November 27, 2008: MSIG Information Meeting
Summary of Questions and Answers Session

Question 1 (1)

Can we assume that there are no more undisclosed instances at MSIG or its subsidiaries underwriting "credit insurance" of the kind that caused losses at the European subsidiary, in effect, where pools of credit risks are underwritten.

Answer 1 (1)

- We have no other involvement in "credit insurance"-type underwriting other than that already disclosed. As I explained, in the credit insurance losses are expected to arise in all existing policies, but there will be no additional losses since we will make provisions to reserves up to the maximum limit of payment obligations.

Question 1 (2)

In connection with the collapse of Lehman Brothers, it is my understanding that the total exposure for Lehman bonds held by MSI was relatively large. I believe it goes without saying that MSI implements comprehensive management control policies for credit extended to individual companies, so why did these controls not rigorously work in this case?

Answer 1 (2)

- Total credit extended to individual entities is controlled by, among other things, the preset thresholds assigned according to the rating of the entity. To further limit overall credit exposure, we set additional thresholds for facilities like bond investments within the total credit facility thresholds and control the exposure accordingly.
- As for the bond investment exposure for Lehman Brothers, we did manage these assets within the parameters for a "single A" entity, as it had A-ratings until just before its collapse.
- In this credit crisis, we did not experience the expected risk-protection benefits of investment diversification, as there was greater homogeneity in the behavior of various asset classes. In addition to risk management methods to date, I think it will be necessary to carry out simulations fully factoring in this phenomenon.

Question 1 (3)

The provision ratio for the catastrophe reserve has been lowered from 8.5% for the first half to 3.2%. Can we assume that this figure of 3.2% will be maintained for the second half and beyond?

Answer 1 (3)

- We will make no change to this policy in the second half. In the near term — the next fiscal year and beyond — we will maintain it at the same level.

Question 1 (4)

In the automobile line, the Company's earned-incurred loss ratio has been falling, but it has trended at high levels in the overall insurance sector in Japan. Can we also expect a premium rate revision in the coming fiscal year?

Answer 1 (4)

- Automobile insurance is a key product, accounting for a large proportion of overall insurance revenues. We are unlikely to raise premium rates in the coming term to any extent that could erode our competitiveness.
- If rates are to be increased, the question in practical terms will be getting the timing right with the next "advisory pure premium rate" revision by the Non-Life Insurance Rating Organizaion of Japan (NLIRO). So far, there has been no decision announced on the timing of the next revision.

Question 1 (5)

Loss ratios have also been rising in the personal accident line across the non-life insurance industry. I would like to ask whether the question of revising premium rates on an industry-wide basis is now in the frame? Here too, will it be necessary to wait until the timing of the next revision of "advisory pure premium rates" is decided?

Answer 1 (5)

- MSI also applies the "advisory pure premium rates" to personal accident insurance, and no changes are planned to this policy. Therefore, any rates revision will depend on the timing of the next "advisory pure premium rates" revision.

- Until we can undertake a revision, we will work to improve our loss ratio through rigorous underwriting.

Question 2 (1)

I would like to ask a question concerning capital policy. Firstly, what is the Group's current position regarding its excess capital, defined as the difference between net asset value and total risk exposure? Also, what new investment areas might MSIG target in the future? Traditionally, the Group has focused on life insurance businesses in the rest of Asia and new businesses in Japan, but what scale of investment is considered feasible at current capital levels?

Answer 2 (1)

- Assuming a Nikkei Average stock price of ¥8,000 and an exchange rate of ¥95 to the U.S. dollar, net asset value totals ¥1,740 billion and total risk exposure (by value at risk, 99.5 percentile) stands at ¥1,120 billion. The difference, therefore, is ¥620 billion, recognized as "excess capital." New investments will be financed from this source.
- Turning to our strategy for the rest Asia as mentioned by the questioner, we do not intend to make any changes to our policy of treating this region as a priority. In particular, we will focus on entering the life-insurance business in China and India, and we are currently conducting surveys and research to this end.
- At this stage I cannot mention specific amounts as the surveys and research are still underway.

Question 2 (2)

We have now seen some slowdown in earnings performance in rest Asian-region operations, which had shown steady growth at both the top and bottom lines. Can you say a few words about the current condition of the combined ratio, excluding natural disasters and major claims?

Answer 2 (2)

- In yen-denominated operations, we have seen some slowdown at the top line, but on a original-currency basis we booked an approximately 8% increase in revenues

during the first half. Excluding major accidents, the combined ratio was approximately 90%, and approximately 94% including major accidents.

Question 2 (3)

Could you give us some sort of breakdown of the ¥176.5 billion in “Other ABSs” mentioned on page 35 within “Inward Reinsurance from the US Monolines?”

Answer 2 (3)

- “Other ABSs” include securitized automobile loans, aircraft leases, credit-card loans and insurance liabilities.

Question 2 (4)

It seems the Group’s net asset value has been affected by falling stock prices. Isn’t there a possibility of an adverse impact on new investment or capital procurement, given MSI’s need to maintain its current ratings?

Answer 2 (4)

- At the moment, we have no capital procurement plans of any kind. As I just mentioned, new investments will be undertaken without detriment to our ratings or market sentiment toward us, within the ¥620 billion “excess capital” ceiling.

Question 3

I would like to ask a question about strategic stockholdings policy as discussed on page 27. Could you tell us if there is any prospect of suspending the policy of reducing strategic stockholdings, the policy you have described to date? Also, on the same page, there is a reference to returns of “approximately 1.3%” for the underwriting profit on these strategic stockholdings. A fairly substantial level of capital is needed for stockholdings with a total market value of nearly ¥2 trillion, and a return of 1.3% seems to me to be a somewhat inefficient use of this capital. What is your opinion of the balance between stockholdings and capital?

Answer 3

- I pointed out that our strategic stockholdings are strategic in nature, while we have no plans to change our policy of running down strategic stockholdings.
- We plan to proceed also considering when market trends suggest prices are at the right level.
- Regarding the level of returns, if you take a broader view that includes qualitative factors, dividends, and rising market prices, I believe maintaining strategic stockholdings, even with the risk of volatility, does make sense.

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