Q&A Session at Second Information Meeting for Fiscal 2010 (Summary)

Q1: (Auto Insurance Losses and Improving Profitability)

With regard to the rise in incurred losses for automobile insurance, looking at the increase in first-half incurred losses versus the year-earlier first half, MSI and Aioi Nissay Dowa, when compared to the industry average, they are above the average for other major insurance companies. You have probably compared the figures yourself, but what do you see as the causal factors behind the increase? Is it due to regional disparity in your strengths, and if so, what measures can you implement in response? Or does it reflect the impact of past factors, such as your business policy and premium rate policies? If so, what sort of changes do you plan to make? And on that same line of questioning, could you give us an update on the recent increases in claims, since September?

A1:

(Factors Behind Relatively High Loss Ratio on Auto Insurance)

First, I will explain why our Group's loss ratio in se is comparatively high.

As you suggested, one factor is that MSI and the former Nissay Dowa General Insurance have a high market share in the Kansai region. And corporate business is a comparative strength for both companies, so in general, their portfolios contain a high level of fleet policies. Also, they serve a number of large corporate customers, so they provide many of their customers volume discounts for large corporations.

The former Aioi Insurance, on the other hand, has high market share in regions where loss ratios are low, and its auto insurance loss ratio is relatively low among the three companies. Additionally, its main market is the Toyota market, so personal vehicle policies account for a high proportion of its portfolio.

(Recent Increases in Loss Frequency)

Loss frequency began rising across the entire industry from the fourth quarter of fiscal 2009, continuing unabated into the first half of this fiscal year. It appears to be easing a little now that we are in the fiscal second half, so figures for the upcoming January–March (2011) quarter will probably indicate that it has settled down relative to the previous fourth quarter. We are hopeful that the first-half increase will be reversed somewhat in the fiscal second half, and our full-year outlook reflects that.

(Improving Auto Insurance Profitability)

Our initiatives to improve the voluntary auto insurance business's profitability will focus on the following measures, as explained in the presentation. With respect to customer segments with high loss ratios, we will comply fully with our underwriting policies and exercise fine-grained underwriting judgment on a case-by-case basis. At the same time, we will make finely tuned revisions to premium rates and revise coverage of products.

Q2: (Share Buybacks)

Please explain your overall policy on share buybacks and tell us what to expect in the second half. You announced a buyback in August, which was probably quite unexpected. What sort of overarching framework do you use to make such decisions? And how do you decide the timing of buybacks within each fiscal year?

A2: As explained toward the end of the presentation, in accordance with our policy on shareholders returns, we aim to steadily increase dividends while opportunistically conducting share buybacks on a continual basis. Our August buyback in the amount of 10.0 billion yen was based on this policy.

Now is not the appropriate time to talk about when our next buyback will take place, but we remain committed to conducting buybacks on a continual basis.

Q3: (Use of Proceeds of Share Sales)

You described your plans to sell 300 billion yen in equity holdings. Can you provide specific details on how you plan to use the proceeds? Another insurer in your industry has announced plans to invest some 200 billion yen in its overseas insurance business.

A3: We do not have any specific investment deals lined up at this stage, but we intend to use the funds to invest in our five core businesses in the course of executing our growth strategy and medium-term management plan. As we have been saying, we would like to look at any promising M&A deals that arise, so that’s generally how we hope to use the funds.

Q4: (Aioi Nissay Dowa Insurance's Growth Strategy)

My question refers to Aioi Nissay Dowa Insurance's growth strategy described on page 7 of the slides. The growth strategies listed include the headings "new markets" and "overseas business." Are you currently doing anything concrete in new markets? Also, under "overseas business," you have indicated that you will strengthen your alliance with Nippon Life Insurance. Does this mean that, for example, you are looking at expanding life insurance business in Asia in collaboration with Nippon Life Insurance?

A4: As shown on page 7, we envision entering new markets such as small-amount short-term insurance, fraternal insurance, nursing-care and health insurance, and mobile insurance sales. We have already made some inroads into those areas, but we placed them under new markets because we intend to further build on our business there.

Turning to your question about whether we plan to engage in overseas life insurance business with Nippon Life Insurance, we do not currently have any such plans. Many of Nippon Life Insurance's customers have entered overseas markets. But because the former Nissay Dowa General Insurance and MSI are now part of the same group, customers now have access to finely tuned non-life insurance services overseas through MSI's facilities. This is what we mean on page 7 by "leveraging the Group's extensive overseas networks and strengthening our alliances with Toyota and Nippon Life Insurance."

Q5: (Lowering Combined Ratio)

You explained that you aim to lower your combined ratio to 97 percent range (by fiscal 2013). On the question of whether that is high or low, I think it is definitely not a low level. If you were to aim at a level of, say, around 95%, how much time would you need to reach that point? Or alternatively, what would you need to do to get to that point? Can you tell us anything in that regard? I realize that the question is slightly abstract.

A5: As you point out, yes, 97% could be seen as still on the high side. However, the notion of raising premium rates all at once and reducing the combined ratio in one go is not realistic in the prevailing deflationary economic environment. Our target of 97 percent range is what we aim to achieve over the medium term as we revise premium rates and coverage of products and continue to reduce business expenses.

Q6: (Hedge Counterparty for Variable Annuities' Minimum Guarantee Risk)

As I understand it, MetLife has thus far assumed your minimum guarantee risk through reinsurance. What will happen to that scheme going forward?

A6: I interpret your question to be asking how the ending of our joint venture with MetLife will affect the current reinsurance scheme. With regard to the immediate future, the current reinsurance scheme will continue to apply to new policies even after April 2011 (when MSI MetLife becomes our wholly owned subsidiary). There is no guarantee that we will be able to continue using this reinsurance scheme indefinitely, however, so we are currently examining various alternatives.

I would like to add that existing policies will continue to be covered severally by current reinsurance until maturity.

Q7: (Runoff Portfolio at the London Subsidiary)

My question is about specialty insurance underwritten by your London subsidiary. Of remaining portfolios, what sort of portfolios are you watching with added caution. Also, have you made any changes to the way you manage risk in light of the two past losses that the subsidiary incurred?

A7: The London subsidiary's business broadly consists of three components: traditional business serving Japanese firms, the traditional Lloyd's syndicate business, and the financial solutions business. The recent large loss was incurred in the financial solutions business.

The subsidiary had assumed project finance risk related to hotel and other construction projects through guarantee insurance and was required to pay out insurance claims when defaults occurred on financing deals.

The financial solutions business has been in runoff (not underwriting any new insurance but servicing remaining policies until completion) for some time now. A few policies remain, mainly project finance deals. Underwriting risk varies from policy to policy, but I would like to be clear that none of the policies have the potential to substantially affect our consolidated results.

You also asked about risk management. The financial solutions business is in runoff, but we will continue to stringently manage remaining policies.

Q8: (Prospect of Further Restructuring of the Group's Non-life Insurance Operations)
You have not provided any particular details, but do you currently have any plans for a second round of restructuring, which might include a future merger of MSI and Aioi Nissay Dowa Insurance?

A8: We are carefully considering whether to undertake any further mergers or to continue with the current configuration of two core non-life insurers, or whether to restructure by function into several companies. However, we have not yet reached a point where we can say anything concrete, including about any future schedule for such plans. We have continued to say that we will examine our options with all due speed, and this stance remains unchanged.

Q9: (Easing of Restrictions on Overseas Investment and Affect on Investment Strategy)
Moves are afoot to partly ease restrictions on overseas investment by insurance companies. Will this change your approach to allocating investment to overseas business?

A9: We are currently studying this issue. We have not yet reached a decision to change our investment strategy.