MS&AD Insurance Group Holdings
1st Information Meeting of FY 2017 (Held on May 25, 2017)
Q&A Session Summary

Below is a summary of Q&A session from the Information Meeting held on May 25, 2017

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

MS&AD Holdings : 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.

Q1: **Currently, the automobile insurance loss ratio seems to be lower than other companies. This is partially due to the result of efforts to optimize claim payments, but couldn't it also be said that your insurance premium rates level are relatively high? Please describe your approach to managing insurance premium rates in the future and whether you will actively work to lower insurance premium rates from the perspective of ensuring competitiveness in anticipation of a future lowering of the reference loss cost rates.**

A1: Insurance premium rates comparisons with other companies depend in part on how you set the terms, and I don't think our insurance premium rates are necessarily high. Meanwhile, having a superior loss ratio compared to other companies is a competitive advantage, and we believe that determining how to link this with top-line growth will be an important strategy going forward.

Although automobile insurance that continued to run at a loss in the past has finally become profitable in the past few years, the possibility of a hike in the consumption tax and a lowering of the statutory interest rate, and the trend of rising repair costs, are factors that may cause deterioration of the loss ratio.

Future insurance premium rates will be determined appropriately from the perspective of being competitive while also taking this environment into consideration.

Q2: Assuming 95% as a guideline for the combined ratio for automobile insurance in the medium term, could you explain how much you can lower premium rates if the reference loss cost rates are lowered by 8%, as is being reported in the press?

A2: The reference loss cost rates have not been officially announced, but assuming those are lowered by 8% as has been reported in the press, we suppose this will have an impact of around 5% on gross premiums, including expense loading. Meanwhile, our view of the future environment is that the combined ratio will deteriorate by just under 1% with the hike in consumption tax, and just over 1% with the lowering of the statutory interest rate from 5% to 3%, and rising automobile repair costs also need to be taken into account. In the long term, we see a level of 95% as a guideline, but each company determines insurance premium rates by considering a balance between ensuring earnings and being competitive while taking into account such environmental factors.

Q3: Slide 6 shows that you plan to sell PHYD type automobile insurance on and after the second half of 2017, but how do you intend to market this product?

A3: I cannot discuss the details at this time, but we are basically considering products that are an extension of the joint development of "Tsunagaru" (Connected) Automobile Insurance" by ADI and Toyota, as shown in the materials.

Please understand this initiative as being linked with Toyota Motor's Connected Car strategy.

Q4: As shown on Slide 16, profit in fire insurance has been negative, and I think improving profitability in fire insurance is an issue for the domestic non-life insurance business.

What elements do you think can be used to improve profitability in the future?

Also, will the sale of strategic equity holdings relate in any way with improvement in fire insurance profitability?

A4: The ROR perspective, a basic approach to ERM, has probably not been adequately reflected in underwriting and in the setting of insurance premium rates to date, and there were issues with the profitability of commercial fire insurance. Now that ERM is more well-established, we are moving ahead negotiations with customer to conduct appropriate underwriting and set appropriate insurance premium rates, as we conduct ROR management by insurance line and proceed with earnings management based on expected values.

The sale of strategic equity holdings and an improvement in the profitability of fire insurance are not especially related.

Q5: You have targeted an expense ratio of below 30% up to now, but this is forecast to rise due to the increase in commission rates in FY2017. Please advise how fast you will achieve the targeted level.

A5: The forecast of expense ratio for FY2017 is 32.5% (see slide 18), but falls between 31 and 32% when excluding factors such as the impact on agency commissions from the lowering of the premium of CALI* and system investments.

In order to join the ranks of global players in terms of cost competitiveness, we believe this needs to be at a level below 30%.

Meanwhile, failure to make necessary investments corresponding to changes in business models and in risks could lead to a loss of trust if these cause significant obstacles. Because of this, the necessary investments have been brought forward in recent years, and it is necessary to manage expenses on a basis that excludes these costs. In the next medium-term management plan, we would like to show milestones that fall below 30% based on these elements.

* Because agencies receive a flat commission for Compulsory Automobile Liability Insurance, a lowering of insurance premiums causes the expense ratio to rise.

Q6: On Slide 23, the forecast premiums written by MSI Primary Life are shown to be ¥800 billion in FY2017, a 20% decrease from the actual results for FY2016. Dai-ichi Frontier Life Insurance, which is in the same industry, is also forecasting a decrease in revenue. Is it correct to understand that OTC sales of savings-type insurance is facing a difficult environment due to the impact of factors such as the decline in the assumed interest rates of yen-denominated products and the disclosure of sales commissions on foreign currency-denominated products?

A6: The impact of the decline in yen interest rates on MSI Primary Life is minor because it mainly handles foreign currency-denominated products.

We are proceeding to organize and arrange disclosure of sales commissions for each financial institution of sales outsourcers, but disclosure itself has no significant impact on the overall sales.

With regard to MSI Primary Life’s mainstay products denominated in Australian dollars, exchange rates and interest rates are fluctuating significantly and customers’ purchasing preferences are changing according to market levels, so we start each fiscal year with a conservative plan.

Note that due to the expansion of our sales network, including 139 regional banks and Shinkin banks nationwide, to reduce reliance on specific agencies, our sales figures fluctuate less than they did in the past.

Q7: Looking at Slide 61, income levels seem to have fallen in Europe and Asia compared to the original targets. What factors led to this?

A7: The slowdown in income in Europe and Asia was caused by a combination of natural catastrophes that occurred in locations worldwide, large losses, and the impact of foreign exchange.

Q8: **Slide 2 indicates that goals to be achieved in the future are for International business to account for 50% of all income. In FY2017, International business accounted for around 20% of Group Core Profit when the impact of the gain on the share exchange at Max Life Insurance is excluded, but could you confirm how you will proceed with overseas expansion, including whether you have plans for another acquisition prior to the next medium-term management plan?**

A8: Organically, income from International business in Asia is currently at the ¥25 billion level including Asian Life insurance business, but organic growth is expected to bring that to the ¥40 billion level by incorporating the growth bonus in Asia. MS Amlin is forecast to have income of around ¥30 billion in FY2017, but we believe a level of ¥40 billion can be attained by investing in the reinsurance business and actively taking risks.

Furthermore, ADI is focused on the BIG business and the Toyota Retail business, but it posted a loss of ¥7.5 billion in FY2016. In FY2017, it is expected to improve, with Toyota Retail business making a profit of ¥2 billion because the losses in 2016 were caused by special factors and BIG business is also expected to post a profit in FY2018, and we believe we can expect income of around ¥10 billion in the future. As described above, we can expect income to grow organically by around ¥100 billion.

In order to raise income from our International business to a higher level, we will need to capture between ¥30 billion and ¥50 billion through new business such as M&A and through capital participation deals.

When implementing M&A deals, although we will be selective by emphasizing affinity of corporate culture, we will make appropriate decisions with a sense of urgency while also seeking the right timing.

Q9: **I have a question about M&A deals in the International business. Looking at Slide 39, ESR has risen compared to the end of March 2016, and at 195% it is approaching the upper limit of 200% for maintaining the current capital policy.**

Please explain how much you can spend on M&A deals overseas if you include elements such as selling strategic equity holdings, adjusting shareholder returns, and issuing subordinated bonds.

A9: The current capital buffer is just under ¥2,700 billion, and there is a gap of approximately ¥1,800 billion from the ¥900 billion early warning level (lower limit for maintaining the current capital policy). Although the amount will fluctuate, we believe there is room to actively undertake M&A deals even considering the impact on ESR.

We realize that there are various options concerning funding.

Q10: Please explain the conditions, including changes within the company, that have given you the confidence to say that "internal harmony" has progressed since acquiring MS Amlin and that you can make M&A deals under \1,000 billion every few years.

A10: As we have explained in the past, "affinity of corporate culture" is important in M&A deals, but both the management and employees of MS Amlin have been very compatible partners, which has led to rapid progress in internal harmony, and we are now working toward the creation of synergies. Please understand that this is proceeding smoothly. I think "affinity of corporate culture" will be also an important point when determining whether we can make M&A deals every few years.

Q11: A major manufacturer believed to be doing business with your company has been reported to have experienced significant losses. While the amount of impairment and allowance for doubtful accounts cannot be confirmed, could you tell us the balance of your investments and loans in that company?

Also, could you give us a general idea of whether the management of major companies have liability insurance?

A11: Our shareholdings are partially published in the securities report, but I will refrain from commenting on individual transactions. Even if impairments and doubtful accounts occur, please understand that these are managed appropriately and will not have a significant impact on management.

In general, a high proportion of major Japanese companies use D&O insurance covering the liability of directors and officers. I cannot necessarily say whether individual cases will be covered by insurance because it depends on the terms and conditions of each policy.

Q12: Your company has been active in selling off strategic equity holdings over the past few years, but you seem to have a higher proportion of strategic equity holdings in relation to adjusted net assets and market capitalization than the other two groups in the same industry. What potential is there for increasing market capitalization by selling strategic equity holdings and diverting the funds to shareholder returns and business investment?

A12: The ratio of strategic equity holdings to consolidated total assets is around 12.5%, and we believe it is necessary to lower this to below 10%, a level similar to global insurance companies.

As you have pointed out, we have relatively high weight of strategic equity holdings among three Japanese non-life insurance groups, and there is high potential for future sale of these shares.

The sales target in the current medium-term management plan has been raised from ¥300 billion to ¥500 billion, and we expect to reach our ¥500 billion target in this fiscal year.

In the next medium-term management plan, we have indicated the target that will bring us a little closer to falling within 10% of consolidated total assets, and we believe raising capital efficiency and actively proceeding with business investment are priorities for management.

Q13: In global standards, companies with committees are generally accepted, but could you explain your approach to the design of your organization from the perspective of governance?

A13: The design of the organization is currently being discussed as we make various comparisons, including outside officers. The function of outside directors is important, but we believe the check-and -balance performed by outside directors is sufficient at present.

Every year, we consider changing our organizational design while exchanging opinions with outside officers and our stakeholders.

Q14: With regard to shareholder returns, you explained that you will place an emphasis on stable dividends, but do you plan to further raise dividends from the level of ¥130 planned for FY2017, or will this remain the same?

A14: Since it was founded, the Group has never lowered dividends, and we have maintained our trend of increasing dividends. Returns will come from ¥115 billion or 50% of the Group Core Profit target of ¥230 billion for FY2017, and there is still room to increase dividends because less than ¥80 billion is required for a ¥130 dividend.

Please understand that our stance of continuing to provide stable dividends while repurchasing our own shares flexibly remains unchanged, and that basically a ¥130 dividend is the level to be maintained.

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