

# **MS&AD Insurance Group Holdings**

## **2<sup>nd</sup> Information Meeting of FY2021 (Held on November 24, 2021)**

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

**The Q&A Session Summary at the Information Meeting held on November 24, 2021 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.

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

MS Amlin : Sum of business segments including AUL (MS Amlin Underwriting Limited), AAG (MS Amlin AG), AISE (MS Amlin Insurance SE), ACS (MS Amlin Corporate Services Limited)

Q1: What are your current views on the next medium-term plan for 2025? As it was explained on the IR Day, the profit level of life insurance has increased by about 20 billion yen as a result of the transition to IFRS, the effect of the return to profitability of fire insurance is about 36 billion yen after tax, the cost reduction in the domestic business is about 22 billion yen after tax, and international business is about 60 billion yen, considering the graph on page 36 and the previous explanation. When these figures are added to the Group Adjusted Profit forecast for fiscal 2021 of ¥300 billion, the figure is well over 400 billion. Could you tell me if that's the right way to look at it, and if there are any negative factors besides this positive addition?

A1: We will continue to build up solid figures, but as you understand, the positive factors will be a boost in life insurance profits by shifting to an IFRS basis, improved earnings in fire insurance, reduced operating costs, and profit growth in international business. I would also like to look at the general level that you have just pointed out. Although IFRS-based profit does not include gains or losses on the sale of strategic equity holdings, we will continue to build up this figure in a more precise manner and forecast the level of profit at the amount indicated.

Q2: Regarding the return to shareholders, the ESR target is set at 180% to 220%, but it currently exceeds 250%, which is a very high level even taking into account the decline due to the redemption of subordinated bonds. The stock price has been a little weak since the announcement of the financial results on November 19. While other companies in the same industry announced a return to shareholders as capital adjustment this time, do you think your company will consider and announce a return to shareholders as capital adjustment before the company announces its full-year results for fiscal 2021 in May? Also, will you continue to be particular about the fact that the total amount returned in the past has

continuously increased?

A2: As you pointed out, the current level of ESR is high. However, I believe that the current level is largely due to the reduction of interest rate risk and the effects of the market, such as the rise of the stock market. Our current shareholder return policy is to return 40% to 60% of the Group Adjusted Profit to shareholders, and we aim for a stable dividend increase. We determined that the achievement of the earnings forecast of 300 billion yen of the Group Adjusted Profit was highly probable, and therefore decided to increase the dividend by 10 yen from the previous year. We plan to conduct share buybacks in a flexible manner, taking into account stock price and capital conditions. We announced the share buybacks in the amount of ¥25 billion.

We intend to allocate capital in a balanced manner through business investments, dividends and share buybacks. We had the question of whether or not to return capital from stock in addition to the conventional flow, we would like to consider it if there are no plans for business investment and there is no problem from the viewpoint of liquidity. Please understand that we are currently looking for a variety of growth investment opportunities.

As for the return policy for the next medium-term plan, we plan to shift to IFRS from the next medium-term plan, and we are currently discussing what to do with the profit that will be the source of shareholder return based on IFRS profit and cash flow. We will also consider how to return profits to shareholders as capital adjustment.

In addition, as for the trend of increase in the total return to shareholders, when liquidity becomes severe due to a major natural catastrophe, we may reduce the amount of share buybacks. However, our policy remains to aim for a stable dividend growth and flexible share buybacks while taking into account stock prices, business investments, liquidity, and other conditions. As we discuss various issues in the future, we will consider the points of view you have mentioned. In order to meet the expectations of investors, we intend to firmly put ourselves on a growth path, including MS Amlin, increase profits, improve ROE, and increase shareholder returns.

Q3: The risk of overseas natural catastrophes on page 89 is a major negative factor for earnings in the first half of the fiscal year, even compared with other companies. The materials also describe the appropriate level of risk of overseas natural catastrophes and the consideration of risk control. Please tell me if you have a quantitative perspective on the future risk of natural catastrophes.

A3: We have been working to reduce the amount of risk and improve earnings by setting an upper limit on the amount of a U.S. wind and flood damage, which is a peak risk. We will continue to work to reduce the amount of risk and control risk. In the reinsurance business, we intend to tighten underwriting conditions and set more detailed standards for evaluating profitability.

In addition to storm disasters in the United States, we will strengthen the management of the upper limit of the Group's risk amount for all overseas natural catastrophes. Furthermore, from the perspective of reducing exposure, we will strive to reduce volatility in term profit and loss. We are considering reducing our exposure to overseas natural catastrophe risk by approximately 20%. We will carefully select underwriting and respond, considering presence of a regional bias and uncertainties such as the impact of climate change in the future.

Q4: With regard to the exposure to overseas natural catastrophe risk, if you assume that 2017, when the United States experienced major hurricane damage, is 100, what is the current level of exposure and how much will be reduced in the future?

A4: For MS Amlin, especially the risk associated with wind and flood disasters in the United States, for which we have strengthened management, was reduced by more than 30% from the fiscal 2017 level at the 200 year reproduction period level, and by less than 30% from the 10 year reproduction period level in terms of stability of profits and losses. ADI Head Office reinsurance also reduced risk by approximately 60%.

Going forward, we plan to further reduce our risk exposure by approximately 20% by reshuffling our portfolio and reducing underwriting.

Q5: Regarding the factors that cause changes in MS Amlin's financial forecast from the beginning of the year, the materials for financial results briefing (conference call) describe the impact of major natural catastrophes and the increase in COVID-19. On the other hand, it has been explained that the Lloyd's business, for example, is better than it was at the beginning of the period. If there are other factors such as improvement factors, please let me know with the figures.

Also, please let me know the status of the underwriting of natural catastrophe losses and whether the present measures are sufficient or not.

A5: The impact of major natural catastrophes and COVID-19 have been the main factors for the change since the beginning of the year. Other improvement factors will be explained later. AUL, which is engaged in the Lloyd's business, showed the greatest improvement from the initial forecast, raising the Group Adjusted Profit by about 4 billion yen from the initial forecast. This year's loss from natural catastrophes is mainly attributable to MS Amlin's reinsurance business. Reinsurance is one of MS Amlin's main areas of business, accounting for approximately 40% of all MS Amlin underwriting. Furthermore, about 40% of them are reinsurance to cover natural catastrophe losses. Though exposure of natural catastrophes has been considerably reduced, the cold wave in the United States in February and the massive floods in Europe in July were statistically very low-probability catastrophes, which greatly increased the loss of natural catastrophes this term.

As an improvement measure, the current MS Amlin portfolio is slightly weighted to North America, so we are diversifying. In the past, MS Amlin, as a leader in reinsurance, underwrote the entire reinsurance program (from the bottom layer to the top layer), but stopped or reduced exposure at the bottom layer, where losses are most likely to occur, and shifted to the top layer. In the current fiscal year, losses from natural catastrophes increased in MS Amlin and the ADI Head Office reinsurance business, but this was affected by market losses that were considerably higher than in previous years. We are continuing to reduce the amount of risk as a measure for the future, and we believe that losses will be leveled off. In order to reduce the impact of losses from natural catastrophes on profits, we will promote the reduction of risk amount from the renewal in January next year.

Main factors behind MS Amlin's change from forecast ( - £143 million)

- Aggravating factors

- Increase in losses from large natural catastrophes ( - £105 million)
- Increase in COVID-19 losses ( - £46 million)

- Improvement factor

- Achievement of excess of AUL initial plan (improvement of non-cat loss ratio, etc.) (approx. + £25 million)

Q6: At MS Amlin, the Chief Underwriting Officer (CUO) has changed, what can we expect?

A6: AUL introduced a new CUO in September last year and AAG in Zurich in January this year. AUL's CUO is a well-known leader in the natural catastrophe reinsurance industry, and we believe that AUL's careful selection of underwriting portfolios has resulted in a noticeable increase in the profitability of the overall portfolio over the past year. AAG is also in the process of carefully selecting its underwriting portfolio, and we believe that MS Amlin's profitability will steadily increase.

Q7: As for the international business, other groups have withdrawn from the reinsurance business and Lloyd's business, so I think MS Amlin in your group has a unique business model. The past natural catastrophes and COVID-19 effects may be judged to have been a little unfortunate. What kind of environment and conditions would make the uniqueness of MS Amlin a premium factor?

A7: In terms of MS Amlin's earnings recovery, we had a combination of bad luck in the last fiscal year, due to the impact of COVID-19, and this fiscal year, due to a series of large, unprecedented natural catastrophes.

Meanwhile, AUL, which has operations at Lloyd's, has improved its performance, and in the first half of the fiscal year, its results outperformed the Lloyd's. Under the leadership of the

new CUO, both natural catastrophe risk and non-cat risk have been changing to more profitable portfolios and the effects are beginning to appear. At MS Amlin, the top line decreased significantly due to withdrawal from unprofitable lines, etc., and at AUL, the top line decreased from £2.5 billion to £1.5 billion. We believe that we are on a growth path by accumulating high-quality portfolios and enhancing profitability and cost absorption. Lloyd's CEO also says that Lloyd's as a whole, which has been in the red for the past few years, expects to turn a profit after a string of natural catastrophes. The advantages of Lloyd's, which has a global network and attracts a wide range of transactions, information and human resources, seemed to waver for a while, but we think it is steadily recovering. At MS Amlin, as one of the leaders in Lloyd's, we would like to lead this trend. It is on a growth path, building up the top line, and entering the stage of contributing to the Group.

Q8: At present, the unit price of automobile parts, the hourly rate of materials and services are increasing mainly due to price increases overseas. What is the impact on MS Amlin's B to B liability? Looking at next year, I think the unit price of parts will increase considerably in Japan due to the shortage of semiconductors for automobiles. Will prices have any impact on your company's medium-term plan, or will they not have as much impact as they should, as insurance premium rates increase accordingly?

A8: There are two major effects in terms of inflation: so-called social inflation, which affects litigation-related costs, and so-called price inflation, which is currently under way. Social inflation is said to have subsided after lawsuits stopped for a while due to the effects of COVID-19, but I think it will become apparent again with the resumption of lawsuits. For the insurance industry as a whole, the insurance premium rates are also increasing mainly in liability lines which are affected by the social inflation, and MS Amlin is also increasing the rate.

Rising prices are reflected in higher repair costs. For example, it affects how much damage caused by Hurricane Ida will increase. So far, it is unclear how much higher commodity prices and labor costs will affect the increase in hurricane losses. In any case, it is a major catastrophe, so the possible increase in losses will be reflected in the insurance premium rates for the industry as a whole. We will also act accordingly at MS Amlin.

Q9: First of all, you want to use funds for business investment. How will this investment mindset change? Will it be when you achieve your goal of diversifying profits, or when you reach a 400 billion yen profit level at cruising speed, or when the ESR is so high that you have enough capital to invest even after the shareholder return?

A9: The reason why we believe that business investment is important for enhancing corporate value is that the domestic natural catastrophe risk is still significant. From the perspective of

risk diversification, we aim for a 50% share of profits from the international business over the long term.

The domestic non-life insurance market has been steadily growing, and there is no doubt that this is a very good market with higher margins than overseas markets. From a growth perspective, however, we would like to incorporate the growth of overseas markets into the enhancement of our Group's corporate value. In other words, we want to diversify risks while at the same time taking advantage of overseas growth.

Meanwhile, if returns in highly profitable businesses increase, capital will naturally accumulate and ROE will be difficult to increase. Therefore, it is extremely important to not just make investments, but also to change the portfolio. We would like to consider business investments from the perspective of how to enhance ROE within the overall business portfolio.

Q 10: As for the improvement of fire insurance profitability, the profit of 5 billion yen is expected in fiscal 2024. In the event of a major natural catastrophe, the profit of 5 billion seems a little insecure. In terms of risk, I believe it is necessary to speed up efforts to reduce losses and improve insurance premium rates. What is your company's approach?

A10: We believe that improving the fire insurance profitability will involve controlling risks, especially natural catastrophe risks, and implementing measures for premium rates and profitability at the same time. In particular, we do not believe that controlling the risk of natural catastrophes can be achieved sufficiently only by rate measures. Our Group also has reinsurance cover to control cumulative losses from natural catastrophe for the entire Group. By utilizing such risk control measures, we will implement rate measures while controlling natural catastrophe risks. Corporate insurance is also subject to the risk of deterioration, and we intend to take comprehensive measures to improve earnings and profitability, along with various advice on disaster prevention and disaster reduction, as well as efforts to strengthen services before and after coverage, using DX.

Q11: Regarding overseas asset management on page 37, please explain why it needed to be a joint venture rather than entrustment. Is it possible to entrust other close financial groups other than the MS&AD Group? Furthermore, in the past, individual companies have operated the asset management department, but will the overseas operation platform that has been built this time be considered as a joint operational platform in a broad sense, including asset classes of other group companies? What are your thoughts?

A11: An entrustment could also be an option, but one of the aims this time is to "improve our ability to judge." If you are only entrusting funds, you will be informed of the contents of the portfolio, but you will not be able to understand the process of finding a project. Our goal this time is to go that far and gain know-how. LGT, which has been in business for about 15 years, is a

leader in ESG investment, especially in the sustainability area. Therefore, the main purpose is to directly obtain the investment know-how of the company. We believe that by incorporating the know-how into our company through the dispatch of representatives, it will lead to the establishment of a platform for asset management in Japan.

Another objective is to have an operations front in New York. Our Group's MS Amlin is also very good at asset management and has a very good track record compared to other Lloyds' syndicates. Rather than bringing the whole operation together in one place, we would like to manage it based on the understanding of "What is the market outlook of MS Amlin?" and "What is it like in Japan or New York?" We would like to introduce an asset management system such as Aladdin as a tool, improve communication and utilize it in management.

This was our goal, so we chose a joint venture.

Q12: Does the result of the large IT project on page 53 include the cost reduction from the IT project on page 18? What are the prospects for future cost reductions?

A12: Cost reductions include those resulting from the development of large systems. We have achieved a cost reduction of 52 billion yen by 2021. If we follow the plan, the cost reduction during the next medium-term plan will be 48 billion yen. As we expect to achieve cost reductions ahead of schedule in the current fiscal year, we are considering whether we can raise the starting point and further reduce costs.

Q13: Regarding the capital cost reduction on page 43, in the next medium-term plan, are efforts to reduce other than the three items listed on the slide and expansion of the volume of reduction in the three items considered? What do you think is more effective for increasing corporate value, reducing capital costs or improving ROE? On a Group Adjusted ROE basis, it has already exceeded the capital cost rate of 7%, but on the other hand, in terms of stock prices and valuations, the level is not so high. I think the market is looking for some kind of acceleration, but could you tell me which you think is easier and more effective?

A13: We would like to expand the items of reduction and volume if there is anything we can expand. However, MSI Aioi Life's interest rate risk reduction efforts are nearing completion as the interest rate sensitivity of assets and liabilities has already been matched by more than 90%. The items not shown on the slide are generally considered to be reflected in the capital cost rate, including non-financial information.

In terms of whether it is more effective to improve ROE or reduce the capital cost, we have stated that the capital cost rate is 7%. However, the capital cost implied by the market is a little higher, so we need to close the gap.

In terms of expanding corporate value, it is extremely important to raise ROE, and I think it is very important to create a profit structure that enables a stable ROE level of 10%. As the

global non-life insurance groups have achieved a slightly higher ROE, we believe it is even more important to aim for a business portfolio that can enhance ROE, including portfolio replacement.

Q14: What is the possibility of reviewing the structure of the two domestic non-life insurance companies when considering the next medium-term management plan?

A14: We are always considering the option of merging two domestic non-life insurance companies. At present, however, our group has two front offices as two non-life insurance companies. The basic idea is to unify and standardize middle-back offices. This is a unique strategy of our group, and we would like to deepen it further. In particular, we are considering establishing a system in which a joint claims service system has begun to operate for middle-backs, and by further promoting the common sharing of clerical work and products, Middle-backs will be able to produce effects similar to mergers. I believe that the functional reorganization that we have been promoting to date has had various effects, such as top-line growth and improved productivity. For example, the basic idea is to take advantage of each company's strengths, such as developing products that take advantage of the relationship between ADI and Toyota, while at the same time working together as much as possible. In the area of claims services, the development of joint claims service systems will advance, and efficiency will be improved considerably, such as joint use of insurance claim adjusters and joint use of offices. The basic idea is to promote these things as much as possible.

Q15: Regarding risk-related services, I think this is a very promising market, as regional banks need to disclose climate-related information and provide carbon-neutral consulting to their lenders in order to remain in the TSE prime market. Automakers also have needs related to carbon neutrality. However, the medium- to long-term plan on page 38 does not show any significant growth in risk-related services. Is this business not getting much consulting fees or is this plan conservative?

A15: In the risk-related services business, we are promoting businesses, mainly with InterRisk, that have great strengths in climate change and SDGs consulting, and we intend to further strengthen them. The planned values are still being developed, but we are considering whether we can add more. As an example of DX efforts, we have started a fee-based business of conducting driving diagnosis by analyzing the data of tachographs installed in vehicles with AI. We are also promoting a business for local governments to detect areas of roads that need to be repaired from the images of dashcams. Finding an area to repair in a municipality requires cost, time, and people, so it leads to solving such societal problems. Integrating it with other devices in the car like this could do even better. We are also working to visualize the situation of natural catastrophes in real time. In addition to providing this



service free of charge to general users and consumers, we are also beginning to ask local governments to use it for evacuation and guidance. As each insurance company develops such a system with a sense of speed, we are considering that the InterRisk will play a central role in developing such a system, and we regard this as one of the pillars of the next medium-term plan.

Q16: I think connected cars, autonomous driving and carbon neutrality have a big impact on the Japanese manufacturing industry, including your company. In the next five years or so, how will doing business with Toyota affect the top and bottom lines?

A16: First of all, our Group has a high share in the Toyota-related market and is capturing a large market centered on automobile insurance. In addition, we are strengthening cooperation with Toyota in areas where added value will expand in the future, such as connected car initiatives, autonomous driving, and MaaS. We believe these new developments will add value to other automotive markets and have a significant positive impact on our Group's sustainable growth. In the future, while the frequency of accidents in automobile insurance will tend to decline due to the spread of ASVs and other factors, the unit cost of repairs will increase as the number of high-performance automobiles increases. However, we believe that we can maintain profitability in automobile insurance by adding value to its functions. In addition to automobile insurance, the data business based on initiatives such as telematics is also expected to expand widely in the future. We will continue to strengthen our cooperation with the Toyota Group and work toward this end.