, rather than being led by insurance companies. We believe that various channels will change accordingly, and our current agents will also have to change, so we believe that there will be changes as a result.

Q14: I would like to ask about the policy of shareholder return. Up until now, special factors have occurred mainly in the overseas business and the domestic life insurance business, including transient and otherwise. There is a possibility that special factors may continue to occur in the future, but I would like to know about the flexibility of the policy to return 50% of group adjusted profit to shareholders.

A14: The basic policy of shareholder return is 50% of Group adjusted profit, but we do not strictly manage it at 50%. As stated on page 90, the return ratio was 74% last year. We would like to make a comprehensive decision on amount of shareholder returns, including additional returns, while taking into consideration the fixed amount of Group adjusted profit. As we recognize shareholder returns as very important issue, we would like to consider them from various perspectives.

Q15: In the domestic nonlife insurance business, 9.0 billion yen is expected as a cost reduction effect in FY2024 and 2025. Please tell me the amount by each fiscal year.

A15: It is 9.0 billion yen after tax, so it will be 13.0 billion yen before tax. The breakdown is 5.0 billion yen for FY2024 and 8.0 billion yen for FY2025. Furthermore, the amount of accumulated cost reduction plans from each group company exceeded 13.0 billion yen, so it is a conservative figure. We will further strengthen our efforts to reduce costs, including our one platform strategy.

Q16: Is it correct that you will continue to sell strategic equity holdings in line with your plan?

A16: We recognize that reducing strategic equity holdings is a top management priority. We have raised our reduction target once during the current medium-term management plan, and our reduction result is progressing at a faster pace than planned. We will continue to do our best to reduce strategic equity holdings based on the assumption that our relationship with customers will not deteriorate.

End of the documents