

## **MS&AD Holdings Conference Call (August 8, 2018)**

### **FY2018 1Q Briefing Q&A Summary**

**Below is a summary of the Q&A session from the IR conference call held on August 8, 2018.**

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.

MS Amlin : MS Amlin plc

ReAssure : ReAssure Jersey One Limited

**Q1:** What is the amount projected for net incurred losses due to the Heavy Rain of July 2018?

**A1:** As incurred losses on a direct basis are a rough estimate at present, we have not been able to estimate net incurred losses. However, as we have arranged proportional reinsurance, ELC\* reinsurance for natural catastrophes, and aggregate cover reinsurance for annual natural catastrophe losses, these will end up functioning.

\*ELC (Excess of Loss Cover): Reinsurance which is compensated up to a certain limit for the excess amount when the amount of incurred losses by the cedent exceeds the amount agreed in advance.

**Q2:** Although you have not been able to estimate net claims paid for the Heavy Rain of July 2018, could you explain the reason why you can say that they will not have much impact on earnings? Also, with respect to reinsurance, will the Heavy Rain of July 2018 constitute one event or multiple events?

**A2:** As we have ELC reinsurance, we can expect recovery from reinsurance for more than a certain amount of incurred losses. Moreover, in the plan for this fiscal year, we have assumed that even if incurred losses exceed the initial estimate, the impact on financial results will be offset by the reversal of the catastrophe loss reserve. Consequently, we believe the impact on earnings will be limited.

Also, we regard the Heavy Rain of July 2018 as a single event.

**Q3:** The projected incurred losses of fire and others for the Heavy Rain of July 2018 is ¥50 billion. Could you provide a breakdown of this? In addition, this is the projected amount as of July 31 but about one week has passed since then. Has there been any change in the situation during this period?

**A3:** The projected incurred losses for fire insurance and others includes industrial and commercial risk in addition to dwelling risk, and we are projecting incurred losses to total ¥10 billion to ¥15 billion for industrial and commercial risk. There has been no change in the situation from July 31 as of the present time.

**SQ3:** In the case of the Heavy Rain of July 2018, is it correct to say that the natural catastrophes entailed comparatively low unit costs but a large number of claims because the weighting of dwelling risk is high?

- SA3: That is correct. However, there are also a considerable number of industrial and commercial risk claims. Incurred losses are not concentrated in any particular large corporate accounts.
- Q4: If domestic natural catastrophes exceed the year-beginning budget of ¥51 billion, I think the increased incurred losses will be a factor that directly reduces net profit until the incurred losses further increase and reach the level where the reversal of the catastrophe loss reserve occurs. In that case, will MS&AD reduce expenses that it planned to increase this fiscal year and increase gains on the sale of securities?
- A4: As we initially projected that the catastrophe loss reserve would be reversed in our earnings forecasts for the current fiscal year, even if incurred losses exceed the assumed level of ¥51 billion, we believe the impact on earnings will be limited because the catastrophe loss reserve will be reversed once claims payments proceed.
- Q5: Is the natural catastrophe budget of ¥51 billion that you are projecting in your earnings forecasts a figure that you calculated by projecting a recovery amount from your reinsurance?
- A5: The ¥51 billion for domestic natural catastrophes represents net claims paid, and we have not adopted any view on how much will be recovered from reinsurance.
- Q6: Has the increase in the IBNR reserve for past-year policies at MS Amlin been factored into the plan?
- A6: We are assuming a certain fluctuation in regard to past-year policies. This is within the range of the plan on an overall basis at present.
- Q7: I would like to know about the amount of lump sum severance payments and the amount of increase in the IBNR reserve that MS Amlin recorded in 1Q.
- A7: The amount of lump sum severance payments was GBP 15 million. The IBNR reserve was reversed by several million pounds sterling on an overall basis. (MS Amlin increased the IBNR reserve for past-year policies in some lines such as liability, but it was reversed on an overall basis.)
- Q8: What is the amount of incurred losses that have already occurred in 1Q relative to the annual projected catastrophe loss fund that is being targeted at MS Amlin?
- A8: As of 1Q, incurred losses that fall under the catastrophe loss fund in your question have not arisen.
- Q9: Is it correct that raising premium rates for natural catastrophes at MS Amlin is proceeding well against the plan?
- A9: As regards market trends for reinsurance in June and July, underwriting appetite at reinsurance companies was strong and fund inflows from the capital market also continued, resulting in a slightly lower premium rate increase than the initial assumption. The state of MS Amlin's increase in premium rates is also roughly at the same level as the overall reinsurance market. To explain this in more detail, the rise in premium rates in the overall market was only slight because in the case of the rate revision in North America in July, premium rates declined slightly for insurance programs

with a high trigger point that were not afflicted by disasters last fiscal year. However, MS Amlin is preserving a policy that emphasizes profitability, which includes declining the renewal of some policies with low profitability.

Q10: How are MS Amlin's 2Q earnings progressing relative to the plan?

A10: As 2Q earnings have not been established yet, I cannot provide a detailed explanation but investment income is trending below the planned level, while underwriting profit is trending above the planned level.

SQ10: Have you become aware of a trend where underwriting profit in 2Q differs greatly from 1Q?

SA10: In general, the trend is the same as in 1Q.

Q11: Does the rise in the EI loss ratio for automobile insurance reflect the impact of a decrease in premium rates? Or is it affected by other factors?

A11: It partly reflects the impact of the rate revision in January 2018, but apart from this impact, a rise in repair unit costs and an increase in incurred losses from bodily injury liability are also factors.

Q12: The EI loss ratio of fire insurance excluding natural catastrophes has been rising. Is the fact that there were many major losses a factor behind this?

A12: As this is a figure that is calculated in a short period of three months, the loss ratio may fluctuate even if the amount is not so large, but the main reason for the rise in the loss ratio during 1Q is an increase in major losses. Also, natural catastrophes such as snowfalls in the previous year had an impact.

Q13: On August 3, Swiss Re announced it was considering an IPO of ReAssure. Could you tell us about MS&AD's latest amount of investment and equity stake in ReAssure? In addition, if the IPO is carried out, do you intend to change your policy?

A13: Our investment amounts to GBP 587 million and our equity stake is 15%. As the UK closed book life market will continue to have great growth opportunities, we think that the implementation of this IPO as a wide-ranging means of raising capital is a suitable method. At present, we have not determined our policy regarding our shareholding in light of the IPO. As is mentioned in the release as well, we understand that Swiss Re will continue to participate as a major shareholder. We will consider the best strategy for MS&AD and our shareholders based on this as well.

SQ13: If a capital increase is carried out based on the IPO, will MS&AD make an additional investment to maintain its 15% equity stake?

SA13: We will discuss it with Swiss Re but nothing has been decided at present.

Q14: I believe that the CAT bond that MSI and ADI jointly issued this March also covered flood risk. Will

the heavy rains that occurred in July be a trigger event?

A14: Apart from whether or not the trigger was reached, floods including heavy rain are included in the risks covered by the bond.

Q15: Are you promoting the sale of strategic equity holdings while paying attention to the annual amount sold that is assumed in your earnings forecasts? Or will you proceed to sell specific equities that can be sold?

A15: For some time, we have had a policy of continuing to reduce these holdings by ¥100 billion every year. We sold about ¥150 billion worth of holdings last year which was the first fiscal year we set our target of a reduction of ¥500 billion in five years. Therefore, the sale amount we have assumed in our earnings forecasts for the current fiscal year is less than ¥100 billion, but we have not changed our intention to steadily reduce these holdings by ¥100 billion each year.

Q16: You explained that the earnings impact will be limited thanks to the reversal of the catastrophe loss reserve. Which does MS&AD consider more important: accounting profit or Group Adjusted Profit?

A16: We think both accounting profit and Group Adjusted Profit are important. As Group Adjusted Profit has a direct impact on shareholder returns, we think it is very important for shareholders and we put high priority to achieve it. On the other hand, accounting profit is an indicator that shows MS&AD's management status externally, and as it is also used in comparisons with our competitors, we recognize the fact that it is an indicator that has a large impact on our share price. We therefore see it as an important indicator in the same way as Group Adjusted Profit.

Q17: MS&AD's shareholder return policy is to return 40% to 60% of Group Adjusted Profit to shareholders. Will the return ratio be at the higher end of this range in case natural catastrophes increase and Group Adjusted Profit falls below target?

A17: The volatility of earnings based on natural catastrophe losses will be higher because from this fiscal year we have excluded the balance of reserves in the calculation of profit to appropriate for returns to shareholders. As you understand, we set the range of 40% to 60% for the shareholder return ratio in light of such factors.