

## **MS&AD Holdings**

### **2nd Information Meeting of FY2013 (Held on December 3, 2013)**

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

Following is a summary of the Q & A session from the Information Meeting held on December 3, 2013.

Q1: I would like to ask about the figure on Slide 14, which shows a detailed breakdown of the capital buffer. In the middle row on the right side where it says "medium-term realized capital," I believe the 350 billion yen in life insurance is the embedded value of life insurance policies in force, but what kinds of items are included in the 200 billion yen of non-life insurance?

A1: In the same way as for the embedded value of life insurance policies in force, it is the unrealized gains/losses calculated from comparison with underwriting reserves, after evaluating future non-life insurance cash flow related to long-term policies, on an economic value basis.

Q2: As shown on Slide 14, the capital buffer has also expanded on a stock basis, and as shown on Slide 15, profits have recovered on a flow basis as well, creating what seems to be gap with respect to shareholder returns, but could you please tell us about future plans concerning share buybacks?

A2: In this fiscal year we have already carried out a 5.0 billion yen share repurchase program, and there is no change in our policy to return approximately 50% of the group core profits through dividends and share buybacks. Although we intend to continue to buy back shares opportunistically as we monitor the situation, at this point we are unable to state a specific time frame or amount.

Q3: I would like to ask about the effects of reduction in total company expenses accompanying the reorganization by function as shown on Slide 18. Cost cutting achieved mainly through reorganization by function amounted to 39.5 billion yen. I believe that some effects like those of the consolidation of sales networks and bases begun in October of this fiscal year will become apparent at a relatively early stage. Could you please give us an estimate of the cost cutting effects that will be achieved at a relatively early stage?

A3: Of the 50 billion yen in reduction of total company expenses indicated on Slide 18, reduction effects of 10.5 billion yen in operating expenses due to system integration was previously realized in FY2012. The remaining 39.5 billion yen will be realized from FY2013

onwards. We plan to realize this amount gradually as the reorganization proceeds in line with the schedule shown on Slide 17. Furthermore, we expect the consolidation of Aioi Nissei Dowa Insurance's hosting system to take place around FY2017, so we assume that most of the 5.0 billion yen effects of reduction in operating expenses will be realized in period around FY2017. Cost reduction effects due to consolidation and closure of sales networks and bases, as you indicated earlier, is on the order of several billion yen, which we believe will be realized by FY2015.

Q4: In the outlook for management indicators shown on Slide 20, the projection for the combined ratio for FY2015 is at the 95% level and for FY2017 at or under the 95% level. After that, however, how far do you expect the combined ratio to fall?

A4: While we are not saying that it will not fall below 95%, the point we are making here is that a combined ratio of 95% is a necessary target that should be achieved as early as possible, and a target that should be stably maintained.

Q5: ROE seems to fall as a result of growth in net assets. However, at what pace do you plan strategic equity holdings to be sold from FY2014 onwards?

A5: Our policy on strategic equity holdings is to continue to sell from FY2014 as well. However, the amount and timing of the reduction is still under discussion, and we will make an announcement as soon as we have a firm plan.

Q6: I would like to ask about the reasons for the increase in costs shown in Slide 18. In the detailed breakdown shown here, is it correct to understand that the 16 billion yen in depreciation for consolidated systems will continue for the next five years? Is it also correct to understand that the 14 billion yen due to in-house production at affiliates will also result in costs over the five years from FY2011?

A6: Your understanding in regard to the depreciation of consolidated systems is correct. Depreciation will take place over a total of five years starting this fiscal year. With regard to in-house production at affiliates, these are costs that will recur annually from FY2013.

(supplemental explanation) Of the 16 billion yen, the amount related to depreciation for consolidated systems "Unity" is 11 billion yen, and the five-year period of depreciation begins during FY2013. The remaining amount includes, for example, the cost of converging previous host systems.
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Q (follow-up): On the margin, "Temporary costs associated with reorganization by function" is described as "Total of 2013 to 2017." Could you please explain when these costs will occur?

A: "Temporary costs associated with reorganization by function" is the total amount of all costs arising at the time reorganization measures are implemented according to the schedules shown on Slide 17, and these will occur gradually over time.

Q7: Along with revision of insurance premiums in recent years, agency commissions have also increased. Going forward, consumption tax will also have an impact, and some people are questioning the appropriateness of these increase. What are you contemplating in regard to a revision in the system of agency commissions?

A7: With regard to agency commissions, we have decided on a system that will apply in two years and we are moving ahead with plans based on a schedule to commence operations after ensuring that agents are familiar with the system. In the future too, we will follow this schedule. On the other hand, in the course of reducing operating expenses, we believe it is necessary to have a discussion about revising the commission fee structure. We believe we should be thinking along the lines of reducing the total amount of commission fees, while at the same time fairly rewarding the performance of our agents.

Q8: If we look at Slide 18, it seems that cost reductions associated with reorganization by function may be able to absorb the impact of the consumption tax-rate hike. Are you planning to take some other measures in response to the consumption tax-rate hike, such as to increase premium rates?

A8: An insurance rate consists of a base rate and a supplemental rate. Only the impact of tax-rate hike on the supplemental rate could be absorbed by the reduction in company expenses shown here. First, we are planning to absorb the impact on the supplemental rate through management efforts. As for the base rate portion, at this time we are waiting to see what the actual impact will be. Because we have estimated that there is a combined impact of 54 billion yen for MSI and ADI, we believe that it will be necessary to revise premium rates at some stage.

(supplemental explanation) The impact on income of approximately 54.0 billion yen, due to revision of the consumption tax-rate, is the total estimated pre-tax impact on insurance premiums, commissions, and company expenses of the domestic insurance companies, mainly MSI and ADI, in fiscal 2015
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Q9: Looking at the ROR chart on Slide 21, I think that you intend to increase profits by expanding insurance underwriting risk exposure while reducing investment risk. In this case, please tell us about what level integrated risk exposure will reach?

A9: With regard to investment management, we are going to reduce our stock holdings and

reinvesting in less risky assets, or allocating assets to growth investment. With regard to insurance underwriting risk, we are considering improving ROR by using regional diversification, and through disciplined underwriting, and we will try to improve ROR while maintaining a balance between in the difference of adjusted net assets and integrated risk exposure.

Q10: On Slide 21, despite the outlook for a significant improvement in insurance underwriting ROR, the forecast for ROE in FY2015 is expected to be just over 6%, and with only a slight rise to 7% in FY2017. Could you please tell us the company's approach to improving capital efficiency?

A10: In investment management, we plan to direct our efforts to stably improving ROR in underwriting by expanding underwriting through disciplined underwriting and appropriate setting of rates without taking on large risks. With regard to our policy of increasing ROE, we are also watching closely developments concerning tougher capital regulations, which are being considered for introduction in the future. First, once we achieve a 7% level for a stable fixed period, we will aim for a 10% level on a par with major insurers in the U.S. and Europe.

Q11: Could you tell us about what kind of impact the company expects in connection with reform of the commission-style insurance solicitor system that is being discussed in the context of considerations for revision of the Insurance Business Act?

A11: At present, all companies are in the process of investigating the reality, and going forward we will confirm the situation and the impact.

Q12: With regard to future overseas M&A, could you tell us about the company's views regarding the scale and the functions that you require?

A12: As shown in Slide 19, in the next Medium-Term Management Plan as well, our basic policy is to aggressively pursue new investment in businesses and regions where capital efficiency is high and where there is growth potential. From this viewpoint, we intend to aggressively pursue investment in overseas as well including M&A in such businesses and regions.

Q13: As shown in Slide 10, the ratio of equity holdings to assets under management has dropped to 11.7%. Does this mean that the sale of stock has proceeded about as far as planned? Or, since there is also a rise in stock prices, does this mean there is still room to sell stock?

A13: With regard to stocks as risk asset, we believe that further reductions are still necessary.

However, since relationships with customers need to be considered, in the execution of these reductions, we have a policy of proceeding cautiously and boldly while obtaining our customers' understanding.

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