MS&AD Insurance Group Holdings
1st Information Meeting of FY2020 (Held on May 26, 2020)
Q&A Session Summary

The Q&A Session Summary at the Information Meeting held on May 26, 2020 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.

MSA Life: Mitsui Sumitomo Aioi Life 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)

Q1: Could you please explain the outlook for achieving the Group's adjusted profit of 300 billion yen in FY2021 on Slide 18. In International Business, you say that the 28 billion yen impact on MS Amlin from COVID-19 will drop out, but apart from that, in which areas do you envisage a profit recovery from FY2020 through FY2021?

A1: We expect to see a recovery in profit in the domestic non-life insurance business as the negative impact of COVID-19 on investment performance disappears. In the domestic life insurance business, a major factor will be profit growth of over 10 billion yen from an increase in the amount of policies in force and an expansion in profits from investment at MSA Life. In International Business, the close to 30 billion yen negative impact from COVID-19 will disappear, and we also expect profits at MS Amlin to recover. Moreover, we expect the increase in profits from the international life insurance business and Asian business, we believe that we can expect profits of around 75 billion yen in FY2021, which will be an increase of 55 billion compared to FY2020.

Q2: Looking back on the past six years since Mr. Karasawa was appointed CEO, what do you think you have achieved and what challenges do you think will be passed on to the next management team?

A2: I feel our successes have been the construction of a stable earnings base to provide the foundation for shareholder returns through dividends and the repurchase of our own shares; the steady progress made in reducing strategic equity holdings, which has been achieved with the understanding of all our affiliates; and the promotion of digitalization which, to some degree, has allowed us to build a foundation that will lead to new business models and future systems.

I would say the challenge is to build a system that can achieve a stable ROE of 10%. For this, I believe we need to expand the scale of our profits moving forward, and as well as repurchasing our own shares (given that currently we have a greater number of outstanding shares compared to other groups), also ensure that we have a stronger International Business with the focus on the recovery of profitability at MS Amlin.

Q3: Please tell us about the increase in systems-related costs that will occur over the next 3–4 years and what benefits this will have.

A3: As the diagram on the bottom left of Slide 30 shows, moving forward the cost of reforming online systems, standardizing products and administrative affairs, and developing a joint claim service system will increase, but on the other hand, we will start to see benefits from these systems from around FY2022. In FY2022, we will see benefits of around 20 billion yen versus a cost of 26.7 billion yen, with a steady increase in benefits thereafter. To explain these systems in a little more detail, from FY2019 to FY2020 we have been releasing a series of online reforms to provide mechanisms for marketing and contract management. From FY2021 onwards, we will release BRIDGE – the Group common platform for the payment of insurance claims. With these systems, we will be able to further develop teleworking and the environment to work remotely. In addition, we released the agent services support system “MS1 Brain" in FY2019. In FY2020, we plan to widely expand functions that digitally connect customers and agents. The construction of these systems will also allow us to advance paperless business. We will be able to reduce printing and delivery costs by abolishing the need for application forms, digitalizing insurance certificates, and replacing postal matter sent from Group companies to customers with e-mails. This will also lead to a reduction in the office space and allow us to save on office-related expenses, which are close to 50 billion yen across the entire Group. Changes in work styles created by the new systems will lead to reviews of organizational arrangements and staffing requirements.

Furthermore, we are planning additional cost-saving measures in Stage 2, with benefits of 30 billion yen from improvements in operational efficiencies, as described on the right of Slide 21. We recognize that expense ratio is a major challenge for management, so we are monitoring how investment in systems, etc. is linked to the top line and how it ties up with cost savings. And we are also working to further reduce operational expenses in other areas except systems costs.

Q4: Do you have an idea to consolidate domestic insurance subsidiaries, given the current impact of COVID-19?

A4: As I have mentioned on previous occasions, as a Group we are developing a framework that will allow us to integrate MSI and ADI at any time. On the one hand, as the Group's combined ratio to date and the growth of domestic earnings have shown, we believe reorganization by function is effective to allow the achievement of both growth and efficiency at the same time, provided that the market situation allows us to maintain a healthy combined ratio. However, consolidation may prove a powerful option if we end up living with COVID-19for a prolonged period of time and the profit structure of domestic non-life insurance companies changes so that a mass-scale reduction in expenses becomes a major management issue. Consequently, we recognize the need to prepare a framework that will allow the Group to consolidate at any time.

Q5: With the Group's Adjusted Profit for FY2020 at 180 billion yen, total shareholder returns of 108 billion yen will be lower than in FY2019, even if you use the maximum of 60% for the total return ratio. Are you particular about increasing the amount of total returns? Also, although you expect to keep the dividend intact for FY2020, please let us know if there is any room for increasing the dividend.

A5: With regard to shareholder returns, the Group recognizes that basically there are too many outstanding shares. Therefore, if possible, we hope to proceed with the repurchase of our own shares in a proactive, flexible manner, while we also keep an eye on stock prices and our financial soundness.

As we are unable to assess the impact of COVID-19 at this point in time, we have left the dividend for FY2020 unchanged. We need to look at the interim results and assess the situation in the fall of 2020, but we could say we do not rule out the possibility of increasing the dividend.

Overall, we will also take into account the problem of job retention and the financial influence that we retain, and we will look at how we fulfill our roles and responsibilities to society with regard to these issues. With regard to returns for FY2020, we have some leeway in the repurchase of our own shares, and there is also the possibility of using a return ratio over 60%. We would like to proceed with discussions on the basis of a fair balance for all stakeholders. These return policies were discussed by a meeting of the Board of Directors, taking into account the opinions of outside directors.

Q6: With regard to the reduction of strategic equity holdings, targets have been achieved for the proportion of total risk and the proportion of consolidated total assets accounted for by these holdings. Could you tell us about your next targets? Please also tell us about the factors that would cause an expected significant increase in gains from the sale of strategic equity holdings in FY2021.

A6: We will continue to maintain the targets for the proportion of risk and consolidated total assets accounted for by strategic equity holdings. At present we are meeting the targets, but if share prices rise, we will not be able to meet them. Strategic equity risk is the main risk for the Group, and we believe we will need to continue to sell around 100 billion yen’s worth every year moving forward. We also need to think about our counterparts, so we will consider the scale of the reduction in the next medium-term management plan and announce our findings. One of the factors that will boost profits from the sale of strategic equity holdings in FY2021 is that the market is expected

Q7: What is the significance of the "Akibare Re 2020-1" catastrophe bond issued by MSI in Singapore in April 2020?

A7: It was issued as a follow-up to "Akibare Re 2016-1," which was issued in April 2016; in other words, you may think of it as something akin to refinancing.

(For details, please refer to the MSI press release dated April 7, 2020, entitled “Issuance of Catastrophe Bond “Akibare Re 2020-1” in Singapore.")

Q8: In 2020 you launched an insurance claims payment service using chatbots for personal accident insurance aimed at individual customers. How is that being used? And do you have any plans to extend its use to also include fire insurance and automobile insurance?

A8: We are making huge efforts to improve user-friendliness for our customers by promoting digitalization, which includes the introduction of chatbots. Initially, we started by introducing chatbots for personal accident insurance, where the insurance claims procedures are relatively easy to control, but, moving forward, we intend to extend their use to core products such as automobile insurance and fire insurance.

To enhance customer satisfaction, I think it's a question of how we can provide answers that properly reflect what the customer is asking. We would like to proceed by making full use of the Group-wide AI platform introduced in FY2019 to enable efficient operations.

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