

MS&AD Holdings Conference Call (August 7, 2020)

FY2020 1Q Briefing Q&A Summary

Below is a summary of the Q&A session from the IR conference call held on August 7, 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: Net income, at 96.6 billion yen, shows a high rate of progress of 74.3% against the full-year earnings forecast; could you please share your assessment at this point in time?
- A1: Two special factors have led to this high rate of progress. The first is that the extraordinary income includes a reversal of the reserve for losses on sales of the stock of an affiliate (ReAssure) of 8.1 billion yen. This is a result from a rise in the stock price, which is the value of the transaction, from the end of March 2020 onwards. This was not included in our initial forecast. The second point is that this figure includes 20.3 billion yen from the application to domestic companies to introduce the consolidated tax return filing system.
- Q2: Group Adjusted Profit for the international business was negative, and seems to be behind the full-year targets; please explain the main factors for it.
- A2: The majority of overseas entities have consolidated their earnings results for the period from January through March 2020. In terms of investment profit in particular, progress in the first quarter appears poor because earnings results were consolidated during a phase of financial market decline at the end of March 2020. The full-year plan factors in part of the recovery from the end of March.
- Q3: Please update us on the current status of the declaratory judgment proceedings by the UK FCA concerning business interruption insurance.
- A3: The FCA hearing closed on July 30, 2020. Though the FCA is aiming for early resolution and it is hoped that the decision will be made in August, there are numerous issues surrounding the case with a vast quantity of papers to be reviewed by the judge. Therefore, the High Court may take time for making its judgment by around mid-September. Furthermore, it may take even more time for the ruling to be finalized because an appeal can still be made to the Supreme Courts after the High Court issues its ruling.

Q4: Regarding the incurred losses related to COVID-19 listed on Page 12, the losses in the first quarter reached 14 billion yen, but I understand that the expected incurred losses for the full year were estimated at 20 billion yen, mainly in the international business. Has it progressed according to the initial forecast?

Furthermore, the companies that have accrued significant claims payments in the first quarter stand out a lot in Europe and the United States; has your outlook remained the same since you announced your full-year forecast three months ago?

Also, I understand that your company's policy is to quote based on clear contractual obligations for claims payments; please explain how much you think the 20 billion yen outlook might increase if you include the risk for areas of ambiguity in the contract.

A4: Progress in the first quarter was roughly as planned.

We are uncertain about the future outlook, as interpretations of the local policy wording are not clear. However, our policy interpretation remains unchanged, and we do not believe that we should change our outlook at this time.

As for the level of variability, for example, in the case of a directly underwritten contract for business interruption insurance in the UK we anticipate that the upward range would run into several billion yen. This would be the case even with a ruling that largely acknowledges the FCA's claims in a court case between the FCA and an insurance company within the UK.

In addition, reinsurance, credit/guarantee insurance, etc., will vary depending on the impact on future economic activities and policy interpretation decisions in each country, making forecasts more difficult. At the time of May's announcement, however, certain amounts were also priced in, and we do not believe that changing our outlook is currently warranted.

Q5: I believe that the amount of incurred losses made by heavy rain in July 2020 still leaves some breathing rooms vs. the full-year natural catastrophes budget. Nevertheless, please tell us how much progress was made by the end of July.

A5: For reference, the estimated amount of insurance claims made due to heavy rain in July 2020 is shown on Page 12 of the document. The amount is expected to reach 28–33 billion yen on a basis of 100% original insurance, and excluding contracts that feature another company as the lead underwriter. Since it is based on 100% original insurance, adding reinsurance will reduce the amount, which also includes the share of co-insurance with other companies.

Q6: The EI loss ratio for domestic automobile insurance during April–June has improved significantly as described on Page 15 of the document. Please tell us if there are any areas performing better than expected in terms of profit compared to the full-year outlook.

Furthermore, I understand that the EI loss ratio for MSI's automobile (bodily injury) was calculated with a simplified method using the most recent year's loss ratio. Is this correct?

- A6: The EI loss ratio for automobile insurance was lower than predicted, as the number of accident cases has decreased more than we expected. In full-year terms, however, a substantial portion of these benefits will not directly boost financial accounting profits on an incurred basis due to a fall in the reversal of catastrophe reserves.
- While we are using a loss ratio method-based simplified method to calculate quarterly incurred losses for MSI, this time around we have adjusted automobile insurance (bodily injury) and personal accident insurance to reflect the current reduction in the number of accident claims received.
- Q7: The costs of reinsurance were concentrated in the first quarter of the year last fiscal year. Is the same thing happening this fiscal year?
- A7: Out of the 20 billion yen reinsurance cost increase stated in the term-beginning performance forecast, there was a 10 billion yen increase in reinsurance premiums in the first quarter due to the large amount of semi-annual premiums.
- Q8: Based on the first quarter's results, what is the full-year outlook for insurance premiums for overseas insurance subsidiaries?
- A8: The insurance premiums for overseas insurance subsidiaries in the first quarter are currently progressing on the initial plan. For full-year insurance premium forecasts, we took into account some degree of impact of COVID-19 at the beginning of the year, but there is no indication of an extreme drop in insurance premiums so far.
- SQ8: Premium incomes from European insurance subsidiaries has fallen by approximately 9%. Am I correct in my understanding that the fall into the negative range despite the rate increases was due solely to ongoing review into unprofitable businesses?
- SA8: For insurance premiums in Europe, withdrawal from unprofitable businesses and non-core fields has been the main causes of the decline in premium incomes despite the higher rates and other factors.
- Q9: What are the reasons for the deterioration of EI loss ratios for "Other" and "Marine" at both non-life insurance companies?
- A9: For "Other" which includes Specialty Insurance Products, this was due to the increase in large accidents for MSI and ADI, as well as to a higher impact of the strong yen on foreign currency reserves, lower incurred losses, in the first quarter of the previous year.
- Incurred losses for "Marine" insurance have been calculated using the average loss ratio over the past three years. The loss ratio for the last fiscal year was high due to large losses, and it seems to have fallen compared with the previous year.

- Q10: For automobile insurance, EI loss ratios have improved by 7 points, but WP, Written Paid basis loss ratios have only improved by 4 points. What is the reason for this gap?
- A10: The EI loss ratio is calculated on an occurrence basis, and is therefore an indicator that becomes apparent before the WP loss ratio. We are still making payments even as we continue to deal with COVID-19, so expect the WP loss ratio to drop in the future.
- Q11: I believe the outlook for the increase in reinsurance costs over the full year was approx. 20 billion yen. Does the 14.6 billion yen impact of leveling the reinsurance costs on the graph include one quarter of the increase over the full year (approx. 50 billion yen)?
- A11: The impact of leveling the reinsurance costs shown on the graph on Page 9 has been calculated by revising the calculation method of earned insurance premiums recorded on a quarterly basis from ELC reinsurance contracts whose liability period ends with the fiscal year. Yearly results are not affected. The annual increase in reinsurance costs (earned insurance premiums) is estimated to be approx. 20 billion yen. The increase in reinsurance costs in the first quarter will therefore be approx. 5 billion yen as a result of leveling. These 5 billion yen are included in the 14.6 billion yen impact of leveling.
- Q12: What caused the negative net income for the international life insurance companies as described on Page 18?
- A12: Many overseas companies consolidate their earnings results in March, and were heavily affected by the fluctuations in the financial markets in March this year. Some overseas life insurance companies use accounting processes that directly reflect fluctuations in market prices in their PL, and that effect is included here.
- Q13: Regarding the effect of COVID-19, the impact on net profits and the amount of claims payments were generally in line with the amounts forecast at the beginning of the term. That said, could you tell us if there is any indication of an increase, or even a risk of a slight decrease, based on the current environment for investment income?
- A13: The impact of COVID-19 on investment income was originally forecast at -60 billion yen for domestic and overseas combined at the beginning of the term. Domestically, as stock prices have also risen more than they were expected to in the start-of-term forecast, investment income has risen slightly higher than were forecast at the beginning of the year, and is holding steady. Overseas, however, there are some subsidiaries which use accounting processes that reflect market price fluctuations directly into the PL, and although the company is currently in line with the performance expectations of a steady improvement in the operating environment from the end of March, the risk of fluctuations remains unchanged.

- Q14: Incurred loss at MS Amlin due to COVID-19 seems to have been high in the first quarter when compared to the start-of-term forecast of £135 million (annual). Is it progressing as planned?
- A14: Incurred losses due to COVID-19 have not grown too large in the first quarter (beyond the initial forecast), and are progressing as planned. Looking ahead, there is some uncertainty about how insurance contracts for business interruption will be handled, which means we will face a certain amount of fluctuation risk factors.

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