

MS&AD Insurance Group Holdings

FY2022 2nd Thematic meeting

“Risk related services as a platform provider of risk solutions”

(Held on December 21, 2022) Q&A Session Summary

The Q&A Session Summary at the 2nd Thematic meeting held on December 21, 2022 was summarized as follows.

The following is a summary of the Q & A session held on December 21, 2022.

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 Co., Ltd.

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

Q1: You set the target sales of 100 billion yen in the future, but please tell us about the breakdown of it by the products and the customer category.

A1: Our sales target for the future is 100 billion yen, which is the sum of not only InterRisk but all Group companies. The breakdown is 20 billion yen for InterRisk, and 80 billion yen for MSI and AD risk consulting business and the U.S. Telematics business.

InterRisk's products include generalized services that expand into new areas without relying on the number of consultants as an upgrade to existing risk management. Examples of generalized services include SAAS type services, where software provided from what used to be done by consultants, and managed service. Managed services are services that monitor the status of management execution within the client after consulting, and confirm that the client has been able to implement the services by themselves. Accident Risk AI Assessment and Cyber Monitoring Services, which I described earlier, are the flagship services.

Q2: Does that mean the business model will change from a consulting firm to a risk-specific software vendor?

A2: The services that the staff have provided as an existing consulting business are our company's strength, and we believe that this will continue to be the core business. We're going to lengthen this part. While retaining these cooperating services, we're going to move forward in two directions by developing and providing generalized, SAAS-type, operational and monitoring services that don't depend on the number of consultants. It's not about being a vendor, it's about being compatible.

Q3: Risk consulting has traditionally been a free service to obtain fire insurance and casualty insurance, and I think the profit has been collected by underwriting, but will you aim to be a stand-alone service rather than a relationship with insurance? What are some of your competitors and what are the differences in strategy with them?

A3: In our group, we provide products and services according to our value creation story, in which we provide services before and after insurance coverage. Insurance itself tends to be made a comparison of insurance premiums, but from the customer's point of view, it is better not to have an accident, and it is important to take measures to prevent a recurrence and provide recovery support even after the claim payment, so we would like to communicate and publicize our group's value creation story. In that sense, we would like to do business closely related to insurance underwriting.

At InterRisk, however, even in the present situation, we are conducting a considerable amount of paid consulting (For example, a BCP consulting) that is not included in the insurance service package, and we have already developed a consulting market that is not related to insurance underwriting.

The difference with other companies in the same market is that our group is basing its business on the value creation story, and we would like to emphasize that we provide our customers with services based on their understanding of this story. Our competitors include not only other non-life insurance groups but also so-called business consulting companies such as Mitsubishi Research Institute and Nomura Research Institute. We believe that our company's strength lies in its ability to provide consulting services that combine insurance data and digital technologies.

Q4: We have heard from you before that the number of consultants and the time it takes to hire them is a challenge in advancing the level of sophistication. In order to achieve both the level of sophistication and the level of generalization that you have described, you will need the human resources of both parties, and I think the hurdle is quite high. Wouldn't it be better to advance the level of sophistication first, establish a reputation in the field, and then proceed with the level of generalization?

A4: You understand that the issue of securing talent becomes a bottleneck. Generalized service development requires digital human resources in addition to human resources for sophistication. Of the plan to increase personnel from 300 to 480 over the 4 years of our medium-term management plan, we plan to increase digital human resources by 100 and sophistication by 80. We have been successful in hiring personnel in the growing risk consulting department, but it is difficult to recruit business-ready digital human resources. For this reason, we believe that there are two ways to hire advanced human resources, which

are relatively easy to hire, first at the Risk Consulting Division, and then transfer those with digital talent from the Division to the Digital Innovation Division, or hire and develop them through internal training, even if they are not business-ready digital human resources.

We have already been working on generalization and upgrading for about a year, and while we believe that there is something new in expanding our service range, we also believe that it is necessary to constantly look at the balance between service range and sophistication of the services. For example, as a result of sophistication (= upgrading existing consulting), we have been able to establish the top position in TCFD analysis on climate change in Japan. We have been anticipating and pioneering the future disclosure of TCFD since the Paris Agreement in 2015, and this has paid off. As we continue to develop these kinds of examples, we will continue to make them more SAAS-type, so that they do not fall apart sophistication of the services and expansion of our services.

Q5: You will use AI for generalization, so you don't need as many people as you do for sophistication, is that correct?

A5: Generalization also requires digital human resources. However, once a mechanism is established for generalization, services can be provided without being limited by the number of consultants. There are some existing consulting services we can not provide due to a lack of consultants, but by generalization and systematization we will be able to offer them to customers that we are currently forced to turn down.

Q6: Do you see M&A as a way to secure digital talents and expand resources?

A6: I think M&A is one of means., We're now considering which way is the best for us, but we have not decided anything specific yet. It is necessary for us to follow a group-wide decision including the holding company to proceed M&A.

Q7: On page 14 of the material, we can see the number of various activities has been increasing, but I think there are some activities that lead to actual sales and others that are offered free of charge. Which of these activities lead to sales and how does it lead to profits? And are you targeting SMEs as customers?

A7: In some cases, we receive fees from the non-life insurance companies, otherwise, we charge fees directly to customers, but InterRisk basically provide the services as paid services. In terms of free of charge not to outside the Group, about half of InterRisk's sales are paid, and about half are entrusted by from the insurance companies with their costs. Most items described in this material are any paid services, but for example, open seminars on SDG's and cyber risk diagnostics are held for free because they stimulate needs. Many of our clients are large enterprises, also MSI or ADI clients. In the future, we would like to generalize our services and provide them to SMEs which we haven't approached.

Q8: As for sales sources, how diversified are customers?

A8: They are quite finely diversified, and there are a number of companies. In addition to large companies of MSI and ADI clients, many SMEs with a pattern of providing services collectively as a commercial and industrial organization, and a pattern of as supporting suppliers of large enterprises collectively.

About half of the clients come through insurance companies, and about half directly.

In terms of sales, many are large companies, and some pay around tens of millions of yen. Otherwise, for SMEs, the amount of fee per contract is 50,000 yen~100,000 yen, or the contract is collectively entrusted through a partnership with a municipality.

Our company was founded for the disaster prevention services field of non-life insurance companies, so it is a fact that we have many customers of the insurance companies, and access to the customer base of MSI and ADI is our strength. We will continue to approach the customer base of the insurance companies while conducting services before and after insurance.

Q9: How much do you get from your intimate clients, such as Toyota, the Mitsui Group and the Sumitomo Group? You also recognize the potential of the SME market, but how much do you tap into the customer base of your intimate clients?

A9: It is also difficult to segment "intimate clients", and although we do not compile data from that perspective, we do distribute our data to a wide range of corporate clients. Currently, 1 contract worth 50 million yen or more is only for one local government, and subsequent contracts worth 30 million yen are mostly for large corporate clients, but we hope you will understand that our clients is widely diversified, including small and medium-sized companies.

Q10: Can we look at the number of contracts to make sure that your company's business is steadily expanding in line with our plans?

A10: As you can see, the number of contracts is one indication. However, the size of each case varies, so it is important to increase overall sales.

Q11: How about InterRisk contribution on whole group? For example, how much effect of reduction in accidents can you expect from risk consulting?

A11: First, we expect a profit of 2 billion yen after tax in fiscal 2025, which will be added to the group profit. In addition, we hope that our company's services will be appreciated, which will lead to sales of MSI, ADI and MSA life. In the case of the cyber insurance, we have also contributed to insurance sales, but as a risk consultant, we hope to reduce accidents and

also have an effect on the bottom line.

In terms of the effect of reducing the loss ratio, for example, in the US, the issue of ransomware has caused cyber insurance losses to increase. Our company is partnering with some of the nation's top cyber risk service providers, whose insurance policies have been found to reduce the loss ratio by up to 10 points over the US average. If the net sales of cyber insurance is 30 billion yen, the effect will be 3 billion yen, and if the net sales are 300 billion yen, the effect will be 30 billion yen, and this much effect will be achieved by cyber alone, so I think it is our company's aim to expand this to other fields.

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