Notice Concerning the Reorganization of International Business at Mitsui Sumitomo Insurance and the Temporary Impact on Earnings (Extraordinary Loss)

The Board of Directors resolved on November 19, 2019, to reorganize the international business of its subsidiary Mitsui Sumitomo Insurance Company, Limited (“MSI”, President: Noriyuki Hara). In addition, an extraordinary loss was recognized in the FY2019 Q2 results due to this reorganization and we advise as follows. Note that this reorganization assumes the approval of the relevant authorities and other requirements.

Details

1. Purpose of reorganization

MSI introduced the Regional Holding company framework in April 2006, delegating certain authorities to regional holding companies in Asia, Europe, and America. The business has developed according to the market characteristics of each region. This has led to increase MSI's presence in each region as well as substantial growth in business size*1.

*1 Change in net premiums written (international subsidiaries of MSI):
131.2 billion yen (FY2005) → 650.4 billion yen (FY2018)

On the other hand, the surrounding environment of MSI’s international business has rapidly changed by acquiring global insurers, advances in digitalization etc. In order to respond to the changing environment, challenges in the current organizational framework have been identified such as the necessity to further utilize the skills and networks of each group company across regions and accelerate the speed of decision making to realize swift business operation.

The decision to reorganize was made for the purpose to resolve such challenges, achieve international business growth and further enhance group governance. We aim for sustainable growth in international business through this reorganization by further enhancing the products and services that we provide to support the lives of our customers and business activities worldwide.

2. Outline of reorganization

(1) Enhancing MSI Head Office’s international business framework <January 1, 2020>

To enhance MSI Head Office’s business framework, current International Department will be reorganized to International Planning Department which will be responsible for planning the overall
strategy of international business, and International Business Department which will oversee regional strategies and business promotion and management. Furthermore, MSI Head Office departments such as Accounting Department, Investment Planning Department, Corporate Risk Management Department, and Information Technology Planning Department will expand support for international business.

(2) Termination of Regional Holding company framework <January 1, 2020>

Regional Holding company framework, will be terminated and in general international subsidiaries under each Regional Holding company will become direct subsidiaries of MSI Head Office. The current functions and authorities pertaining to the strategy planning at the regional holding companies will be consolidated to MSI Head Office.

3. Benefits of reorganization

(1) Enhancing organizational capability

Under the new framework, business promotion and governance framework will be initiated by MSI Head Office directly, which will enhance the group governance. Direct management of the local subsidiaries by MSI Head office will enhance governance by disseminating global policies in a timely, quick, and uniform manner.

In addition, by centralizing the strategy planning function to the newly established International Planning Department, we will shift to a business model that responds to rapid changes in the environment caused by factors such as increasing number of regulations that is imposed extraterritorially and developments in digital technologies. We will also build a framework that enables us to quickly capture opportunities for business investment.

Furthermore, MSI Head Office will leverage the potential of our talented human resource at international offices, who are well-versed in local environment and have a wealth of experience and expertise.

(2) Accelerating growth

By strengthening ties within the group, skills and networks of each group company will be utilized across regions and the growth of the group will be accelerated. Specifically, the expertise of MS Amlin plc’s subsidiaries and MS First Capital Insurance Limited\(^2\) will be utilized on a group basis, going beyond the previous framework of Regional Holding companies. Also further collaboration in life and non-life insurance business will be promoted in Asia.

*2 MS Amlin plc’s subsidiaries: specialty insurance and reinsurance

MS First Capital Insurance Limited: large-scale construction insurance and business insurance

In addition, we will pursue growth in international business as well as improved efficiencies by establishing and promoting the international business strategy across regions. (For example: in the areas of digital, asset management, and reinsurance)

(3) Increasing productivity

We will achieve increased productivity through selection and consolidation of business while reviewing operations and the allocation of human resource. As a result, we expect to achieve annual cost reductions of more than 10 billion yen by FY2021.
4. Temporary impact on earnings from reorganization

(1) Recognition of extraordinary loss

So far, MS Amlin plc and its subsidiaries have been treated as one asset group for an impairment test. However, because of the removal of the regional holding company framework through the reorganization, we changed to treat the Lloyd’s business, Europe primary insurance business, and reinsurance business respectively as independent assets groups.

Under this change, since the profitability of the Lloyd’s business and Europe primary insurance business fell short of the original business plan made at the time of acquisition, an impairment loss of 175.4 billion yen was recognized under extraordinary losses for assets such as goodwill and other intangible assets. Please refer to “(Reference) 2. Temporary impact on earnings from reorganization of international business” in the “Explanatory Material for Business Results for the Six Months Ended September 30, 2019” released today for details.

Each business is in financially sound position and the impairment will have no affect to the operation. Progress is well made to improve profitability and we will continue to develop these businesses under the new structure.

(2) Impact on earnings

The above extraordinary loss is reflected in the “Summary of Financial Statements for the Six Months Ended September 30, 2019” released today.

Note that there is no revision to the net income attributable to owners of MS&AD Insurance Group Holdings in the consolidated earnings forecast for the period ending March 31, 2020 since there is also a decrease of approximately 170 billion yen in income tax expense associated with the reorganization for MSI in FY2019 Q2. Please refer to “4. Earnings Forecasts” in the “Explanatory Material for Business Results for the Six Months Ended September 30, 2019” released today for details.