

## **Presentation**

### **MS&AD Holdings Conference Call (February 1, 2013)**

#### **“Reorganization by Function in MS&AD Insurance Group”**

#### **Greetings**

- I am Shuhei Horimoto, Director, Senior Executive Officer of MS&AD Insurance Group Holdings. Thank you for making time in your very busy schedules, with many companies in the finance sector announcing their business results, to participate in our conference call today.
- As described in the news release and other media yesterday, we have decided to undertake reorganization by function between Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance, which are under the umbrella of the Holding Company.
- I will provide a brief explanation in line with the news release published on the Holding Company’s website yesterday, and then I will answer questions that you are all welcome to put to me.

#### **I. Objectives of the reorganization by function**

- First, I will explain the objectives of this reorganization by function. Please look at page 1.
- After the inauguration of the MS&AD Insurance Group in April 2010, as the first stage of business integration, we steadily took steps to merge Aioi Insurance and Nissay Dowa General Insurance, to merge Mitsui Sumitomo Kirameki Life Insurance and Aioi Life Insurance, to integrate affiliated operating companies, and to develop an integrated new system.
- In light of the tough business environment facing the insurance industry, namely, contraction of the market caused by the decreasing birth rate and aging population, as well as a succession of large-scale natural disasters and slumps in the financial markets over recent years, we recently decided to reorganize the group on a functional basis as the second stage of business integration to enhance the enterprise value of the entire group, respond to diversifying customer needs, and strengthen group governance.
- Through this reorganization by function, Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance will further clarify their respective business

concepts. For Mitsui Sumitomo Insurance, this means utilizing its comprehensive strengths to provide insurance and financial services that are active globally, and for Aioi Nissay Dowa Insurance, this means operating an insurance business with close regional ties while strengthening its relationships with the Toyota Group and Nippon Life Group. The two companies will also aim to further reinforce their business foundations and utilize efficient management to increase their earning power.

- In addition, the aim is to optimize the functions of the overall group by reorganizing businesses and sales channels, and integrating common headquarters functions into the Holding Company.

## **II. The form of the reorganization by function**

- Next, please look at the figure on page 4 depicting the form of the reorganization by function.
- As you can see, the reorganization by function consists of five major elements.
- The first element is the reorganization of businesses and sales channels. Hull, cargo and aviation insurance will move to Mitsui Sumitomo Insurance. On the other hand, insurance policies handled by Mitsui Sumitomo Insurance motor channel agencies (that is, sideline agencies with main businesses such as auto-repair shops), where Aioi Nissay Dowa Insurance is the main business partner, will be transferred to Aioi Nissay Dowa Insurance.
- The second element is the integration of local sales networks and offices, and the joint use of bases. In view of enhancing the productivity of business activities, we will integrate and transfer the two companies' small-scale bases.
- The third element is to reduce product development and management costs by unifying long-term policies in the third sector at Mitsui Sumitomo Aioi Life Insurance (which I will refer to hereafter as MSI Aioi Life).
- The fourth element is the reorganization of the overseas business. We aim to reduce management costs by integrating business management and enhance profitability by improving the efficiency of reinsurance operations. Furthermore, Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance will clarify their respective roles. The former company's role is to implement comprehensive overseas business development, including new project

investment and M&A, while the latter's role is to develop overseas business mainly related to Toyota dealerships.

- The fifth element involves reorganizing headquarters functions and strengthening the governance of the Holding Company. By integrating some parts of the Two Core Non-life Insurance Companies' functions, we will enhance the governance system of the Holding Company.
- Details are described on page 2 and page 3, so please check them later.

### **III. The impact of the reorganization by function**

- Next, I will explain the impact of the reorganization by function. Please look at the middle of page 4.
- Through this reorganization by function, we aim to achieve two major effects: to increase the whole group's enterprise value and to respond to customers' diversifying needs. However, I will focus here on increasing enterprise value, which is of particular interest to investors.
- First, by selecting the reorganization by function, we have concluded that it will be possible to accelerate growth with a sense of speed by further reinforcing the respective strengths of the Two Core Non-life Insurance Companies while keeping the temporary costs of reorganization and the time load in check.
- By reorganizing the two companies' sales channels, we will eliminate inefficiencies caused by overlapping functions at agencies and clients, and by consolidating and sharing the use of bases, we will reduce rental costs. At the same time, by transferring long-term policies in the third sector to MSI Aioi Life, we expect to reduce product development and management costs.
- Moreover, by transferring part of the two companies' headquarters functions to the Holding Company, we will be able to enhance the workforce efficiency of each headquarters organization.
- In particular, it will be unnecessary to develop large-scale additional systems in the area of system infrastructure, which will be shared in the integrated new system that is scheduled to start operation in FY2013.
- We will elaborate the cost reduction effects in parallel with the establishment of the final form of the reorganization by function based on discussions between the Two Core Non-life Insurance Companies.

However, at present, we estimate conservatively that the amount of cost reductions will be about 40 billion to 50 billion yen versus FY2011, including cost reductions through integrated system operation incorporated into New Frontier 2013, reductions in personnel expenses through personnel cutbacks, and individual company efforts.

- In addition, we will formulate the next management plan from FY2014, which will incorporate the reorganization by function, and this will also determine a target combined ratio, where we will bear in mind a target of 95%, as a goal to aim for.

#### **IV. System for implementing the reorganization by function and future schedule**

- Next, please look at the middle of page 5 onward.
- This reorganization by function will have an unprecedented style, as it will make use of the transfer of insurance business portfolio and the re-entrustment of insurance solicitation, which will be revised in the amended Insurance Business Act that is scheduled to come into effect in April 2013.
- Regarding the schedule going forward, after receiving approval from the relevant authorities, we will progressively implement the reorganization from April 1, 2014.
- We will also progressively implement possible elements such as the joint use of bases and the reorganization of headquarters functions from FY2013, once preparations have been made.
- While continuing to develop business based on the respective concepts of Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance, we will seek to expand further synergies in the group as a whole. With that objective, we will consider all kinds of measures based on the business environment at the time.

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