

## **MS&AD Holdings**

### **1st Information Meeting of FY2014 (Held on June 3, 2014)**

#### **Q & A Session Summary**

Following is a summary of the Q & A session from the Information Meeting held on June 3, 2014.

Q1: Concerning the domestic life insurance business, you have stated that you will actively expand insurance underwriting and that you will focus on third sector products. What kind of strategy do you have for sales and channels?

A1: The basic policy is to expand business via the cross-selling channel, which accounts for over 60% of sales. We are working on further cultivating cross-selling channels, for example by expanding the number of agencies handling life insurance products through the provision of detailed guidance to agencies, and we believe that this has led to strong sales of "New Medical Insurance A (Ace)", a product released last year. In addition, we are working to expand the range of our channels to include large retail shops and financial institutions, for example.

Q2: You have established a target of a combined ratio of 95% or less for the domestic non-life insurance business in FY2017, and although it seems that this level has been more or less reached for automobile insurance, the combined ratio for fire insurance is relatively high at in excess of 100% at present. What steps are you taking to improve the profitability in fire insurance?

A2: As you have pointed out, the loss ratio is high for fire insurance due to factors such as the impact of natural disasters. In response to this, we intend to implement more stringent underwriting and to tackle loss prevention, for example through the provision of consultancy services, in order to reduce losses. Furthermore, to improve the profitability for catastrophe risks, we are also looking to improve them by setting premiums in line with risks and using more advanced underwriting methods.

Q (follow-up): You say that you intend to set premiums according to risk, but does this mean that you could actively raise premiums even if there are no changes in the advisory rates.

A: For example, with fire insurance policies for apartment management associations, different premiums are set because the loss ratio varies depending on the number of years since construction, so a higher premium is set for older buildings to match the higher loss ratio. Therefore, different premiums can be set in accordance with risk.

Q3: Looking at net income figures for overseas life insurance subsidiaries, what were the results for FY2013 and what are the forecasts for FY2014?

A3: Although there were some differences depending on country, performance was poor in FY2013 due to the impact of weakening local markets. The three companies posted a loss of 1.2 billion yen in total in FY2013, and the forecast for FY2014 calls for a profit of 5 billion yen. Unfortunately I am unable to provide figures for the individual companies.

Q (follow-up): I understand that the weaker markets had a significant impact on the investment operations of overseas life insurance subsidiaries, but what was the situation regarding solicitation of insurance contracts?

A: Policy numbers have remained healthy. Although the product mix has been focused on saving-type products in the past, we are taking steps to increase and stabilize income, such as by increasing the ratio of protection-type products and promoting channel diversification.

Q4: With regard to financial soundness, Slide 21 shows that ICS capital regulations are scheduled to be adopted for IAIGs in 2018, but when do you think these will be applied to your company? Also, when do you think solvency regulations based on economic value will be introduced and applied in Japan?

A4: I am not aware of any schedule for the application of ICS or solvency regulations based on economic value in Japan other than what has already been announced, but these are both moving in the direction of being introduced, and MS&AD is preparing for this.

Q (follow-up): Is it correct to assume that ICS will be applied to MS&AD immediately after it is adopted in FY2018?

A. We are making preparations based on that assumption. We assume that it will be adopted in FY2018 and will begin to be applied in FY2019.

Q5: The materials state that the ESR of MS&AD was 183% at the end of FY2013. The ratio of capital and risk at the end of September 2013 as shown on the previous briefing's materials was 172%. Are these figures consecutive? What are the levels of net assets and total risk exposure currently estimated for the end of FY2017? Also, in the event that ESR exceeds 200%, what level will you reach before considering offering returns from stock?

A5: These two figures are consecutive. At the end of FY2017, we estimate that net assets will be around 5 trillion yen and risk exposure will be about the same as now. If ESR exceeds

200%, we will consider issues including shareholder returns based on the situation at the time.

Q6: This medium-term management plan seems to have much explanation of organic growth. What is your stance on external growth opportunities such as M&A?

A6: All of the management numerical targets mentioned today are based on organic growth, but we would also take a positive stance if presented with a good case for M&A.

Q7: At present, the ROE of Japanese companies is gaining the attention of investors. I don't think your target of 7% is very high. What was the basis for setting this target?

A7: It is our view that the ROE target given in Next Challenge 2017 is not sufficient for a company calling itself one of the world's top-class insurance companies. We will strive to implement ERM that we explained today in order to gain earnings power and simultaneously to increase capital efficiency that will reach ROE 7% and a higher level as soon as possible.

Q8: Based on the group core profit and ROE management targets for FY2017 in the medium-term management plan, I assume capital to be around 2.2 trillion yen. This is the same level as now, so it seems that the accumulation of capital is not assumed. Please explain how this forecast and the shareholder return policy which returns approximately 50% of group core profit to shareholders are lined.

A8: Our estimates are based on a relatively conservative view of the market environment and other factors, so we do not forecast significant accumulation of capital. Furthermore, the group core profit target of 160 billion yen is seen as the minimum level, and we would like to generate more profit than this.

Q (follow-up): You say that accumulation of capital will be limited due to your conservative view of the market environment, but you see the Nikkei average at 15,000 yen, so do you envisage other factors such as rising interest rates limiting the accumulation of capital?

A: We assume interest rates will rise gradually and not suddenly.

Q9: You have indicated a vision for the future of your risk portfolio, but it seems that the risk of strategic equity holdings will decrease markedly compared to the target of reducing strategic equity holdings by 300 billion yen you have set in the medium-term management plan. Please explain the timeframe over which you plan to reduce risks related to strategic equity holdings.

- A9: We have set out a plan to sell strategic equity holdings valued at 300 billion yen over four years from FY2014 until FY2017 based on comprehensive consideration of the perspective of ERM in addition to the impact on sales of insurance. However, we sold 376.4 billion yen compared to our target of 300 billion yen for the three years from FY2011 until FY2013, so we see 300 billion yen as being the minimum line to achieve.
- Q10: In your future image of the risk portfolio, it appears that the risk weight of the overseas insurance business is doubled, but could you explain this in connection with the medium-term management plan, which is based on organic growth? Also, you are currently expanding your business with a focus on Asia, but other companies are meeting the challenge of major M&As in Europe and the U.S. Please explain your future overseas business strategy in terms of which regions and businesses you are considering for M&A.
- A10: Our Group is already the leading foreign insurance company in the ASEAN region, but we believe Asia will continue to be the most important market for our overseas business due to its strong growth potential. With this in mind, we will actively consider any promising M&A opportunities, including those in Europe and the U.S., from the perspective of risk diversification and further growth.
- Q11: At what level is the ROR of your investments including the non-life insurance business?
- A11: The ROR of our investments has recently been around 5 to 6 percent, but we estimate that it will be 3 to 4 percent in the medium term.
- Q12: You have announced that you plan to switch to a new management structure after the General Shareholders' Meeting to be held on June 23, but could you explain how President Egashira plans to be involved in management in the future? Also please explain what changes will be made to the decision-making process in the transition to the new structure.
- A12: In order to speed up the reorganization by function that we began in earnest in April, Mitsui Sumitomo Insurance President Karasawa will be appointed as president and Aioi Nissay Dowa Insurance President Suzuki will be appointed to the newly established position of chairman under the new structure. Current president Egashira will serve as a director after the transition, and provide support to the newly appointed President Karasawa and Chairman Suzuki.
- Q13: What specific effects do you expect to see as synergies from reorganization by function in the domestic non-life insurance business?
- A13: We are working on the three following areas with a sense of speed to ensure the

effectiveness of reorganization by function, so as to realize both of growth and improvement of efficiency. (i) We will utilize the strengths of both companies. Mitsui Sumitomo Insurance has strength in marine insurance and aviation insurance, while Aioi Nissay Dowa Insurance has strength in the motor channel. We will concentrate business in these areas to a certain degree to ensure these strengths are highlighted further. (ii) We will generate group synergies. The two companies will work to fulfill their potential in large markets, in addition to carrying out joint development of products. Furthermore, we will strive to make improvements as a group by imitating the better aspects of each individual company. (iii) We will improve productivity and reduce costs. We will transform the way regional employees work and will jointly use bases.

Q14: You have stated that you intend to increase the risk weight of insurance underwriting in Japan, but could you explain in which specific areas you plan to take risks?

A14: In terms of products, we believe there are limitations in traditional areas such as automobile insurance and fire insurance, so we plan to underwrite insurance corresponding to new risks such as regenerative medicine and agriculture, and also to provide new insurance cover for such business risks that were not covered by present insurance coverage. Furthermore, we believe that there is still room for expansion in the provision of risk consulting for small and medium enterprises and services in the field of life insurance, and we will tackle these as opportunities for growth.

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