MS&AD Insurance Group Holdings
1st Information Meeting of FY2019 (Held on May 24, 2019)
Q&A Session Summary

Below is a summary of Q&A session from the Information Meeting held on May 24, 2019

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

MS&AD Holdings, Holding Company : MS&AD Insurance Group Holdings, Inc.

MSI : Mitsui Sumitomo Insurance Co., Ltd.

ADI : Aioi Nissay Dowa Insurance Co., Ltd.

MSI Aioi Life : Mitsui Sumitomo Aioi Life Insurance Co., Ltd.

MSI Primary Life : Mitsui Sumitomo Primary Life Insurance Co., Ltd.

MS Amlin : MS Amlin plc

BoCommLife : BoComm Life Insurance Company Limited

Q1: Regarding the revision of fire insurance rates, the materials state that "premiums are planned to be raised by around 7%." What do you forecast will be the respective percentage increase when separated into household and corporate lines? Looking at "Effects of revision of ratings (forecast)", it gives the impression that underwriting profit will improve relatively sooner than expected. This makes me think the price increases for companies may be larger than anticipated.

A1: Newspaper reporting has preempted the revision of fire insurance rates, and the Company has not disclosed these yet, but please understand that they will be around 7%. This is mainly due to the impact of the household lines. As for the corporate lines, we are conducting individual negotiations from the perspective of ERM and it will vary depending on the company due to the high level of individuality of each company.

In addition, the level of rate revision varies substantially depending on the loss ratio by product, line, and region, and although it is difficult to generalize, the overall average increase will be about 7%, and preparations are currently being made to revise the products and rates.

Q2: With regard to the catastrophe reserve, you say that the targeted balance was lowered from the previous level. What is the current target for the fire insurance catastrophe reserve? Also, would you please confirm if there is any possibility of additional provisions being included in this year's catastrophe reserve?

A2: With regard to the target catastrophe reserve, we were able to constrain the statutory target amount to a certain degree as a result of increased purchases of reinsurance and the introduction of a mechanism enabling unified management of holdings in the form of joint coverage for MSI and ADI.

The provision ratio has been raised from 5% to 6% at MSI due, in part, to the revision of the tax system, and from 8% to 12% at ADI due to the impact of some reversals from payments for natural catastrophes in the Head Office reinsurance business. If we proceed at this level, we will be able to steadily clear the target amounts in FY2020.

Q3: From FY2019, the catastrophe reserve for automobile insurance is expected to be on a reversal track. If the loss ratio in voluntary automobile insurance fails to improve and the catastrophe reserve continues to be reversed at the current pace, the decline in the catastrophe reserve will make it impossible to boost financial accounting profit with reversal gains 2 to 3 years from now.

Catastrophe reserve does not affect Group Adjusted Profit, so I would like you to explain what your approach to financial accounting profit will be in the future.

In that case, will you consider revising the premium rate of automobile insurance? Or, I understand that in FY2018, you made additional reserves through profit-making transactions of strategic equity holdings. Is there any possibility that such measures could cover profits?

A3: The source of shareholder returns is Group Adjusted Profit, so we are basically focused on Group Adjusted Profit. However, since financial accounting profit is the focus of mass media coverage, and because some investors attach importance to financial accounting profit, management is sensitive about financial accounting profit.

With regard to the catastrophe reserve for voluntary automobile insurance, as the loss ratio deteriorates due to the impact of the consumption tax hike and lowering of the statutory interest rate, we anticipate that we may not be able to expect reversal gains due to the decline in the catastrophe reserve. In that situation, we anticipate that one option will be to revise the premium rates for voluntary automobile insurance, and the Company is engaged in initiatives to address such a cycle. With regard to the realization of gains on strategic equity holdings, we have established rules for implementing this only in circumstances such as when especially increasing reserves such as the catastrophe reserve, and this is not carried out without rules.

SQ: If the voluntary automobile insurance catastrophe reserve of each company declined significantly, would it be an incentive for the General Insurance Rating Organization of Japan to speed up the revision of the reference loss cost rate?

SA: As it is a neutral organization, we are not in a position to comment on that policy. However, revision of the reference rate is fundamentally based on the results over a review period, but future projections are also taken into account. There may be some sort of incentive in the process of determining these projections.

Q4: The system investment (in particular, the joint claims services system) on page 21 of the materials shows investment increasing by 26 billion yen year-on-year, but a small decline in the effect. Would you please explain the background to this? Also, would you please confirm that I am correct in understanding that the timing of reaching an expense ratio of 30.0% will be delayed?

A4: The joint claims services system is a project requiring a comparatively long development period, but due to unprecedented disasters last year, partial changes have been made to the design and specifications by reviewing the existing claims service system and ensuring that the development system is adequate.

Furthermore, we are working flexibly to incorporate advanced technology that has emerged during development and releasing such technology in advance. An example is the technology related to drive recorder image data.

A factor leading to the slight decrease in the effect is the exclusion from the effect of the portion equivalent to technology introduced in response to natural catastrophes.

Our target is for the expense ratio to reach above 30.0% next fiscal year or in the next medium-term management plan. This will be achieved through three points: dramatic improvements in the productivity of basic operations using digitalization, elimination of the duplicated structure with agents, and sustained growth of the top line. The impact of the delay in the joint claims services system is minor, but we will ensure there is no delay in achieving the final target by bringing forward the shared use of offices, etc. and early implementation of measures in aspects other than the system.

Q5: International business accounts for around 20% of profit in the forecast for FY2019, but this is slightly behind the plan and also behind when compared to the two other non-life insurance groups. In FY2019, will you conduct medium-sized M&A while placing the highest priority on profit recovery of MS Amlin like last fiscal year, or will you proceed with a large M&A exceeding 100 billion yen? Would you please tell us your future direction?

A5: There has been a slight delay due to factors such as the delay in the profit recovery at MS Amlin. However, there is no change to our approach of aiming for the business portfolio announced in the medium-term management plan as the basic structure for FY2021. Based on this assumption, we expect 90 to 100 billion yen of the 117 billion yen target to be organic growth including increased investment in existing businesses. The difference of around 20 billion yen will be due to new M&A. Quicker is better, but we will proceed by fulfilling the investment discipline based on the Group's M&A policy. For example, we shall consider compatibility with Group culture, achieving risk diversification, and having a sound growth model. To ensure we do not cause any inconvenience to investors, we will take our time, keep our ear to the ground for promising targets, and consider a variety of options while further strengthening the structure for achieving our goals.

Q6: Lloyd's posted a loss for two consecutive years, but this March, the CEO of Lloyd's made rather bullish comments about the forecast for 2019 due to progress in raising rates and restoring earning capability due to progress made in structural reform by also gradually reducing parts of the portfolio with poor performance. MS Amlin seems conservative in relation to this. What is the reason for that?

A6: Lloyd's restrained premiums on underwriting for all syndicates in FY2019 by approximately 8%

year-on-year, and we do not believe premiums will increase significantly this fiscal year. At present, the headquarters of Lloyd's has adopted a stance of limiting the absolute volume of underwriting, such as restricting the underwriting of low-profit policies by syndicates, which also applies to MS Amlin.

With regard to MS Amlin's improvements in earnings, the increase in IBNR for non-catastrophe risks has largely been completed, and initiatives to improve underwriting rates and conditions are also progressing steadily. At present, based on the headquarters of Lloyd's policies, etc. that take account of the deterioration in the performance of the market as a whole, there is limited reflection in the rate increases and planned loss ratio in the underwriting improvements, and we believe this also incorporates the view that it will lead to future profit.

Furthermore, the headquarters of Lloyd's is engaged in improving earnings with unflagging resolve, and being in the No. 2 position at Lloyd's, we would like MS Amlin to play a leading role as a model case to drive all syndicates.

Q7: You explained that there has been some delay in the progress of Group Adjusted Profit for the international business in relation to the medium-term management plan targets. However, looking at the figures, I think the target of 117 billion yen in FY2021 may be difficult to achieve. I think "adding 100 billion yen in organic growth" is virtually the same as the explanation given in May 2018. Am I correct in understanding this means MS Amlin is in a downturn? Alternatively, what kind of progress is being made in ADI's BIG, international life insurance, and other overseas subsidiaries? If you could provide a sense of the volume, it would be possible to understand that there is a slight delay in the recovery in earnings. Please provide more details.

A7: For the part that is organic growth, although the profit recovery at MS Amlin has been delayed, we would like to cover this through the percentage of equity in international life insurance business and other steps, in addition to a variety of other businesses.

From 1988 to 1992, it took Lloyd's five years to go from making a loss to making a profit in conditions the same as now. With intense competition and conditions making it difficult to raise rates, it spent five years returning to profitability by properly keeping underwriting discipline while utilizing reinsurance companies specializing in runoff and increasing capital. Considering this historical backdrop, MS Amlin should not rush to expand without being able to use the management resources it should normally have at its disposal. Rather, by establishing a firm foothold, it will become a platform for the Group's future. The structure in which MS Amlin steadily engages in efforts to restore profitability with the backup of the MS&AD Group and covered by other businesses is the organic part.

For the inorganic part, we will consider whether it is necessary to revise the next plan once Stage 1 is completed to ensure we do not disappoint the expectations of all investors by rushing.

The "delay" in the profit recovery at MS Amlin is, as explained earlier, not a delay in terms of being unable to do what it should do. It should be understood to be a delay in the timing of being able to release the past years' IBNR and a delay in recognizing profit due to the lack of clarity about the timing to be able to significantly reflect the current favorable rate increases and the impact of improved conditions in lowering the ultimate loss ratio.

Q8: With regard to page 53 of the materials, I would like you to explain how ERM management is moving. According to the chart shown in the materials, the medium-term target for ROR is 13% if ROE is 10%, so I think 13% ROR is a guideline for determining whether to invest in or withdraw from new business. I would like you to tell me how much leeway will be given to businesses that fall short of this level, what sort of cycle there is for monitoring through meetings, etc., and how you will specifically respond.

A8: ROR is monitored regularly. In cases such as, for example, the domestic fire insurance where ROR is low, we cannot realistically withdraw from the business, so we respond through steps such as raising rates. With fire and casualty insurance in particular, we are engaged in steps including dealing with individual policyholders such as changing rates and underwriting conditions mainly for commercial lines. Furthermore, we also have the same approach to international business, and we implement monitoring quarterly and conduct regular reviews. As a result of continuous monitoring, we have had two cases of immediate withdrawal to date including China's Sinatay Life Insurance. However, there is also the perspective of how we will build our network, and our response is not to immediately withdraw. Please understand that we will respond appropriately in the process of our monitoring.

Q9: Looking at page 54 of the materials, the risk amount in the domestic life insurance business is increasing to be on a par with strategic equity holdings due to factors such as the declining interest rates, and it seems to be becoming a segment requiring capital. The domestic life insurance business only accounts for 13% of Group Adjusted Profit and has become a factor lowering capital efficiency. This is due to the interest rate risk of MSI Aioi Life, and I think it is difficult to reduce the risk amount, but I would like you to tell me what steps are being taken to improve the ROR of this life insurance business.

A9: There is no mistaking that the recent decline in domestic interest rates has lowered the ROR of MSI Aioi Life. As for ALM, we will lower interest rate risk by further promoting duration matching, while taking risks through steps such as diversification of investment including alternative investments and foreign bonds.

Q10: How much do you expect reinsurance costs to increase year-on-year in FY2019?

A10: We expect reinsurance costs for natural catastrophes to increase by around 22 billion yen. The main causes of the increase are the creation of a joint reinsurance treaty coverage shared by MSI and ADI, increased purchases of reinsurance to enhance risk control, and increased exposure on a direct basis. This is the amount of increase from the reinsurance costs assumed at the start of last fiscal year. FY2019 is almost at the same level when compared to last fiscal year's actual reinsurance costs which included additional reinsurance costs from reinsurance recovery during FY2018.

Q11: If the newly created joint reinsurance treaty coverage shared by MSI and ADI (annual cumulative coverage) had been implemented from FY2018, what would have been the level of increase in the amount of reinsurance recoveries?

A11: As a rough estimate, it would have increased by more than 30 billion yen.

Q12: Please tell us about the approach to dividends.

At the time of the guidance at the start of last fiscal year, you began with the same level as the previous fiscal year, and then made an upward revision to dividends at the interim period despite a significant downward revision to group adjusted profit. The dividend guidance at the start of this year is for an increase of 10 yen. Would you please confirm the backdrop that underlies these respective approaches and what has changed?

A12: Our policy is to provide shareholder returns that are 40-60% of Group Adjusted Profit. When determining dividends, we determine them by looking at the balance of three items being the financial results of the previous fiscal year, the financial results of the current fiscal year, and the earnings forecast for the next fiscal year.

At the beginning of FY2018 we did consider a dividend increase, however, since in FY2017 there were very severe natural catastrophes overseas, and there were several unstable factors including the profit recovery of the international business, we made a decision to set a forecast at the same level as in FY2017. After the 1st half-year, seeing the trend in the domestic non-life insurance business that we had been looking at somewhat conservatively at the beginning of the year, we became generally confident about the profit, which is why we then announced a 10 yen dividend increase to 140 yen.

As for “40-60% of Group Adjusted Profit,” in situations where it is necessary to make a slight downward revision to Group Adjusted Profit as a result of natural catastrophes, etc., we will maintain the amount of shareholders returns as steadily as possible by using the upper limit of 60% compared to the amount of shareholders returns as estimated at the beginning of the fiscal year. In other situations, where it is conversely hard to draw up the forecast for the next medium-term management plan and the plan for the next fiscal year, with the next fiscal year expected to be difficult, the 50% level is used. One thing I can promise is that it basically will never fall below 40%. Please understand that if the share buybacks are included, we may flexibly exceed 60% looking at market conditions.

Q13: Please tell me about the shareholder returns shown on page 66 of the materials. The top part of the bar for the FY2019 forecast is shown as a gradation. Does this mean that shareholder returns are increasing? A simple calculation reveals that more than 105 billion yen to 150 billion yen is 40% to 60% of Group Adjusted Profit for FY2019. When forecasting the shareholder returns for FY2019, should the forecast be made based on the view that FY2018 was decreased due to natural catastrophes, or should it just be between 40% and 60%, which means it will be unknown until the year ends? Could you explain this in a little more detail?

A13: As for shareholder returns, our basic stance is that we would like to increase dividends and total shareholder return by increasing Group Adjusted Profit. Although this may be impossible in some years as a result of extraordinary events, such as major disasters of an overwhelming scale, shareholder returns will basically increase as long as we anticipate Group Adjusted Profit will increase.