

## **MS&AD Holdings Conference Call (May 20, 2020)**

### **FY2019 Briefing Q&A Summary**

**Below is a summary of the Q&A session from the IR conference call held on May 20, 2020.**

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

MSI : Mitsui Sumitomo Insurance Co., Ltd.

ADI : Aioi Nissay Dowa Insurance Co., Ltd.

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)

ReAssure: ReAssure Group Plc

- Q1: The forecast for the Group's adjusted profit for FY2020 is 180 billion yen. This is a downward revision of 83 billion yen compared with 263 billion yen in the initial FY2019 plan announced a year ago. Both domestic non-life insurance and international business are down, at 56 billion yen and 22 billion yen respectively. Please explain the factors behind the fall in your earnings forecast.
- A1: This is mainly due to an increase of approximately 20 billion yen in reinsurance costs for natural catastrophes and a decrease of 61 billion yen in investment income. We anticipate that the decrease in investment income will include a decrease of approximately 25 billion yen in net interest and dividends (the bulk of this is attributable to a fall in dividend income from stock holdings caused by the impact of COVID-19, with the exception of a 3 billion yen decrease in subsidiary dividends) and a decrease of 27 billion in gains on the sale of securities due mainly to a fall in gains on the sale of strategic equity holdings. Last year the forecast for impairment losses was 9.2 billion yen, but this year it is 22.2 billion yen. We also expect certain other impairment losses, apart from factors associated with individual stock factors and shares. In the International Business, in addition to an increase of approximately 20 billion yen in insurance claims resulting from COVID-19, one of the main factors is our expectation of losses on the investment performance due to market fluctuations.
- Q2: Please explain how reinsurance costs for the current fiscal year are factored into domestic net premiums written.
- A2: Reinsurance costs, in the form of reinsurance premiums related to natural catastrophes, are expected to increase by approximately 20 billion when comparing opening figures for the current fiscal year with last fiscal year.

- Q3: We anticipate a top line decrease due to a reduction in CALI (Compulsory Automobile Liability Insurance) rates in the current fiscal year, among other factors, which we envisage will happen in January next year.
- Please explain whether the increase in fire insurance rates is reflected in the forecast. Also, earned premiums are projected to increase despite the fact that net premiums written are decreasing, so please explain whether this increase in earned premiums is due to an increase in long-term premiums for fire insurance.
- A3: The increase in rates for fire insurance premiums has not been factored into the forecast for FY2020. With regard to the relationship between earned premiums and net premiums, earned premiums include premium growth from previous years, which includes long-term fire insurance premiums. Note that CALI (Compulsory Automobile Liability Insurance) is not included in earned premiums, meaning that any decrease in CALI premiums will not affect earned premiums.
- Q4: From January to March, automobile insurance revenue and expenditure were very favorable in all countries, and as the frequency and number of accidents are expected to fall from April through to June, it is highly likely that the loss ratio will improve. Please explain the reasons for how you have anticipated the automobile insurance loss ratio in the earnings forecast for FY2020.
- A4: Both MSI and ADI expect an increase in the automobile insurance EI loss ratio (a 1.2 point year-on-year increase for the two companies combined (excluding natural catastrophes)). Although we expect to see a fall in the frequency of accidents due to reduced traffic volumes, we anticipate an overall rise in the loss ratio if we factor in consumption tax increases for the full year and revisions to the civil code, etc., and also consider the ongoing trend of rising unit costs.
- Q5: Expenses are projected to increase in FY2020 forecast, so could you explain whether you have any thoughts about curtailing unnecessary, non-urgent spending during the COVID-19 pandemic?
- A5: Given the situation with the COVID-19 pandemic, we aim to accelerate cost-cutting for unnecessary, non-urgent expenses as much as possible. Although expenses will increase due to significant depreciation costs for systems from FY2020, we are taking definitive steps to reduce expenses in other areas.
- Q6: The forecast for insurance claims arising from the impact of COVID-19 is put at 20 billion yen. Can you provide a breakdown of those claims by geographic region and

product type?

- A6: Most of the increase in insurance claims will be from overseas. In Japan, we anticipate losses from credit insurance and business interruption, but we do not envisage any significant impact on profits as these losses will be offset by a reduction in losses resulting from economic stagnation, and we also have catastrophe loss reserves. Regarding overseas, we estimate losses from business interruption, guarantee/credit, event cancellation, mainly at MS Amlin. We have not disclosed the breakdown of this.
- Q7: In Europe and the US, governments are intervening with regard to the payment of COVID-19 insurance claims. What level of losses do you anticipate in a worst-case scenario? Please tell us if there is any indication of this creating a downside to your earnings forecast.
- A7: It is hard to predict when the situation will be resolved and how the economy will recover afterward, so it is difficult to give you a worst-case scenario. However, Lloyd's recently announced that the total estimated losses from COVID-19 on the Lloyd's market could be of a scale comparable to those from the series of hurricanes in North America in FY2017. We believe that losses at MS Amlin will probably not reach the size of the total losses incurred from the hurricanes in North America for now.
- Q8: For business interruption insurance (BI) underwritten in the UK, there is a dispute on whether insurance claims need to be paid during lockdown for incidents occurring within a one-mile radius of the insured premises. Please explain whether or not the 20 billion yen figure includes anticipated payments in this kind of area, which is not clearly defined in insurance policies.
- A8: At the moment there are many discussions about BI in the UK. We have factored into our earnings forecast the limit of what we think we should have to pay out, based on the standard interpretation of terms and conditions.
- Q9: As regards the outlook for the payment of insurance claims related to COVID-19, I believe a statement was released by Lloyd's estimating 107 billion dollars in insurance claims payments worldwide, so it seems fair to say that, in underwriting terms, this was within the anticipated level of risk. Please share your thoughts on risk volumes and whether you think underwriting models will change in the future as a result of the impact of COVID-19.
- A9: Our Group carries out assessments incorporating stress scenarios for pandemic risk, and we also manage risk accumulations in a proper manner. As it is difficult to allocate risk globally, we adjust risk volumes by clarifying coverage in insurance policy wordings

and by using reinsurance. In this sense, it was within the anticipated risk level.

In terms of unanticipated risk, this is the need to pay additional claims inflated by political design or similar, above and beyond the limits stated in policy wordings, where this cannot be anticipated.

SQ9: Looking at the business cycle, am I correct in assuming that at some point there will be a hike in insurance premiums to deal with these risks, given the impact of reinsurance costs?

SA9: Yes, that is correct. If there is the potential for a product to be revised on political grounds, we believe it is important for coverage to be provided in a sustainable manner by setting insurance premiums that are commensurate with the risk.

Q10: Can I please check the assumptions on the market environment used in the FY2020 earnings forecast for MS Amlin? Since the end of March 2020, the market environment has recovered, but was the earnings forecast created using the situation at the end of March across the board, or have the market movements up to the present time been factored in?

A10: We believe that the market was extremely low at the end of March, so to a certain extent we have also taken into account the current market environment since the end of March for MS Amlin.

Q11: You stated that the increase of approximately 20 billion yen in claims resulting from the impact of COVID-19 is primarily from international business. Is it right to assume that this is mainly from the increase in incurred losses at MS Amlin? Of this, how much provision of IBNR will be? Also, what assumptions have been made on the length of the lockdown period? And what assumptions have been made if it is unclear whether or not a policy is eligible for pay-out?

A11: The increase in claims resulting from the impact of the COVID-19 for MS Amlin is expected to be 135 million pounds, or approximately 18 billion yen, which accounts for the majority of the 20 billion yen estimate. This estimated increase of approximately 18 billion yen in insurance claims has not been classified into IBNR and others.

We have assumed that lockdown will last around 3 months. Furthermore, our calculations are based on the assumption that insurance claims will be paid in those cases where we deem pay-out to be appropriate under policy terms and conditions. For example, we have made our calculations based on a lockdown period of around 3 months for business interruption insurance, and for credit/guarantee insurance we have estimated how much is likely to be payable.

Q12: MS Amlin's investment income of 263 million pounds in FY2019 is predicted to fall to 30 million pounds in FY2020. Am I correct in my understanding that this is because the large increase in unrealized gains recorded as profit in FY2019 is expected to virtually disappear and this has been factored into the FY2020 forecast, which is based on the market environment at the end of March 2020?

A12: Yes, that is correct. In FY2019 there was a significant increase in investment gains from stocks in particular, but we recognize that this portion of profits will be stripped out in FY2020.

Q13: You have said that the dividend forecast for FY2020 remains unchanged based on the uncertainties of COVID-19. Please tell us if there can be an upside in the form of a dividend increase, depending on future circumstances.

A13: Firstly, our shareholder return policy remains the same, with a target of 40–60% of the Group's Adjusted Profit. Accordingly, returns will change depending on the outlook for the Group's Adjusted Profit.

I cannot say here to what extent this will be affected by COVID-19 or what will need to happen for a dividend increase to take place, but please feel free to put the question directly to management at the Information Meeting which will be held on May 26th.

Q14: In FY2019 the market experienced significant fluctuations, causing impairment losses in strategic equity holdings. Please tell us if you plan to speed up the sale of these holdings or increase hedges on them.

A14: As has been the case to date, we will continue to sell 100 billion yen's worth consistently each year, and there are no changes in our plans to reduce this risk.

Q15: Is there a risk that the sale procedure for ReAssure will be delayed by the impact of COVID-19? Also, is the dividend income from Phoenix included in the earnings forecast for the current fiscal year?

A15: At present the timing for completion of the transaction has not been fixed, but we do not expect any delays due to the impact of COVID-19 and we are proceeding as planned. The dividends from Phoenix have been factored in to a certain extent, on the assumption that the transaction will be completed as scheduled.

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