

MS&AD Insurance Group Holdings Small Meeting 2020 (Held on March 5, 2021) International Business Day Q&A Summary

The following abbreviations of company names are used in this document.

MS&AD: MS&AD Insurance Group Holdings, 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)MS First Capital, MSFC: MS First Capital Insurance Limited

MGA : Managing General Agent

MSI Guaranteed Weather : MSI Guaranteed Weather LLC

MSMM : Mitsui Sumitomo Marine Management (U.S.A.) ,Inc.

Q1 : Regarding top line of Amlin, the gross written premium growth rate is 12% (on page 6). Will it be achievable by hardening of the premium rates or by the business expansion through the acquisition of MGAs? And secondly, could you also share with us the outlook of increase in premium rate, current situation as well as the medium-term outlook?

A1 : In terms of the growth rate that is indicated, it is a combination between rate increases, as well as small amount of growth in certain classes where we intend to expand. At this point in time, we have not considered any additional premium from acquisitions of MGAs. To expand on the question regarding the 12% growth, we've seen rate increases across almost all our classes, and they range between a 13.5% increase down to a very small 2% to 3%.

It is, however, lower than we anticipated and there's a number of reasons for that primarily driven by COVID; a lot of the assets and the liabilities that we insure are impacted by COVID. Either the valuations have gone down or the level of activity that drives liability has reduced. In terms of the medium term, we do anticipate that the larger growth that we expected and not seen in '21 will spill over into '22 and '23 but at a much smaller scale. We don't believe that the current rate increases are adequate considering the amount of losses across the industry, in particular on CAT exposure and, of course, on COVID. So we do expect in the medium term to see further rate increases, but not as steep as we, pre-COVID, expected to see.

Q2 : Regarding Asia, CAGR of net premium from 2010 is 7% (on page 7). But, currently, it seems that the top line growth has slowed down. You also mentioned that 26 billion to 30 billion contributions to Group Adjust Profit over the medium term, would that be attainable only through top line growth? Or is the improvement in combined ratio that is efficiency having a greater impact or influence? And if the top line growth is a primary reason, in terms of the size of your company does that mean that there still remains rather substantial market that you can offer services to?

A2 : Some of the growth in the earlier years noted came through some acquisitions. In more recent years, with the exception of MS First Capital in Singapore, we did not make acquisitions in Asia.

During the earlier years on the graph, some insurance rates in Asia were still hard so that we could obtain good pricing for many of our products.

In more recent years there has been a softening of the markets; there's been more pressure on price. Our focus has been more on profitability, rather than scale, to ensure that we have a strong combined ratio for the business in Asia.

However, during the most recent renewals, we are beginning to see a turn in the market in some areas and products where again we're seeing a hardening in pricing which will also help us to grow organically.

The effects of COVID-19 on the economies around Asia has affected more the products which we retain the most. In other words, those products where we buy less reinsurance; so for example for motor vehicles, new car sales and usage of cars were affected, and for travel insurance because people could not travel.

These types of products where we retain more were more severely impacted in 2020 than products where we have a smaller retention; so that had a bigger effect on our growth at Net. Inversely, whereas the effect of the pandemic movement restrictions had a negative impact on our top line, it had a positive effect on our bottom line.

We enjoyed lower claims experience, lower expenses as we changed our method of working, going more online, and lower commissions with a slightly lower top line, and so we enjoyed a stronger profit in 2020.

We want to take the learnings from that, together with many of the initiatives which were mentioned within the presentation, to ensure that as the economies

reopen and growth returns, we can take advantage of that growth with our good network, which will result in not only going back to a stronger growth, together in a hardening market, but also continuing a strong profitability going forward. So we are cautiously optimistic we can return to a stronger growth in 2021 and going into '22, and that we can maintain a strong profitability in '21 and '22 going forward.

Q3 : Regarding synergies in Asia, please tell us if you are getting some synergy or leverage effects by doing the business not only in one country but in 10 countries in ASEAN.

A3 : A main thrust of our synergies is through our acquisition of MS First Capital (MSFC), which is the largest company in Singapore and which is a specialist company in terms of corporate, engineering and projects, and in terms of marine, particularly hull. They have deep underwriting expertise for many countries around Asia. This has provided a strong new dimension to our business offering amongst the markets in which we operate in Asia. So far, the amount of business that we've been writing has been strong, however the pipeline of business is stronger and we see a lot of opportunity to grow the business together with MSFC, particularly in property and engineering.

But it's not just synergies in terms of additional business. MSFC have also been helping us with training and the quality of our underwriting as people from our businesses around Asia have been linking in with MSFC to obtain a deeper understanding of the type of business which they write, which is helping us to get better underwriting, and therefore translating into stronger profitability, but which facilitates the ease of doing synergy business with MSFC, as the level of understanding and information is of a good quality.

MS Amlin has a company in Singapore which covers Asia, and we have excellent relationships with the team in Singapore. So we work together with the MS Amlin people in Singapore, who have a strong link with all the expertise that they have in London. So, although the synergies with MS Amlin have been going for longer, we still see opportunities to work with MS Amlin for the benefit of both MS Amlin and our Asian businesses going forward.

The group also has some life companies, e.g. Sinarmas Asia in Indonesia, where there's opportunities in a market such as Indonesia, so we're linking now to the life companies that the group has a participation in throughout the region. We

look at cross-selling, between the life and our non-life entities in Asia, and again, there's opportunity to do some profitable business going forward.

And lastly, in the United States, we have a company called MSI Guaranteed Weather, which we have good links with. As part of group synergy, we link into them in certain markets using their specialist expertise to translate into a different type of product opportunity that they can offer to help us to grow in places like Australia.

So, within the group, because we're a sizable group, one of the largest in the world, there are many companies between MS First Capital in Singapore, MS Amlin in London and Singapore, our general and life companies in Asia, and between companies such as MSI Guaranteed Weather in the US, as well as our strong expertise and position that we have in Japan, where we can leverage on these for the benefit of the business in Asia. So we feel fortunate to have these opportunities, not only to help us to grow organically, but to maintain a broad offering to the market and to sustain a high level of profitability.

Q1 : Following the acquisition of First Capital, I'd appreciate it if you could give us some color on region or function regarding future M&A?

SA1 : We always maintain, between our people in Tokyo and ourselves in Singapore, a close contact with what is happening in the various markets. We keep close contact with bankers such as yourselves, and some other investment banks, in Hong Kong, Singapore and Kuala Lumpur as well as in Tokyo, in terms of opportunities that may arise in the future as we are open to look at M&A opportunities but they have to make sense for us. It's not just doing M&A for the sake of M&A or to obtain further scale, it has to be something which adds value to us, either in terms of profitability, product offering or geographical reach, or in some other area. So we don't have any particular targets which I could talk about today, but please rest assured, we do keep looking actively in a variety of markets around Asia, to see where the opportunities which come up could make sense for us, not only in terms of just scale, but particularly in terms of adding value to the operations that we have in Asia.

Q4 : As for MS Amlin, its combined ratio target is 95% to 97% shown page 13. I'm looking at another presentation material where it shows Amlin's average combined ratio from 2005 to 2014 was 83% and return on equity was 17%. How should we understand this gap? Have natural catastrophes and the reinsurance

markets completely changed and will not return to the state without a strong price hike? Or does it simply show that MS Amlin's current plans are conservative and have a greater potential for improvement in the long run?

A4 : I think there's two fundamental differences between 2005 to 2014 period, and then subsequently. The initial strategy of Amlin was, essentially to specifically look at CAT insurance, property CAT insurance out of the US. Now, fundamentally, what's changed is natural global warming and the weather patterns around the world. In those years, 2005 to 2014, the only year that had significant impact was probably 2005. And that record, which was, if I remember correctly, 26 named storms, it was actually 2020 that exceeded that with 30 named storms. In fact, 2020 had the record since 1916 of 12 landfall hurricanes or events in the US. So the big difference is our combined ratio significantly impacted by weather change.

And that was, back in 2005 to 2014, the bulk of our business. So the strategy was at that point in time to make really good profits in a number of years but knowing that when we have a big year of catastrophe events, we would be losing money. That strategy has changed, the weather pattern has changed. Now, in addition to that, those were the years where we're getting very good rate increases and we took advantage of that during that period.

In 2014, '15 and '16, there was significantly softening within the market, rates fell through the bottom for a number of classes and rates were not adequate for most of the risks that were written in the specialty market. We're now in a position where rate increases are coming through, not as much as we expect, therefore, we expect it to happen for a much longer period of time. In addition to them, we are removing our dependency on just CAT insurance by diversifying our portfolio to be more consistent in producing a 95 to 97 range. Now, bear in mind, if we have a year where we have no CATs, it's going to have a significant improvement on our combined ratio, but we model our future years based on the most recent years, which have had a lot of CAT events in our results. I hope that answers your question.

Q5 : What is your company's unique competitive edge in MGA mergers and

acquisitions?

A5 : I have spent the last three years in the US buying MGAs and selling MGAs. I have an extensive network and knowledge and relationship with a lot of the independent MGAs. I was a member of the association responsible for MGAs. In the last couple of months, I have had a number of conversations with them in the US in terms of what the market's doing, what they're trying to achieve. So, I'm confident that relationships that I have in the market, the knowledge I have in acquiring MGAs, that putting a team together with the people I am familiar with that have that experience. They will be successful in identifying the right MGAs that are complementary to our existing business model that can continue to operate independent that redirect their premium to MS Amlin.

Q6 : You explained AUL's strengths and growth strategies, but I would like you to explain the possibility of utilizing AUL's strengths not only within MS Amlin but also within the MSAD Group as a whole in global collaboration.

A6 : Although the organizational structure of MS Amlin has changed, the cooperative relationship is still ongoing, and we are also collaborating in reinsurance and continental European business. On a group basis, we are pursuing group synergies with the specialty and reinsurance fields in the Asian region, especially with MSFC. AUL will focus on the US market as a future strategy, but the group already has various businesses locally. We would also like to consider cooperation with MS & AD Ventures. It is also in talks with MSMM (US subsidiary) to establish a common back office in the future.

Q7 : What are your thoughts on the expected loss ratio in 2021 in the Lloyds business?

A7 : The past expense ratio was 40 to 42%, but it is necessary to reduce the loss ratio in order to aim for a COR of 95% to 97%. As natural disasters have a significant impact on loss ratios, AUL has reviewed its reinsurance program to reduce its natural disaster exposure. The loss ratio is targeted at between 48 and 55%.

Q8 : What is the relationship between top-line growth and profitability, and profit growth in the Asian business? Also, if the top line continues to grow and

profitability continues to improve, I think that the current goal of generating stable profits of 26 billion yen to 30 billion yen every year is a little conservative. Is there any reason for you to be conservative?

A8 : The Asian market is a highly competitive market, and the insurance market will not necessarily grow as much as the economy. Even when the top line grows, growth alone would not necessarily improve profitability. Some of our competitors make their money more from investments, but our company basically focusses more on profit from underwriting while ensuring a decent return from investments. In order to maintain high profitability, it is necessary to streamline operations and reduce costs by promoting digitization such as RPA and AI. Overseas subsidiaries in Asia are now working to improve their operational efficiency with the assistance of the head office. Maintaining good relationships with customers, brokers, and agents is very important, but the changing environment now also makes it important to address new consumer behaviors, such as increasing online shopping, as well as home working.

Q9 : MS Amlin said that it would maintain the current level of risk for natural disasters. Do you think that the composition ratio by region or category is acceptable under the current situation? Also, what is the medium- to long-term outlook for the return on capital of natural disaster risk?

A9 : The withdrawal from unprofitable businesses, such as the P & C business in the United Kingdom, increased the relative proportion of natural disaster risk in our portfolio. As a countermeasure, we changed the reinsurance program to reduce volatility. There are various layers and rates of natural disaster risk. With the right layers and the right risks, you can increase your return on equity. It is important to avoid areas and events that are frequent and cause significant losses.

Q10 : What is the combined ratio for the Asian non-life insurance business in fiscal 2020 and the plan for the next medium-term management plan? At last year's small meeting on the theme of Asia business, I heard that the combined ratio for FY2018 was 94%. What is the current level?

A10 : We are currently finalizing with our external auditor, however we expect the

combined ratio for the non-life insurance business in ASEAN in FY 2020 to be approximately 80%. This is the best level in the history of our business in Asia over the past 10 years. We expect a combined ratio of approximately 91% including non-life insurance business of China, India, Taiwan and South Korea. In FY 2020, profitability improved due to fewer insurance claims in many countries because of movement restrictions caused by the spread of COVID-19. We believe that the return of people's activities to more normal levels will lead to an increase in claims and a slight increase in the combined ratio, but we hope to maintain a strong level in the combined ratio next year by incorporating the effects of the initial market hardening.

Q11 : As we move forward with the MS Amlin strategy, please comment on the current market price of the MGA .How do you evaluate whether it is expensive or affordable?

A11 : MGA of the US primary business is evaluated based on EBITDA. EBITDA is earnings before depreciation and amortization. Typically, we look at the size of the company and the scale of the business to roughly determine what to consider. If you want to look at MGA's fee income, I will consider about \$5 ~ 6 mil and 2 different multiple methods. And, of course, look at the uniqueness of the MGA. Depending on whether the MGA has special software, agreements, or management teams, these factors can drive up multiple. The average multiple over the past 5 years was about 8 to 10 times EBITDA, but with major private equity firms beginning to focus on the MGA sector, the average multiple at its peak in FY 2019 was 14 times the average price/earnings ratio or 14 times EBITDA. Even considering the commission income, we could not expect much profit. However, in FY2020, due to the influence of COVID-19, etc., the interest of private equity companies shifted from sales companies to companies with assets, and the multiple level began to decline. Assuming a multiple target of approximately 10 times MGA EBITDA, this is a 10% return. Insurance underwriting profit is not included. I hope that gives you an indication.

End