Q1: Regarding your capital policy, if we look only at the total return, it seems to be based on the conventional policy. Is that correct? Also, although the revised ESR is still at a high level, is it correct that the appropriate level has not changed from the previous 180 ~ 220%? Is it correct to assume that the return of surplus capital will be carried out in the current medium-term plan, which will be explained in detail at the Information Meeting?

A1: This shareholder return policy is based on the policy of "Vision 2021," the previous medium-term management plan. The return ratio this time is approximately 50%, which is within the range of the policy of returning 40 ~ 60% of the Group Adjusted Profit. This range is intended to realize stable returns even in the event of profit fluctuations. In fiscal 2021, we had the option of using the lower range of 40 ~ 60% due to the profit margin. From that perspective, I believe that we were able to return the profit well while taking into account your expectations. You can ask the management about the new appropriate level of ESR and the return policy at next week's Information Meeting.

Q2: As a result of the model revision, the ESR decreased by 14 percentage points to 228%. Please tell us how much each of the three factors (natural catastrophes, climate change, asset management) listed on page 23 of the materials affected the ESR. Also, is it correct to think that the assumption that the risk of natural catastrophes will expand in the future was reflected this time?

A2: The effects of these three factors are about the same in terms of scale. In making our risk measurement more sophisticated, we factor in future uncertainties, especially the scenarios associated with climate change disclosed in the TCFD Report. I hope that you can understand that we have changed our risk measurement method to one that can prepare for future uncertainty about climate change by taking the risk model based on past natural catastrophe data to a slightly higher level.

SQ1: Will the higher estimation of natural catastrophe risk influence the reinsurance strategy in the future? As for the assumptions of this term, will the reinsurance cost increase or stay at the same level? Please tell me how you see and think about the reinsurance strategy.
SA1: As for the risk amount, we look at the fluctuation risk for one year within a long-term estimate in the future. There have been no major changes in the reinsurance policy. However, as we expanded reinsurance coverage a little in fiscal 2022, the costs increased by approximately 5 billion yen due to a slight increase in the purchase limit.

Q3: I understand that the estimate of direct losses related to Russia and Ukraine is £60 million and the buffer for interpretation of the terms and conditions is £64 million. In what kind of cases can this increase or decrease?

A3: As the situation between Russia and Ukraine has not yet been resolved, I understand that there is a high degree of uncertainty about what will happen in the future. £60 million has been conservatively factored in by looking at the policy details and location of property and marine (cargo and ships) insurance in Ukraine. It is not clear if we will have to pay the full amount as this estimation is not based on actual claims. It is very difficult to predict how long it will take to resolve the issue, and even when insurance claims are made, there will be differences in the interpretation of the terms and conditions. Therefore, we have included £64 million in preparation for uncertainty. Please understand that this is a preliminary figure for making a plan based on a concept similar to a natural catastrophe budget.

SQ1: It is generally believed that items that cannot be economically or physically recovered due to the Russian sanctions will have a higher negative impact. Is it correct to assume that this estimation is nevertheless mainly related to Ukraine, not Russia?

A3: I mentioned property in Ukraine as an example, but it includes credit insurance and other items related to Russia. Many of them are related to Russia. It is unclear how long the conflict will continue in the future, so especially in the case of credit insurance, it is difficult to make an estimate, but at this stage we are keeping it somewhat conservative.

Q4: I have heard that various companies, such as aircraft leasing companies, have started claiming insurance in relation to Russia and Ukraine. Is the loss outlook made after all the claims have been examined? Also, does it reflect the clause of cancellation where there is no payment even in the event of a claim?

A4: The current assumption of the Russian-Ukrainian impact on losses is not based on actual claims, but rather it is based on an estimate of the expected losses considering the exposure. As for the aircrafts insurance, it is assumed that there are differences in the interpretation of the terms and conditions between the two parties, and it is still unclear whether the aircrafts were actually taken over, so we do not anticipate any losses at this point.
Q5: You talked about the reinsurance recovery, but I wonder if the reinsurance companies will pay, and also there is a problem with the credit risks of the retro market. Is it a valid explanation that it is okay because there is reinsurance?

A5: We have not received any actual claims yet, and it is unclear whether we will pay as a direct insurer. So we will discuss with the reinsurance companies individually after we receive the actual claims. As for reinsurance, we arrange not only reinsurance for each policy but also reinsurance for each event, and we estimate losses including such reinsurance coverage.

Q6: Regarding the influence of Russia and Ukraine on MS Amlin, what is the maximum loss amount and the amount of gross exposure that can be assumed? You said that it is mostly property, cargo risks, etc. Could you list the risks in a descending order?

A6: Although there is a certain amount of gross exposure, we control risks, including reinsurance coverage, and keep net exposure within a certain range. The largest risk is credit risk, followed by property, but there are various types of reinsurance coverage, and there is reinsurance coverage across insurance lines, so it is difficult to identify which line has the largest net exposure.

SQ1: How much is the gross exposure?

SA1: I think it is in the tens of billions of yen range, but since we control the risk amount by utilizing reinsurance, please understand that the entire amount does not affect the profit.

Q7: What is MS Amlin's projected loss ratio for FY2021 and FY2022, excluding large losses? Also, how much are you expecting in major losses other than losses related to Russia and Ukraine?

A7: The non-cat EI loss ratio of MS Amlin was 58.6% in FY2021. In fiscal 2022, the estimated figure is 57% when the impact related to Russia and Ukraine is included, and 53% without that impact. We have also set aside 25.7 billion yen for a natural catastrophe loss fund for fiscal 2022.

SQ1: What is the reason for the improvement in the loss ratio?

SA1: In fiscal 2021, AAG significantly increased reserves for past-year losses, and the loss ratio is expected to improve in fiscal 2022 due to the elimination of that impact. If we distinguish the loss ratio between the current fiscal year losses and past-year losses, the loss ratio for the current fiscal year losses is 52.2%, and the difference from the overall loss ratio is attributed to the loss ratio for the past-year losses. The impact of the rate increase can be seen in the current fiscal year loss ratio.
Q8: I think the natural catastrophe budget is gradually increasing both in Japan and overseas. Please tell me about the concept of setting it. Also, are the effects of inflation included?

A8: The domestic natural catastrophe losses of 72.5 billion yen are based on the expected value in the model. As the number of policies increases, that value increases, and reinsurance factor is added to that. For overseas natural catastrophes, the amount of MS Amlin and ADI head office reinsurance is shown on page 30. For MS Amlin, we used the median value in the past, but now we set it as the same expected value as in Japan. The median value is appropriate when large-scale losses that occur very infrequently are excluded. However, in consideration of recent losses and underwriting layers, the median value has been changed to the expected value, resulting in an increase of approximately 5 billion yen. Other than that, the part where the model is reviewed is offset by the foreign exchange part. It looks like the value is increasing, but the risk amount is being reduced. The effect of inflation is in theory included in the model's expectations, but it is not reflected in a straight way, especially in the case of recent inflation increases. Overseas, where the trend of the inflation rate has changed since late February, the inflationary effects are shown separately.

Q9: What were the good and bad items of the actual Group Adjusted Profit compared to the plan?

A9: In the domestic non-life insurance business, losses from snow damage were a negative factor in terms of insurance underwriting, but gains in income from asset management were positive due to increases in interest and dividend income and gains on sales of securities. In the domestic life insurance business, the profits of the two life insurance companies exceeded the plan. MSI Primary Life, in particular, greatly exceeded the plan, as a large number of policies in FY2021 met the investment targets set by customers at the time of signing the policies, which is a continuing trend from FY2020. MSI Primary Life generally absorbs the effects of interest rates and foreign exchange rates by carrying them into its reserves for price fluctuations. Although the ordinary profit was lower than in the previous fiscal year, the net income exceeded the plan by 28 billion yen. This was due to the fact that the reserve for price fluctuations had reached the legal limit at the end of fiscal 2020 and it was not possible to transfer all of the effects of interest rates and foreign exchange rates to the reserve for price fluctuations.

The negative factors in the international business were large losses at MSI, and an increase in reserves for outstanding claims and inflationary measures that were not included in MS Amlin's earnings forecast.

SQ1: Is it correct to assume that the initial year balance in the domestic non-life insurance is as planned?

SA1: The burden of the initial year balance was lower than forecast. The full recovery of ADI's automobile burden was as planned, but MSI experienced a larger than
expected recovery of its burden of the initial year balance.

Q10: On page 29 of the handout, the inflationary effect is excluded as an incidental factor this time. Is this an assumption that it will just appear at the time of a temporary reexamination of reserves? Or does this mean that there will be an inflationary effect only in FY2022 because there is a time lag and it will be reflected in the insurance premium rate at some point? Is this a factor that may be pushed down only in fiscal 2022?

A10: The "impact of inflation" described here is based on the results forecast after the closing of the accounts of overseas subsidiaries in December. This effect will be reflected in insurance premiums as results come out, but it will be reflected later. This is a temporary factor in comparison with fiscal 2021 and 2022.

Q11: Your net premiums written for voluntary auto insurance are expected to increase by 1.5% in fiscal 2022, while Tokio Marine forecasts a decrease. Please tell us the background and the reason for the increase in your forecast.

A11: It is difficult to compare with other companies. Our premiums increase is backed by further sales expansion of new products such as the "DX Value Series." ADI is also expected to promote a special clause set and expand sales of telematics automobile insurance. The expansion of the overseas Toyota retail business and the impact of the depreciation of the yen also are also expected to contribute to the increase in ADI premiums. Although we recognize that the automobile environment is challenging, our Group has achieved results in this area in the previous fiscal year, and we intend to achieve this level in the current fiscal year.

Q12: Please tell us what kind of assumption is made for the reopening of the economy regarding the loss ratio forecast for automobile insurance.

A12: The automobile EI loss ratio for fiscal 2022 is expected to increase as the frequency of accidents further increases. It is assumed that the frequency of accidents will increase by about 2%, and that the impact of the decrease in accidents due to COVID-19 will continue until the first quarter, and then gradually return to normal. The unit price of insurance claims is expected to rise about 2%, reflecting the current trend.

Q13: Net premiums written for ADI fire insurance are expected to stay flat this year. Does this mean that the increase in reinsurance costs has been factored in?

A13: Fire insurance premiums for both MSI and ADI are expected to increase in fiscal 2022. The increase at ADI may seem smaller because the number of policy renewals is smaller than that of MSI compared with fiscal 2021, and MSI is also seeing an increase in the international business premiums.