Investor Day

Company Participants

- Naomi Ito, Limited Managing Executive Officer
- Shiro Fujii, Group CFO, Director, EVP, Head-IR & IT Planning
- Tetsuji Higuchi, Limited Director & Managing Executive Officer

Other Participants

- Hideyasu Ban, Analyst
- Kazuki Watanabe, Analyst
- Koichi Niwa, Analyst
- Koki Sato, Analyst
- Natsumu Tsujino, Analyst
- Takehito Yamanaka, Analyst

MANAGEMENT DISCUSSION SECTION

Tetsuji Higuchi {BIO 20243541 <GO>}

I am Higuchi with Mitsui Sumitomo Insurance. I thank you very much for this opportunity. Without further ado, I would like to describe Mitsui Sumitomo Insurance company's ICT strategy and its initiatives. First of all, I would like to share with you our overall vision. As you can see on the bottom-left hand side of the slide, ICT technology such as IoT and AI are advancing very rapidly, and I'm sure you're all familiar with. And as far as our company is concerned, using those technologies as shown under one, we would realize growth based upon new products and services, and new business models.

And secondly, as shown in two, we will enhance productivity and strengthen our earnings power utilizing advanced ICT. So, we intend to realize those through open innovation, as shown on the bottom of the slide, collaboration with startup ventures among others. And for us to be able to do that, we wanted to strengthen the structure and framework for such initiatives. For that purpose, in April last year, we established ICT Strategic Section within Corporate Planning department.

On the bottom-left hand side, you see a green part with a frame; and above that, you will see holding company; and to the right, you see Aioi Nissay Dowa. And both of those companies have the similar organization. And they cooperate together in this area to pursue various initiatives. And the role of the ICT Strategic Section is to conduct investigative research on ICT technology design, and study our business models using ICT and the open innovation with ventures. And the role also includes fostering and developing human talents such as data scientists.

And in terms of a concrete research theme, on the top, you see smart houses, IoT, the Big Data. Using Big Data, we will provide healthcare services and others. How to do that is what we're studying. And the use of AI and robotics, which will be elaborated later on. And on the left, you see blockchain, including FinTech. So, basically themes likely to have a more significant impact on non-life insurance. Business is prioritized as research themes.

In terms of open innovation initiatives, shown in purple here, we are making differentiated usage of venture capital companies and also large corporations. In terms of speed and innovative ideas, we work with venture capital, or where certainty is required, connection with the host computers involved, we work with the large vendors; and therefore, we make differentiated usage of startup ventures and large corporations.

We need to identify startup ventures, and in doing so, as shown on purple, III, Mirai 2017 is a cross industry consortium sponsored by Mitsui Sumitomo Banking Corporation (sic) [Sumitomo Mitsui Banking Corporation] (03:27) and Japan Research Institute. To the right, you'll see ILS, which is a business matching operation supported by Ministry of Economy, Trade & Industry. So, through those organizations, we look for startup ventures subject to open innovation efforts and [indiscernible] (03:46).

Since 2007, we have been employing robotics and currently, 400 types of robots are in operation. They have all been developed in-house.

As you can see on number 3, in sales and claims services sections, which handle loss payments, they utilize robotic process automation starting from high priority areas where higher efficiency is needed. And furthermore, we went through all of our PC operation logs to identify potential areas of automation by robotics and we are now conducting field trials.

And the next slide is a bit busy, but this explains what we have done. As you see on the top left, we analyze our employees' PC logs to extract areas for possible automation. As you see at the bottom left, we have found that nearly 20% of the work can be automated. And as you on the right-hand side, the operation speed can be four times as fast and the quality is improved because robots do not make errors. As such, we would like to further increase our productivity significantly by use of robotic process automation.

And this is my summary slide. The dark green bar where it says product development and solicitation represents the flow of our work. At the top, I have cited three field trials that are underway, but there are many more field trials that are ongoing. Through these means, we would like to achieve the vision that I've talked about earlier, namely to provide products and services to our customers using ICT and enhanced productivity through the use of ICT. We will continue to step up our efforts to promote our digital strategies. Thank you for your attention.

Naomi Ito {BIO 17544361 <GO>}

I am Ito of Aioi Nissay Dowa. Now, I'd like to talk about ADI's business strategies on telematics insurance. As you already know, the environment surrounding automobile

insurance includes new technology and new concepts emerging very rapidly, and they are having substantial variety of impact on automobile insurance, which has a huge market. As far as our company is concerned, we are exploring what we should be doing using new technology and concepts as a focal point, and that's the basis of my presentation today.

First, let me introduce to you and explain what telematics is. By installing vehicles with such devices shown here, driving information and data is electronically transmitted. There are a variety of types. A UK company we acquired called ITB located in United Kingdom has over 1,000 devices called Black Box, and they are installed on vehicles, and the driving information is transmitted real time.

In the center, you see the devices installed onto the vehicles by carmakers such as Toyota Motor Corporation as standard equipment. Some customers do require driving image where a driving recorder is used, and to do it, simply, smartphones are used. Depending on the purpose, the country or the customer needs, we are striving to provide telematics services by having all round capabilities with the latest technology, rather than choosing only a fixed device. So, that's what we are trying to do.

Initiatives we have taken to date dates back to 2004. So, quite a long time ago when we developed the driving distance linked insurance for the first time, working with Toyota's G-BOOK. So, this insurance was based upon actual data rather than data based upon customers' report.

In April 2015, we developed automobile insurance connected to Toyota's T-Connect. But a major breakthrough came in March 2015, when we acquired Insure the Box Limited, ITB Limited, the largest telematics automobile insurance company in the United Kingdom. And by doing so, we acquired technology know-how and time. And that brought about a major change.

And in 2016, for fleet customers, we developed product using drive recorder. And more recently, for corporate customers, for fleet services, we began the services using smartphones.

In the United States, on the other hand, in April 2016, together with Toyota, we established a company called TIMS Group, the company that supplies data and services, and I'll elaborate on this later on. We did this with Toyota in the United States.

First, let me explain to you the ITB. With this acquisition, we made a full scale entry into the UK telematics automobile insurance market, but our two objective was to use telematics insurance technology and know-how in Japan and also outside of Japan as well. It acquires driving data from onboard device called Black Box, and data is obtained real-time basis, and this scores customer's driving behavior using our proprietary algorithm, and that (09:57) safer drivers.

Worldwide, telematics insurance are provided in the world, but we take pride in the fact that we do have the state-of-the-art, highest know-how and technology. More concretely, using this Black Box, GPS data is used and also the three access acceleration speed, the

vertical, horizontal and lateral. And using that, the data on customer's sudden acceleration, sudden breaking, excess speeding or sharp cornering are captured on a real-time basis.

Once customer's safe-driving behavior is confirmed, under this insurance, it has 6,000 miles, 8,000 miles and 10,000 miles. So, the product is based on mileage. And as the customer acquires 6,000 miles, if he wants to drive more than that, he has to add by additional miles. But for safe drivers, free mileage is offered, maximum to 100 miles per month, together, 1,200 miles per year.

And what happens then is that since customer can obtain service points, they become inclined to drive more safely, offering not just insurance, but service menu. We can encourage customers to drive safely, true to the aspiration of the founder of ITB.

And as you can see, on the right-hand side, we have emergency response service, maneuver at normal acceleration is detected, call center is automatically notified, and call center contacts customers. And if there is no response, the arrangement is made for ambulance to come. And the BBC reported that actually, this led to savings of lives. And through using this service, 5 billion kilometers, this is rather outdated data with the increase in driving distance, close to 7 billion kilometers driving data, and also the accident occurrence data have been accumulated. And by using this, we are able to provide services and products both in Japan and the United States.

Next about TIMS. TIMS is a joint venture between ADI, Toyota Financial Services Corporation and Toyota Motor Corporation. And it is a company conducting data business in the United States. The concrete business model is as follows: from Toyota Cars, the data is transmitted, which is received by Toyota Connected. And the data then is purchased by TIMS. And this is provided to U.S. partner insurance companies with some value added. Value-add, in this case, includes analysis of driving behavior. What sort of behavior is rough? What sort of behavior leads to safe driving? So, this represents value added, and as a result of receiving such data, the insurance companies can offer more reasonable insurance, for example, lower premium for safer drivers and advice on safe driving as well.

Here, in Japan, domestically, this can be applied as well. This involves a CMT, the company in the United States, the U.S. IT company, and in alliance with them, we developed smartphone application, and also the 3 centimeter by 3 centimeter tag, which includes acceleration sensor and battery, and customers' driving data can be captured on a real-time basis. The field trial began last year, and this is installed in 6,000 vehicles.

In Japan, the Japanese map is used and Japanese language. The driving behavior and situation can be obtained, and data is transmitted to the United States, and the outcome of the analysis on the real-time is presented in the customer's smartphone.

Here are some sample screenshots from a smartphone. The main screen shows the driving score, ranking, and some hints for safe driving. And the map will show the route the driver has taken that day, and information about the time and location of sudden

breaking or accelerating to above speed limits. So, you can view this kind of information on your smartphone.

In addition, for a fleet customer, for example, a ranking on who is the safest driver within a group or who was driving unsafely will be shown. This feature can contribute to a reduction of car accidents.

This is a case with our company. Latest data shows that compared to the previous year, the number of car accidents have been reduced by 20% through the use of this tag in the car. Another example is a service for fleets. Since many fleet customers wish to have onboard driving recorders, so we have partnered with Fujitsu and launched a service in April 2016 to support safe driving and to warn drivers to prevent accidents. And when accidents do occur, they notify the manager's PC immediately.

All of our telematics initiatives are shown in this diagram. In 2004, we launched our first product paid by the acquisition of ITB in March 2015, allowed access to new technology and know-how. Based on that, we developed jointly with MSI, a product, Mimamoru auto insurance to offer assurance to the elderly, and the first telematics product that reflects the actual driver behavior was also developed. These two products will be launched in the future.

Through these telematics related activities, we accumulated Big Data and data analysis expertise, which led us to sign an academic industrial collaboration agreement with Shiga University, which was the first university to establish a faculty of data science in Japan.

Both parties will develop the dedicated infrastructure, and by the fall of this year, we will be starting our joint data analysis work over the cloud. Our initiatives will contribute to fostering the much needed data scientists in Japan, and the Big Data that we own can be analyzed jointly.

Furthermore, our company and Shiga University will participate as partners in the Ministry of Science and Technology project called the Data-Related Human Resource Development Support Project for fiscal 2017, in which we will also collaborate with Osaka University. As such, we are given new opportunities to cooperate with academic institutions.

Next, I would like to talk about next generation mobility. To gain access to new IT technology, we have made a strategic capital contribution to MaaS global, a company based in Helsinki, Finland. This company already offers in Helsinki, a smartphone application which automatically calculates the most efficient and cheapest means of transport to travel from a location to another using one or any combination of taxi, train, bus, rented cars or bicycles, among others.

Not only that, a payment can be completed using this application using smartphones. And this service will be expanded to other markets in the future and by investing in this company, we will have access to the knowhow and the expertise in this area. We would

like to help develop this company, but not only that. We would like to come up with new ideas about innovative ways to offer insurance products.

Next is automated driving. We partner with Gunma University in this area, and since we're not an automaker, we do not develop the automated driving technology itself with artificial intelligence. But by analyzing automated driving, we can develop an insurance product specifically for automated driving. We may develop a claim services methodology for accidents unique to automated driving or we can offer an optimum style of insurance best suited for a society embracing automated driving. We will work with Gunma University to study and explore such areas.

If you look at the overall picture, you can see that each of these elements originating from telematics are not independent of each other, rather, the various technologies are very much interconnected with data and IT as key components. In the field of telematics, the technology knowhow and the time we have gained through the acquisition of ITB will be used to expand our presence within and outside of Japan, including the United States.

The actual data analysis and technology development must be done by people, therefore, human resource development and the Big Data analysis are highly prioritized. Furthermore, the use of blockchain to prevent the alteration of Big Data and the exploration management of Big Data will be promoted through the company GEM, which has the expertise in blockchain.

Beyond human-based analysis is automated analysis using AI. In this area, we are working with TRI, Toyota Research Institute, to advance the knowledge in AI. The age of sharing economy is just around the corner as well. Our partnership with MaaS will enable us to have access to the state-of-the-art technology to fully embrace a new era.

Through these efforts, we will be ready to respond to the very rapidly changing environments surrounding auto insurance in terms of technology and human resources. Thank you for your attention.

Shiro Fujii {BIO 16476704 <GO>}

Fujii is my name, and by these two presentations, I believe you are able to get an insight and understanding of what we are doing, the content. But if I may just summarize, as shown here, we are pursuing sustainable growth in the digital society through the combination of initiatives at each operating companies and open innovation.

Basically, the operating companies themselves will capture customer needs, and identify that and how to use that in the business. It is pursued, I talked about MS&AD, but we have two life insurance companies in Mitsui Direct, and they are all thinking about the various things in their business, conducting various trials, and executing some of them.

In addition, across the entire group vis-à-vis diverse needs, in order to find solutions to them, we need new insights and ideas. And with that view in mind, in Silicon Valley, we decided to invest equity in Net Services Venture (sic) Net Service Ventures (21:28), this is a

venture capital fund of funds, and that we obtain information from that for our initiatives. The two presentations made just now covered ITB and TIMS. Those are companies in operations in the United States and Europe. But in your case, we have MS Amlin or we have our local subsidiary in Singapore or India, so we do business on the global basis. And each of the locations are identifying needs, but at the same time, they are faced with different needs. How can we find solutions to them when we do that? This mechanism of open innovation is used.

In Silicon Valley, from different locations, the people just pass them through competition and inspiration, they try to identify new needs. So, that's what we are trying to do right now. What is important in this context is to capture ideas and needs close to where the action is. Stationing some people in Silicon Valley and let them operate successfully, that can't happen. The collaboration amongst those operating companies is very important above all.

And also, as two of them just mentioned, what are we going to accomplish? It's based upon our management's philosophy, which is to serve the society, to help realize the society with vitality by delivering security and safety through insurance and financial services. And for that perspective, there are three points described here. First of all, the society is going to change to become more digitalized. And as that happens, new needs will emerge.

How can we respond to that, those emerging needs? As was mentioned by Mr. Ito a moment ago, the automobile insurance in conventional sense offers coverage for negative financial impact whenever accident occurs by paying insurance claims. When accidents do occur, we offer services to ensure that the problems are settled and that our customers feel reassured in the process. Of course, that's very basic to our business.

But on top of that, we want to be able to provide product to prevent accidents. The Mimamoru auto insurance is an example. In cyber security, we not only make loss payments after incidents occur, but want to design an insurance product with a built-in prevention measure.

When technologies such as blockchain and smart contracts make advances, and the society adopts and changes, there always will be a need for insurance coverage associated with them. That's why we think we have big opportunities in the area of digital society. The core of our business is to cover risks, and we can strengthen our core competencies through this digital strategy. We will address this first strategy in various ways.

Second strategy is the digitization of insurance products and services themselves, telematics being a typical example, that's (24:42) auto insurance. And the health promotion services using data collected from wearables and smartphones are some of the other examples of digitizing the product s and services.

Third strategy is to enhance quality and improve efficiency. This is where we expect to see visible results first. This is really an ongoing effort and we have talked about RPA initiatives

since 2007. Well, it used to be very labor-intensive manual work where it gradually automated by some in-house Excel (25:18) professionals building hundreds of automated easy-to-use processes and which were then shared across our organization.

This was first advanced forward through our use of AI in liability determination, improvement of our customer centers through IBM Watson, or customization of our employee interactions with customers. All of these initiatives have to measure improvements in quality and efficiency of our operations. So these are the three areas we are focusing on, and they are not independent of each other.

As has been mentioned earlier, there are areas where the development process is faster when they are carried out separately, but once we find out their benefits, then we have a mechanism to share the insights across the entire group.

The slide where we mentioned the two non-life insurance companies but our life insurance businesses and Mitsui Direct are also part of this mechanism, so we have a group-wide system to mobilize our resources and work together to pursue our digital strategies.

Digital strategies do not need to be grand or ambitious. We believe in making steady progress to cover every necessary step in a prudent manner. So I do hope that you will continue to give us your support and understanding. Thank you. This concludes the three presentations.

Now, ladies and gentlemen, we would like to receive questions. One question per person and response will be given by individual speakers. So that's the format of this Q&A session. If you have more than one question, please raise your hand subsequently to the designated. So, anybody? If you could raise your hand, we would like to start the Q&A session with that person. Mr. Watanabe, please.

Q&A

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Watanabe of Daiwa Securities. Thank you for the presentations. I have two questions. The first question relates to the telematics insurance. Considering the spread in greater popularization of autonomous driving, is there any area where you can leverage your own expertise and knowhow? That's the first question. I mean, if autonomous driving technology keeps accidents from occurring, you may no longer be able to use the telematic strength you have. So do you regard this as bridge technology or can it be used later on as well?

A - Tetsuji Higuchi {BIO 20243541 <GO>}

Let me confirm that. Let me answer that. Discussing the relationship with autonomous driving, there are two aspects: one is time and penetration, and the other is the technology that can be used even with autonomous driving and these are two areas.

In terms of time and broader penetration of autonomous driving, suppose the first autonomous vehicle is launched in 2020, the number of autonomous models increased and spread even further to account for a significant part of new cars sold or there may be some models that choose not to have this technology. And when we assume this, it will be quite some time in the future when autonomous cars occupy a certain proportion of a new car sold considering the number of new cars sold per year as a percentage of vehicles in operation in the society. For a cycle to work through, it'll take over 10 years.

For autonomous vehicles to become a majority of vehicles on roads, it'll be far, far into the future in terms of timeframe, maybe in the latter part of 2030s or 2040s. So, before that happens, our expertise will have great value as bridge technology.

And secondly, even with the autonomous vehicles advent, not all the vehicles will follow the same pattern. It will be a combination of autonomous vehicles where the driver-driven cars, accidents involving people, and different types or forms of accidents may occur. In that case, what can be controlled by autonomous driving technology? What lies just outside of that? The relationship with other people, the obstacles, and the mixture of all of that, I believe, how we can make us of this technology and opportunity to offer insurance and services.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Thank you. My second question relates to digitalization in general. Listening to your explanation, it gave me the impression that you're quite advance and good progress is made for higher efficiency of expenses. But if you have any ideas that could expand top line right away, could you share that with me? Thank you.

A - Tetsuji Higuchi {BIO 20243541 <GO>}

Yes. We are engaged in the variety of activities. For example, at the end of (30:21) sales personnel and insurance solicitors, the customers' facial expressions and dialogue are recorded using 360-degree camera and recorder. This is a sort of field trial that we are conducting right now. What we are after is that maybe AI could identify a pattern that always results in successful contract conclusion. And if we are successful in this area, that can be applied to other sales person or solicitors, and each solicitation activity can be conducted that quickly and more efficiently. So those are some of the initiatives under way.

The direct improvement of top line may depend on ideas yet to be created. But we would like to conduct those initiatives and activities one by one to have full progress.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Thank you very much.

A - Shiro Fujii {BIO 16476704 <GO>}

Fujii speaking. If I may add one point, for example, in relation to bitcoin business, we can offer insurance coverage for bitFlyer, or we are working very hard to design cyber security

insurance. In reality, we are distributing such insurance already which we can further increase.

So the provision of product to offer coverage for new risks will be pursued jointly by MS&AD or individually in response to individual needs. But as of today, we have not yet reached the level that grows top line significantly, but we continue to pursue those activities earnestly.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Thank you very much.

A - Tetsuji Higuchi {BIO 20243541 <GO>}

Anybody else with the next question? Mr. Yamanaka, please?

Q - Takehito Yamanaka {BIO 1906159 <GO>}

I often hear about this, so I would like to know your position on this, that is regarding the three digital strategies on your final slide, in particular numbers 1 and 2. Well, it doesn't have to be an insurance company to provide some of these services. So my first question is, how you intend to differentiate yourself as an insurer from other entities that can also provide similar services?

And my second question, well, currently there are services and products that can only be offered by insurance companies due to some Japanese regulatory reasons. However, the regulatory environment may or may not change over time. Banks have faced a situation where some services can now be offered by other entities other than banks, and that's a trend in banking. So are you anticipating such a situation in the future? And if so, what are the ways in which you intend to respond?

A - Tetsuji Higuchi {BIO 20243541 <GO>}

Thank you. Regarding your first question, we believe there are various scenarios for that. Well, for example, accident prevention or accident response services can be offered not necessarily by us alone but in collaboration with other service providers. We may bundle some products or we may add it as an extra service or whatever but we do foresee the need to offer services in a variety of formats. Cyber security is a typical example. But then there are other areas where it is more strategic to foster enhanced expertise for telematics. It's difficult elsewhere to process so we will develop it in-house. So there are various scenarios or possible patterns.

On your second question, we don't feel this too much when we are in Japan but the Japanese government is now starting to talk about their regulatory sandbox, the UK or Singapore have a rather deregulated environment and are allowing new businesses to start. Same development also in United States. For example, the level of solvency does not have to be so high to start a business. These things may emerge eventually, but when new entrants come into the market, they may need some kind of a backup measure, then we can provide reinsurance services to support them or we may work jointly with them.

We don't think we are protected by regulation. We are not that naïve. We ourselves are maybe involved in some of these potential new businesses even. We are keenly aware of the developments that you have just pointed out and always want to be prepared for any changes that may emerge as a group as a whole. I hope that answers your question.

Let me add to the response to your first question. There are many people out there who have massive amounts of data because there are means to have access to data these days. And they may have ideas about what they want to use the data for, but many of them are not sure exactly how. So I think that's the situation now.

We, as an insurance company, can process the available data from our viewpoint so that it can be effectively applied to, say, accident prevention, and this can be offered as a unique service. By combining a massive amount of data that some people have and our expertise, perhaps the other party can benefit from their data. And since our expertise is in risk management, we may also be able to benefit the customers of that other party. So I think there will be division of responsibilities, the role we can play and the other party can offer can be divided. I hope that answers the question.

Q - Takehito Yamanaka {BIO 1906159 <GO>}

Thank you very much.

A - Tetsuji Higuchi {BIO 20243541 <GO>}

Now, are there any other questions? Then, Mr. Ban, please.

Q - Hideyasu Ban {BIO 15250840 <GO>}

Ban of Morgan Stanley. I have one question. In the case of PHYD-type insurance in Japan that you have been describing for some time, the insured boxes of products you've described today seems to be quite established in the UK market as service. But to bring it as it is into Japan, of course, you have to have approval but other than required approval, are there any differences in terms of structural mechanism?

Let me explain why I asked this. As you discussed today, in the case of applications, simply by changing the language, you can provide very similar services globally with very little time lag. So when you try to introduce a certain insurance using technology in a very speedy manner into different markets, if ITB's products are readily offerable in different countries without delay, you can gain speed, but when you try to do that, are there any obstacles or hurdles if I don't know yet. So to the extent possible, could you comment on that together with your domestic product strategy?

A - Tetsuji Higuchi {BIO 20243541 <GO>}

There are two angles. One is in Japan, there is unique Japanese bonus-malus system of driver rating. This is a wonderful system, foremost in the world. It's analog, but driving behavior can be reflected in insurance premium. If accident is not caused, premium comes down continuously, and data is exchanged, thus offering optimum low premium.

So, can driving behavior reflect it in a manner comparable with this system is what we're discussing internally, and as we announced earlier this spring, we are now taking measures with a view toward launch of this product. What I can describe today is quite limited, but I hope you can report to that.

The other aspect is the usage of knowhow. What is very difficult is data analysis knowhow and expertise rather than development of device and hardware programming. The situation differs from country to country. Speed limit is different. (40:09) social practices are different.

So, what are the areas where common knowhow can be applied? What is unique to different countries? To determine that, with huge amount of data and analyzing that from different angles, we can determine that. For the initial analysis, a huge amount of time will be required, but once we can get a hang of it, the experience in United Kingdom can be applied and used in the United States. And as we described earlier, the experiences in the United Kingdom or analytical knowhow can be used in Japan as well.

Q - Hideyasu Ban {BIO 15250840 <GO>}

Thank you very much.

A - Tetsuji Higuchi {BIO 20243541 <GO>}

Mr. Niwa, do you have anything? Yes, please.

Q - Koichi Niwa {BIO 5032649 <GO>}

I am Niwa from Citigroup Global Markets. I have a question about setting KPIs. When you take on this kind of interesting initiatives, the goal may not be set clearly. So, as top management, how would you handle this? Should KPIs be sent? Or if you already have KPIs, then what are the timelines of reaching the goals? Could you share that with us?

A - Tetsuji Higuchi {BIO 20243541 <GO>}

As of now, we have not set any specific KPIs. As we have stated, we are going to work hard to execute what we have talked about, and we can already foresee possible effects in some of the business efficiency improvement areas, and we have been discussing how that can be reflected in our expense ratio. While we realize that not every single one of our initiatives may be successful, but overall, expense ratio is seen as one of our KPIs in the area of business efficiency improvement.

Now for top line, we have not set any KPIs for now. But in maybe three years' time, we do need to look back and determine the effectiveness of our investment and make necessary judgments because we are making investments to execute our activities. But that's not what we are going to do now.

Q - Koichi Niwa {BIO 5032649 <GO>}

To add to my question, please, you have started these initiatives and you will be watching the progress of technological advancement. But what point in time would you start to incorporate this into your business plans? Would it be in the next mid-range plan or would it be beyond that?

A - Tetsuji Higuchi {BIO 20243541 <GO>}

The answer is we are discussing it right now. But what we are seeking to do is not necessarily to put into our mid-range plans and so on, but to be agile enough to be up to speed with the changes in the society. So in that sense, we want to be as quick as we can be, and it depends on which years the next mid-range plan will cover. But at least we would like to be able to share with you what we have achieved in the first year and then the progress made in the second year and so on. So we do want to expedite the speed of what we are doing.

So although automated driving may be something for the future but telematics-related activities may see hard results in, say, two years or even earlier, and we hope to be able to share that with you.

Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you very much.

Operator

Mr. Sato, what about you? Do you have a question?

Q - Koki Sato {BIO 19983862 <GO>}

Sato of Mizuho Securities. One point I'd like to ask about in terms of technology, be it AI or blockchain, quite a number of consortia are already established, and the trend seems to be for greater openers. And in the slide says across the group but it might include external entities or sometimes including competitors. And from a layman's perspective, differentiation only through technology seems to become more and more difficult.

On the other hand earlier with ITB, you said you aimed at buying time and technology and in a sense you fenced in this technology. So other than technology going forward, it could be data or it could be customer touch point, but if you are willing to make some investment for the purpose of corralling some assets, to buy time or to buy advantage, what are some of the areas that you are interested in? Could you share that with us, please?

A - Tetsuji Higuchi {BIO 20243541 <GO>}

Yes. In terms of technology, AI and blockchain were mentioned. Like I said, blockchain, it is quite really established as technology, and therefore, in what areas are we going to use blockchain technology? So in a sense, the idea will determine the success of this. So as for blockchain, if anything rather than technology per se, but where and in what area blockchain mechanism is going to be used, and that will become decisive.

With respect to AI, although we refer to AI in very general, but depending upon what the AI is used for, the technology required is quite different. Basically as you already know, AI is very strong in image recognition, and therefore if you want to do something using image recognition, you use AI. But even in the case of image recognition, there are start-up ventures with very high level of technology and each with different strength in different areas, so to speak.

So in that sense, we need to have a clear idea of our own requirement of what sort of AI we would like to use and where we would like to use AI and search the start-up venture with a high technology to address that, and to start working with them early on becomes very important.

You talked about Silicon Valley. Even in Japan there are many start-up ventures with very high level of technology in the image recognition area. So in our case for such and such (47:17) technology, we work with those people and for others work with other people. And so, identify and join hands with those people with high level of technology becomes very decisive.

Looking outside of Japan, there is the entity called (47:33) Lemonade, and the technology they are using is quite conventional to a certain extent, but when it comes to the systems or mechanism, they do have good ideas. And therefore we really have to have broad and rich conception clarifying what difficulties we have, what do we want to accomplish, and then work together with a good venture is very important.

Allow me to add one point. ADI has extensive business association with Toyota Motor Corporation. So from one perspective, if I look at the entire world in different areas where there is a vacuum where neither of these companies are operating, how can we do business and how can we apply the technology that have been nurtured for the partnership? And this perspective will come up for consideration going forward.

As is mentioned by two gentlemen right now, unless we ourselves have very strong view as to this is what the business model we would like to consider or this is what we want to do, unless we have strong views, just asking others for good ideas cannot work. So in that sense, as was mentioned earlier, some technology or ideas will be locked in for ourselves, and in other areas it may be better to share with other companies in the industry to make it into a de facto standard for the industry, so there maybe such cases.

So if it results in benefiting consumers, if we think it's better be should rather than ourselves monopolizing that including that potential, we need to have a very broader thinking. Did I answer your question?

In addition, my next question relates to what areas you are not going to corral? In the case of voice recognition quite recently, Amazon and Microsoft decided to share technologies. So those have been rivals but they have decided to start cooperating together in order to supplement each other's strength or weaknesses. So in this field of insurance, can we expect to see your company working together with your rivals going forward? Could that happen?

Yes. In conjunction with blockchain, reference has been made to cargo insurance policy. In essence, in the export-import trade, the insurance policies need to be hand-delivered in the past. But if it can be exchanged on the blockchain, efficiency can be enhanced substantially. And the exporting-importing transaction, the business process is common throughout the world, so this can be handled as the common assets and property of the industry. And also in relation to blockchain, the arranging for loss adjusters and assessors in the case of huge natural disasters, communication was made by paper and telephone sometimes as this was said would come (50:41). So this is another area where we can jointly use as a platform in industry because all the companies are doing the same thing here. So there would be more and more opportunities of doing that.

Thank you very much. Maybe one final question. Ms. Tsujino?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

This may be a little bit off the main subject but let me ask a question. Today you focused on telematics. When I talk to non-life insurance, they say that even if automated driving is introduced widely, accidents will not go away immediately or may take 10 years or so before all the cars are replaced by automated driving vehicles. Even if all the cars have the functions and expressways are totally controlled by the systems, things can go wrong and accidents may still occur.

That's what these people say. There may be an animal on one side of the road, a pedestrian on the other, and there may be a cliff on another side. So it may not be the driver's fault but an accident may still occur. So the number of accidents maybe reduced but things can happen. So, what would happen to the auto insurance market by that time? For 10 years, they may be all right, but in two or three decades from now, how much of the market will have shrunk? That is a vague concern among some investors. So as an insurance company, what is your view?

A - Tetsuji Higuchi {BIO 20243541 <GO>}

Well, quantifying the size is actually difficult, but as you said, even with automated driving in full introduction some driver-induced or pedestrian or other external factor-induced situations will arise, plus we see advancement of the new sensor and other technologies, the cars may become so sensitive that even a minor impact can fail the system. Among the major types of auto insurance, namely liabilities on BI and PD and physical damage, PD and physical damage may see a dramatic rise in repair costs. So this means that the market may expand in these areas.

Also, the number of natural disasters are going to increase. You have to have your cars safely parked in a sheltered parking space, otherwise there may be some flying debris hitting the car and damaging it or even causing failures of sensors. So, overall balance may change dramatically. It is hard to quantify the size of the market and to indicate which market is going to be the biggest one, but we are not all that pessimistic. It's just that the market size is difficult to foresee.

[Abrupt End]