# MS&AD Insurance Group Holdings Inc IR Day

## Company Participants

- Jon Soberg, Managing Partner
- Takashi Sato, MD
- Yasuyoshi Karasawa, President, CEO & Director

## Other Participants

- Kazuki Watanabe, Research Analyst
- Koichi Niwa, Director and Analyst
- Koki Sato, Senior Analyst
- Natsumu Tsujino, Senior Analyst
- Unidentified Participant, Analyst

## Presentation

### Unidentified Participant

(technical difficulty)

Now I would like to let them start the presentation.

### Takashi Sato {BIO 22057835 <GO>}

Good afternoon, everybody. I am joint Managing Director, Sato, stationed in Silicon Valley. Thank you for the opportunity today. I would like to kick off our presentation.

Two of us are the key players of our CVC in Silicon Valley. Taking to this opportunity, after the establishment of CVC in October, it's been less than one year. But still as you can see, this flux of nations, 6 countries and the 20 companies in total have been invested by us. So this has been a very fast movement within -- even within Silicon Valley. So I'd like to talk about this as well.

Introducing Silicon Valley, there are many ways to introduce it, for example, how fast do people work in Silicon Valley, they work very slowly. So this is a very casual topic. But I want to focus on technology today.

Talking about IoT here. In Japan, we tend to think, as shown in left-hand side of this slide, you get data from various devices, you analyze them and do something. This is considered as essence of IoT when I came to the Silicon Valley. But this seems that things are moving in reverse.

When you go to Silicon Valley, toward each device, data is transmitted. Then things are changed, according to my experience. For example, Tesla Motors, Elon Musk says from tomorrow, there would be an acceleration by power by 20 horsepower. And the valuation goes up with that message. So essence of IoT, actually 2 wholes -- twofolds.

So the value of things can increase overnight. This is very shocking to me in the beginning. And sharing economy is another aspect in another context. And I have some understanding about this. It's very important that in Uber, you are able to score drivers. As shown here, like 4.83. I knew about this already but to my surprise, I am also scored like this and driver takes a look at my scores. So if I behave wrongly, drivers are not going to come to pick me up. So China has advanced in scoring for credits. And I can't -- people say that China is special. But it is not special. Even in America, this kind of sharing economy business essence is there. And the scoring is gradually penetrating.

And in Silicon Valley, this is a typical sight you might find. Every day, free-of-charge pitch events are held. And we call them pain points. Issues surrounding the world and troubles are to be resolved in -- by many people. So when I used to be in Japan, I thought that people want to start a business to make money certainly. But I found a few of those people.

And the (cafe) is always very spirited and busy because entrepreneurs talk with investors, introducing their plans, asking for financing. And this happens very frequently in many places. So Uber and startup tended to draw attention in Silicon Valley but for me, after I was stationed, this is quite different. Investors have most of the information and also know-how and support start-ups. This is a strength of Silicon Valley.

As Silicon Valley is not the only place for innovation but this is where most -- the largest number of experiments are in place. And what we do in Silicon Valley are listed here, mainly those three. In the interest of time, I focus on MS&AD ventures. We increased the amount up to $120 million recently. And this is going to be my focus today.

As you know, this is the stages by which startups grow. Fund of funds can be found on the left, seed and early phases where many companies are born and also die. And looking at these phases, you are able to easily hype -- set up a hypothesis about what is going to happen. This is where fund of funds are introduced and MS&AD Garage program, this is where employees of 47 countries are sent to Silicon Valley as a short-term exchange program to address pain points.

And this is where later stages focused. And MS&AD ventures are targeting the stages in the middle. So why is it necessary to make investments in Silicon Valley? There are many things commented. But when I was sent to Silicon Valley alone, I found that it is very difficult to make appointments with a strong startup. Even after I mentioned MS&AD name, or even when I tell them that we invest in 47 countries, it doesn't make much difference to them. It's very difficult to get into the inner circle unless I have to consult investors. And this is really important to have a skin in the game. Mutually, you need to take risks. We invest and take risk. And they also take risks. So you have to get involved that much, otherwise, it's very difficult to form a business alliance in a competitive environment.

And big companies are not really favored because it takes a lot of time for them in decision-making. And what is the inner circle? This is the term often utilized as a source of power. And this is based on my experience. Big companies have pain points. And they try to make important -- make appointments to startups that might be able to address those pain points. But it doesn't happen so often. On the back of these startups, there are investors and the investors said that don't worry about MS&AD but worry more about their business in America. So you need to make access to venture investors to move things forward. So you manage to meet with venture investors. And they say that the pain points that I'm talking about is good to be with startup big companies versus a new company versus a startup A company. But we don't have capacity to meet your startup fee.

Then on the back, there are startup fee and venture investors. And they are connected based on the give-and-take relationship. So with this route, you may be able to encounter a bit of the anticipated solutions. So this is a source of power that's called inner circle in Silicon Valley. Unless you have the technique of CVC or investment technology, you have to just fight over this red part, which is going to be very challenging.

## Jon Soberg {BIO 17131163 <GO>}

(foreign language) And that's the limit of my Japanese. Thank you very much for having us. I'll start giving you this preview. We are focusing at MS&AD ventures on the longer term, kind of 3 to five years or even further time horizon. We believe that this is where we can add the most value for MS&AD ventures.

The short term where we are -- where you see existing business extensions or later-stage companies, the investment has less impact at that point because we already have a pretty mature company and it can already, in some cases, address current day pain points. But when you think about where is insurance going in the next 3 to five years or 10 years or 20 years, you have to start a little bit further from the current business models and think about those relationships that might be able to help you build. So MS&AD ventures is looking into companies that we think will be relevant for us in the next few years. But not necessarily today. So that's -- it's always a little bit of a challenge because everyone wants a solution today. But in some cases, the reality is that the best way to get that solution is to be patient and build that relationship.

So by being a little bit separate and being in Silicon Valley, we have the ability to focus a little bit differently than the core business. So that's one of the ways we think we can add a lot of value.

It's IR day so, of course, we have to talk a bit about financial. We are tasked with both strategic and financial return at MS&AD Ventures. So most of you might be familiar with the charts that have strategy on one side. And they have financial return on the others. And they try to categorize different VCs into different categories. I actually believe that those 2 axes are incorrect because I have never seen a failed company that's been strategically relevant. And I have usually not seen a great financial outcome that doesn't have some capacity to help as long as it's in the same business line.

So at the end of the day, we're looking to find companies that are strategically relevant. And that end up being very successful. And we think that's how we're going to be the best. So we're very young and venture capital as a long-term industry and a long-term type of return profile, as I think everyone knows. So I'm showing this chart, which is actually -- it's the performance of private equity over the life of their funds typically. So you have a J curve function, which usually in the first couple of years, it's losses. Then over time, the company values grow. And so then the companies start to make money.

I show us right there. We are fortunate that we've had a couple of companies in our portfolio that have already gone up a little bit in value from future financing rounds since we invested. So the fund is actually up slightly in the first year, which is unusual. I don't take credit for this. I think we're fortunate when we find great companies that we work with. But I do think it's a good sign. And we will know over the lifetime of the fund, how well these companies do. But the early performance sometimes is indicative of future opportunities.

So this is the slide I'll spend the most time on because I think it's the most interesting to get a little insight into the way we're thinking about it. We're building a portfolio that we think, in some ways, represents the way insurance is going to look in the future. So we don't know exactly. But we see some trends. And because we're also looking globally, we can see how things are developing in different countries, which is, I think, very helpful for us when we think about how that might impact our markets. So we're investing in multiple different areas. And some of them are not directly in insurance or InsurTech. But we think that they're very relevant. So I'll kind of explain that.

We start with InsurTech, our new infrastructure. And there's a core reason for that. When we think about where insurance is going today, a lot of the initiatives and the new innovations are in real time or on-demand type of products. There's IoT. We -- at some point, autonomous vehicles will be part of our world. Smart cities are coming into play. But IoT we talked about a little bit. There's so much data today and there are so many different relationships that we care about and that can inform the way we think about risk or the way we think about insurance. But we need the platforms to be able to handle those.

So if you built software 20 years ago. And you're trying to handle the volumes of data that are coming in today, it doesn't work. I happen to build software 20 years ago. And I know my software doesn't work today. So we have to think about that. So we're investing in some new infrastructure that we think is flexible and capable to be able to do new types of products. Then on top of that, we then believe that we can invest in companies that can be relevant and be useful.

The second tier here, automation and operational efficiency, I think this is where most people normally assume the innovation is. So this is where I would put things like RPA, robotic process automation, some of the AI types of initiatives. People will talk about automating claims or they'll talk about different underwriting capabilities that you might build with AI. And I think these tend to go into this bucket here. But they're not necessarily changing business models. They're often optimizing or making something more efficient than it is today. So we think that's very important. And we are investing in that as well. But we don't think that's transformational, necessarily. So we think a little more broadly about different types of investments from there.

So let me go up. This is one where you will see a broader range of companies. And I think as we go forward, this is probably where more of our investments will land, simply because I think this is where the opportunity set is to really think about changing the way things work. We have, for example, a company called Skycatch that is a drone company. And they can do all kinds of different inspection tests that change the way you might think about some of the claims process or even some of the underwriting and some of the risk. I'll talk a little bit more about a couple of these in detail a little bit later. But in general, we're looking at companies that are focusing on mobility, on climate, on IoT, on areas, really, what you might be able to say as to think about places where we can collect huge amounts of data and understand behaviors, understand relationships that will help us be much more effective in creating interesting new products or services for our customers. So this is where -- these are not InsurTech companies per se. So if you go do research on InsurTech, most of these you would not find. But they're, obviously, in our mind, very relevant for us in terms of how we think about the way insurance is going to evolve. And from there, I actually separated out cybersecurity as a stand-alone because it's -- we -- it's a core area of focus. And we think it's very, very important as we are -- as we're going in. If you think about insurance with everything being connected these days, cybersecurity is part of IoT, it's part of mobility, it's part of just about everything. So we really need to start thinking about cybersecurity as a core component of many areas that we normally would not have thought of cybersecurity.

So we're investing specifically in some areas there that we think are going to be relevant, either for data. But also in some cases, for risk prevention, in some cases for risk mitigation, in some cases for cyber defense. So we don't just think about this as how do we measure or underwrite cyber insurance, there might be ways that we can help protect customers, there might be ways that we can help mitigate damage if there is an attack. So we have to think holistically about how cybersecurity and different types of cyber capabilities can be used or can be beneficial. So we're developing relationships in these areas as well. And I think, as I mentioned earlier, in most of these cases, the way we see our role and the way we're investing is to build relationships over time so that as these companies grow and mature, we have the ability to work with them, sometimes to do joint projects or just hard to find ways that we can work with their software to hopefully develop into something that's even bigger for both sides.

And this on the last section here that I'll mention is the new business models. And this is where we go a little bit outside of the box, I would say. When I look around the world, what we're seeing is some different unique types of products and services that are coming up. And I think it's important for us to be paying attention to those. So I'll give you one example in the life insurance space. In the U.S., there's a new company in New York that's building kind of unique products to manage wealth transfer from high-net-worth older generation to the newer younger generation. And they're building custom life insurance products that look more like asset management. So it's combining things that typically were not together. So you would usually trust your money to a financial planner. And life insurance might be part of that portfolio.

Now they're thinking about trying to actually create a life insurance product that is that portfolio. So it's a unique way of thinking about it. And they're trying to meet the specific needs of a customer. So it's something that I think we need to be paying attention to as well. So that's just one example of kind of a slightly different change on a business model that already exists in pieces.

And we have a few in this area. Again, these, I think, take quite a bit of time to develop. And in some cases, they take quite a bit of research. But we're working to build relationships with companies that we think can be really relevant there. I'll give you a couple of examples here or so. So this company, Lucideus, is one of our recent investments. Technically, I think it's a California company now. The CEO just recently moved to Palo Alto. But they are primarily based in India. It's a cybersecurity company. And it's somewhat unique in that it's seven years old and is more mature than some -- for the stage of the company. They, though, focus on enterprise and small business, both scoring and understanding risk. So one thing that's unique about them is they actually have the ability to roll up the risk of an entire enterprise and show it to -- at a board level to be able to kind of break down people, process, servers and network to be able to say, here is where you're strong, here's where you're weak, here is the areas that we see that need to be worked on.

Then beyond that, it can go all the way down to the very detailed level so that as a security analyst can work on fixing problems and can prioritize them so that it actually impacts the overall score at the board level. We're fortunate to be a co-investor with John Chambers in this investment, who is the CEO of Cisco. So he knows quite a bit about enterprise security. He's on the board with us on this company. And he's been fantastic to work with and is really a great person and somebody who -- when we talk about our network and building relationships, this is the kind of relationship that we think is really important and valuable for us.

So just a couple of stats on this one. 10% of the GDP of India is already going through Lucideus. They're working through some -- with some of the biggest companies in India. And we're trying to help them go to other geographies. And the CEO is -- was actually -- was given the award of Entrepreneur of the Year by Entrepreneur Magazine this year and was also Forbe's 30 under 30. And Fortune's 40 under 40. He's a fairly special person.

And one more of those, Jupiter Intelligence is an AI-based climate company. And the CEO is actually here this week. Satoru San and I have been introducing him to different groups here. And he, hopefully, will -- we're trying to see if we can build those relationships. Jupiter also is a very special company in terms of the team. You'll see this as a theme with us. I care very much about who is building these companies. I use the line sometimes that a mediocre team can screw up a great idea and a great team can figure out how to fix a bad one. So there are great teams that end up making really good companies and great partners. And so we look for those. Jupiter has a Nobel Prize winner in climate modeling on their team. They just recently hired the Head of Insurance from RMS in the U.S. to help with their insurance. And they work fairly collaboratively with their partners to build interesting risk models based on the specific needs of the company. So we think it's very relevant for us, especially as we see climate change having a very real impact on us. So these are just a couple of examples of the companies that we have in our portfolio and the types of things that we're looking for.

## Takashi Sato {BIO 22057835 <GO>}

Okay. Going back to the Japanese mode. One more company, I'd like to talk about, a company called BitSight, we have not yet invested into this company. So they are one of the companies discovered in MS&AD Garage program. So if you look at the amount of financing, JPY 16 billion, one magnitude above total funding. So I think here is a company with a slightly different target for us. The point here, point about this company is. So without any provision of information from the client, they can have an outside-in look to get a grasp on the status of cybersecurity of a company and do a very precise scoring. So that's the uniqueness of their service.

This is light blue range, this is the average score for an industry. And the line before is the actual scoring of the security. And there are some dips in the line several times. Now this represents a day where a security incident happened. And on the right side, there's a report about what happened. And this is just one outside-in, the company did not tell BitSight about this incident. But they knew that it had happened. So the 2 companies in our group is looking at this company as cybersecurity underwriting.

And now we are not a 100% dependent. But I think this -- I mean, their system can be very -- can have big, good contribution to our operation. In the Silicon Valley, people often ask, I mean. So what is disruption? Would that, I mean, eradicate insurance industry at a certain point -- or at a certain point of time in the future. Well initially, when I was in Silicon Valley. And I was a -- well, I made a research on InsurTech company, which could be deemed as disruptive. But I think so a little bit different than I expected. So a very new trend, like mentioned here on this page, the one who brings disruption. So they didn't -- so the older disruptor would be people who do not know of the benefit and value of insurance when it's based on year. And this disruption may not happen in all the sectors.

So I think I see more happening in the small, medium businesses and individuals. We see a more evolution of trend of fintech in these areas. So when we launch a company, the first thing you do is registration of domain. So do you have that domain? So -- and you have to, I mean, make a contract for cloud. And there's different types of clouds so you have to be able to provide the right risk solution to match the cloud that you're signing up for.

Now -- so that's the second last slide, future of insurance. I mean nobody knows that for sure. But insurance company, I mean, to begin with, is tech-driven company. So if you want to do an auto insurance, you have to know the auto technology or if you want to do a fire insurance, you have to know the construction technology. So that's the nature of insurance and especially underwriting for insurers. Auto insurance. So the mileage could matter or how many times you stepped on a brake abruptly that may change the premium or tariff. And I think if you start looking things that way, we can collect more and more human data. That means -- so -- I mean, let's count a number of times that the driver has stepped on the brake too abruptly, maybe he was frustrated. And that's why he did that or maybe he was so tired and that he had ended up stopping a vehicle in a very abrupt braking.

So if we start knowing those reasons, I mean things change, how we proceed. People change or -- and we had a different category of insurance, life insurance and property and casualty insurance. Maybe the lines would blur between these 2 insurance, they might become a one single insurance. The last slide, how can we deal with the true disruptors? Are we going to fight them? Are we going to cooperate with them? What we are doing now? Japanese companies -- what the Japanese companies are doing is to look for an interesting startup, which may contribute to the group operation, which may provide interesting, good service. But we've been doing that for a year. And I'm kind of wondering whether I'm doing the right thing or not. Well that's one thing that you need to do. But you have to see these companies, investments in combinations, for instance. So by doing so, you could have a data-oriented service, which is very difficult for anyone else to copy.

So this is not my opinion, this is what's mentioned in Silicon Valley, in general. Incorporating one single company. And there's always a new -- newer company coming in. But if you can combine these 3 companies in an effective manner, for instance, in terms of labor insurance. So for instance, our worker may be working on different things every hour. But we can get a grasp on that through data. We can get a grasp of this -- his physical condition, whether he's tired or not? Is it raining? Is it very hot? Is it snowing? And we can take all these data, combine that. And for instance, calculate a premium or a claim or we can maybe use this data to prevent labor accidents from happening.

Now by combining these services and data, we could bring about very interesting service. And we have to have as many thoughts as possible so that we can combine them in many different patterns. And retrospectively, if you look back, I mean we can capture this connection. And that's where we are after a year of operating our corporate venture capital.

So I'm going to wrap up. So we should not just look at one single start-up. We should look at these startups, multiple start-ups in combination. And that's what we are beginning to do right now.

So I'd like to close for now and...

## Questions And Answers

### Q - Kazuki Watanabe {BIO 15948747 <GO>}

I'm Watanabe from Daiwa Securities. I have 3 questions. But I am supposed to ask just 1 question. So question one. MS&AD ventures, what is especially within the MS&AD group? The key objective is to earn investment return or to acquire know-how. If the objective is to acquire know-how, maybe the Garage program is the answer. You want to develop specialty products or major risk? Do you have actual example to reflect into product development such as specialty products?

## A - Jon Soberg {BIO 17131163 <GO>}

We're striking a balance between financial return and strategic return. But I would say our first focus is strategic. Then we -- then if it's in the strategic focus area, then we try to find companies that will be very successful. And to your question about how to work with these companies, I think, in some ways, it varies on your time horizon. So the Garage program is a great way to get some know-how or to find solutions for problems that exist in the shorter term. If you're thinking about longer term, bigger objectives, then it's not something where you go or just try to find a solution. So that might be a collaborative work effort that you're going to do over a couple of years. So it's why I talk a lot about building relationships because I think know-how is a transaction in some cases. Our relationship has the potential to generate much more long-term value.

## A - Takashi Sato {BIO 22057835 <GO>}

(Interpreted) From my end, I want to add some more comments. Our senior management wants a lot, demand a lot. They want investment return. But they want us to earn know-how as well. But there is one consistent point amongst our leadership and myself, to positioning, which is here. From the current existing business, immediately, you want to extend quickly. But we do this about it, we are aiming more toward that in 3 to four years. When there is a potential great impact on the insurance industry, we want to see what it is. So we want to invest in such possibility and earn insight. That is one of the key objectives. So in a vital sense, know-how acquisition is part of it and that this is our focus. So this is my answer to your first question.

## Q - Kazuki Watanabe {BIO 15948747 <GO>}

And my second question, what is MS&AD ventures' competitive edge against your peers like Tokio Marine and Sompo access -- in accessing to start up, do you have any edge against your peers?

## A - Takashi Sato {BIO 22057835 <GO>}

(Interpreted) So each of the three mega players has its different strategy towards Silicon Valley, in my understanding. In the case of Tokio Marine strategy, maybe I haven't talked with them so I would only guess. But they don't own a CVC. But toward various venture capitals in the standpoint of LP they invest. And based on that investment, they collect information and that they identify a good venture capital who could bridge to meet with good start-ups. So their strategy is to participate as LP. And in fact, they do more LP investments than we do, according to the articles I read. And in the case of Sompo Japan, by the same talk toward a specific venture capital, not as LP -- but it's not one of the LPs. But as the LP, they make large investment into a company and let investment do -- let them do the investment. MS&AD is the only company that sets up its own CVC and the work in Silicon Valley. Which is the best or worse, which has edge? There is no answer. It's just a difference in strategy. But as far as I know, as a way to make access to the inner circle of Silicon Valley, having a CVC being visible to get skin in the game is actually an easy way to get entered. But I'm not from these other 2 companies. So I cannot be so definite.

## Q - Kazuki Watanabe {BIO 15948747 <GO>}

My third question and my last question. Regarding emerging risks, on Page 18 of the presentation onwards, you talk about future of insurance. Thinking about the future of insurance in Silicon Valley, do you see some new emerging risks that you haven't seen before, which might become a monetizing opportunity for you?

## A - Jon Soberg {BIO 17131163 <GO>}

I think absolutely, we see that there are some areas where there are new innovations that we can take advantage of or where we can find monetization opportunities. I think (inaudible) -- I won't give the name of the company. But where (inaudible) -- there's a company in Silicon Valley that is working very closely with small and medium businesses and helping them to manage their payroll and their time tracking, which might sound simple here because I think it's more advanced in Japan than it is in the U.S. But the side piece of that is that the workers' comp is very easy then because you have all this data. And so they're changing the way some of these small companies think about workers' comp insurance than they used to. So this company is not an insurance company, they're coming at it from a fintech angle. But they're solving a pain point for that small business that makes the insurance actually a very easy thing for that small business. So I talked a little bit also about the life insurance approach. We're starting to see innovation come from places that are not straight in the insurance industry. And that's maybe general. But one of the things we're really thinking about.

## A - Takashi Sato {BIO 22057835 <GO>}

(Interpreted) If I may comment on this. Thinking about insurance, it's -- by -- in Silicon Valley, there's acceleration program called Plug and Play. It's like a matching forum to let meetings happen with big companies. And each sector has its own program. But the largest membership and largest addition is drawn to the sector of insurance, to my surprise. And because this industry sounds like having a long-standing history. But aside from that, insurance business is priced based on data to reflect into new insurance product or risk solution. And this data acquired is getting bigger compared to the past. So this smells of an opportunity. So many startups are now trying to gather into insurance and as presenting potential businesses. FinTech is set to be 2 to three years ahead compared to insurance. So I'm not sure. But insurance is now in Silicon Valley, drawing attention more than Fintech. I think this is the most attention given toward insurance. This is my feeling, thank you.

## Q - Natsumu Tsujino {BIO 2234779 <GO>}

My name is Tsujino from Mitsubishi UFJ Morgan Stanley. Sato-san earlier mentioned that -- well, maybe I -- there is -- there would be no insurance companies anymore in the future. But on the other hand, you talked about the huge amount of data leading to opportunities. I personally believe that changes in the way we do business or the pricing of the insurance may change or maybe how we categorize, the insurance products could change, or I mean, start-up, those guys really love something new. So maybe they would go for microinsurance where they can chop insurance into very small granular units but I mean, if you start looking all of these -- looking into all of these so I don't think it's the case that the old -- the Silicon Valley players will steal the whole insurance industry because people in Silicon Valley, they love technology, new technologies. But -- so once their business becomes larger, they have to start, I mean, managing their balance sheet.

And since the insurance company and the insurance industry who has insight and know-how in that. And some of the companies are actually using start-up for their operation. So maybe insurance company can grow together with Silicon Valley start-ups. So I don't think it's, as a survival of the fittest, which is going to eliminate insurance companies. So what is your view on that? What's the future of your insurance industry?

## A - Jon Soberg {BIO 17131163 <GO>}

We agree with you, or at least, I do. I won't speak for my partner. I -- we think that insurance is actually going to get bigger as time goes on and we think that the markets are going to increase. We think that the big players are not going anywhere soon. But I would also say that technology is moving very quickly. And so the players that use data and that use AI to make themselves much more efficient or to understand risk better, have a pretty strong competitive advantage. So I do think that we could see market shares change in different markets based on innovation and using data. And in some cases, maybe finding unique products that are a good fit for a certain type of customer. So that is both, I would say, the risk and the opportunity. But I don't believe that you're going to see start-ups from Silicon Valley take over the insurance industry. I think it's going to be a big leap forward in innovation that will change. And the other thing I think we need to think about is, innovation like autonomous driving will change the way auto insurance works. The sharing economy is going to change the way some of these types of products and insurance work. So we need to stay on top of that because that is a change to the industry overall.

## A - Takashi Sato {BIO 22057835 <GO>}

MS&AD Venture is less than a year old. So I mean I can't say anything definitive based on my experience so far. But like you have mentioned, I mean, for Silicon Valley start-up, insurance industry is capital-intensive and they don't mind capital intensive to begin with because they don't have too huge capital and if you need to turn that over at a very fast pace, that's not exactly a model for start-ups. So but -- without going into that, if you can just cut out some chunk of the business and work with the insurance company, is that really sexy business? Well a lot of the companies will be kicked out of the competition. So it's a little bit uncertain. So going back to the earlier story. So if I'm going to start insurance. So a company with potential to be a dominant player wants to start the insurance that they have in their vision, maybe in a very niche insurance market, yes. I mean, those companies could be a very big impact.

And -- so probably, European and United States insurance company, who has more exposure to Silicon Valley is more sensitive to those trend. So I kind of wonder the reason why were they partnering or investing into certain start-ups. But when we talked with them, I know the reason why. And it's very enlightening experience. I can learn a lot. For your reference. So Silicon -- in Silicon Valley, it's the reinsurers who has been the strongest sense of crisis on top of insurance, because it was the advent of technology, reinsurers, they feel that -- their reason to be -- reason to be -- will be gone. Maybe in the world of technology -- after the technology has evolved, there is no room for reinsurers. And that they are, in a sense, pessimistic. And they are, therefore, aggressive to invest. So one of our investment, AkinovA, InsurTech, a new infrastructure, they are aggressive enough to say, they're going to eradicate reinsurance market, because, in the end, capital market provides a fund. And if we strictly follow that principle, we don't need reinsurers. That's this company, AkinovA is envisaging. Now that's an uncertainty. But when that, I guess, world becomes a reality. So what would happen to reinsurers? So I think that's another -- so there are many things that we are thinking about.

## Q - Koki Sato {BIO 19983862 <GO>}

I'm Sato from Mizuho Securities. I have two points to make. One is, quite similar to Tsujino-san's question, talking about insurance, it's a heavily regulated business and it's heavily protected as well. Looking at its structure, the principle of large numbers is the basic assumption of the business. So IoT, which is advanced and the other -- Fintech in the area of other finance like our lending. So the -- its investment on the insurance may be a bit different from other Fintech. So in the area of InsurTech, what is the difficulty in investing the InsurTech? Or anything special about investment in InsurTech as opposed to Fintech?

## A - Jon Soberg {BIO 17131163 <GO>}

I've -- before I was investing InsurTech, I was investing in Fintech. And if you go back, I'll date myself. But I was around before the word Fintech was actually, really a word and then Fintech started to get big and they split it up into InsurTech and LendingTech and RegTech and lots of different techs. Silicon Valley likes to add tech to everything. So I think your point is very good one. When we think about InsurTech, very few companies actually have the ability to build a huge insurance company as a start-up. They need a lot of capital. They need a lot of patience because it takes forever to get through the -- all of the regulations to be able to build something. Then they actually have to compete. So it's very challenging to build something in the InsurTech space from the ground up. And it's actually very similar in Fintech.

If you think about banking, for example, building new bank is a difficult thing also. And it's partly why we haven't seen so many, the -- probably the most advanced are in the U.K.. And it's really because the regulator in the U.K. has pushed for these Challenger banks. So we -- when we look at investments, we look carefully at whether they understand what it looks like to build an InsurTech company. And part of why you don't see us investing in all kinds of InsurTech is because we generally don't believe that very many of them will be successful. And so we think the right model is the company that's thinking differently about insurance and thinking about how they might be a partner or how they might change the way you think about risk. It's a much faster approach for them. And it's a less risk approach for them to build their company. And it's more value-add. And potentially a bigger outcome. So we think that's the model that tends to be the more successful. But there are some -- and lending is probably the best way to give you the example.

In the U.S., I think 10 years ago, almost no loans were underwritten by technology. Today, I think it's more than 50%, are underwritten by technology platforms. But the capital tends to come from institutions. So rather than becoming banking and institutions, what these Fintechs have done is they've built underwriting and lending platforms. And then they find ways to bring the capital from big institutions. So if you think about that as a parallel, there are ways to think about insurance in similar fashion. It's going to be different. But that's a good parallel.

## Q - Koki Sato {BIO 19983862 <GO>}

And I -- if I may have a second question. My second question is from an -- it's an operational question, no -- not knowing much about insurance. But the blockchain technology's potential, what do you think is the potential of blockchain technology for insurance business?

## A - Takashi Sato {BIO 22057835 <GO>}

In fact, including U.S. and European insurance, we have been making trial and errors. In terms of compatibility, it seems high. But blockchain, in terms of hype -- it's -- there's less hype today compared to before. And everybody thinks that the blockchain is not as good as we might have been thinking. But now it's picking up as well. In the case of America, there are lots of labor-related accidents. So on our workers' comp, in the construction sites and such, since attached uniforms are worn by workers so that -- because people tended to get hurt by back or by waist. So alarm is loaded. And some trials are made to make use of blockchain and actually, this ratio was reduced as a result.

And most typically, the cargo marine insurance for both import and export. But as far as I hear in Silicon Valley, blockchain is now beyond being a (inaudible). In the -- quite a lot of topics about taking this more seriously. But is there any big success? We haven't seen yet, it's -- but I think it's going to come.

## Q - Koichi Niwa {BIO 5032649 <GO>}

My name is Niwa from Citi Securities. I have 2 questions. On the -- on Page 4, you talked about pain points. So MS&AD -- so do you think you're -- so if we can come up with 2, 3 good example of the pain point, as you see?

## A - Takashi Sato {BIO 22057835 <GO>}

That's a difficult question, to be frank. MS&AD Garage program is something that we operate. And in the operation, what I -- what we feel is something that you cannot solve in your country. So you ramped-up effort. But something that you cannot resolve in your own country. Or -- I mean, something that you may be able to resolve. But you're a little bit skeptical. So we said it's a rule that we have just look into someone who has went through that process. Someone who is just newly interested in Silicon Valley, we don't accept. And so they set pain points and come to us. But 80%, 90% of the conclusion from the project is no, we were looking at the wrong pain point. We were not -- that was not the real pain point. Maybe -- so yes, I understand the pain point was not here. But instead here. So I'll go back to my own country. And so, I don't know, yes, I mean, now we are close to the start-up, which we are connected in the United States and I welcome the new pain point that they have found. And that's -- yes, I think the people are grateful to us for doing that because for instance. So I mean, they are -- we -- so when they come, they mean 6, 7 different start-ups. Silicon Valley start-ups are not the kindest kind of people. So our presentation discussion, okay that's it, that's not the case. So they get more, I guess, realistic discussion of what's the next pair -- next point. And I think that's the virtue of Silicon Valley. So if an OpCo, if operating company comes up with certain pain point. So any other pain point, as they see, it has changed over the time quite substantially through the process. So I can't think of any good example. Yes. So all the pain point that they bring to us, yes, that seems to be pain. But when we start looking into in depths, okay. So now we have a technology to resolve -- ease that pain. And maybe we should be able looking at this pain instead. And that's what's happening in our Garage program quite often.

So BitSight, I think that's been mentioned here, the company that we have mentioned. So which private sector companies are doing well in terms of security? But I mean, you can't just give without understanding, send out 10 questionnaire to 10 companies. That's not the way you should be doing that. So the external-only score is -- has limitation. You have to really start combining the data from inside the company. And so -- and by doing so, we go more depth into the pain point. So sometimes, we accept more, I guess, ambiguous pain point. But usually, that doesn't work. So people need to work on their pain point before coming to -- yes.

## Q - Koichi Niwa {BIO 5032649 <GO>}

Another point, Page 19. So what I felt, looking at Page 19. So am I understanding this correctly, stage 1. So it's like shopping for InsurTech for a technology company? But now you have to transition yourself to risk-taking company, not a mere shopper of these start-ups. So is -- am I understanding this correctly? So if I -- how long would it take for you to go through that transformation from just a company shopper to risk-taker? And Karasawa-san. So I guess, I maybe -- I'm not quite sure whether I should be asking you a question. So how do you see this business?

## A - Jon Soberg {BIO 17131163 <GO>}

I would say it's not either -- it's not one or the other. So we are -- when we used this example, this example was an idea, not necessarily a concrete or changing anything. But to demonstrate how you can create something quite unique when you combine the strengths of more than one type of technology or more than one company. So an easier way to think about this might be to say, if you combine health data with IoT data with climate data and mobility data, you have a really good, complete understanding of what people are doing or where they're doing it and things like that. And so when you think about how you might build products or think about risk with that kind of data and that kind of knowledge, it gives you some opportunities that might not exist if you weren't thinking about combining all those types of things. So it's partly why you see the breadth of the types of companies that we're investing in, because we think that by understanding data from multiple different parts of life, that we actually get a better understanding of risk.

And that then sometimes it may take a long time to get that understanding. There may be some things, Jupiter, on the climate side, might be more relevant soon. But adding that to health data and IoT data may take a long time. And I don't know for sure. But I think the -- we do all generally agree that this kind of data will be very valuable over time.

## A - Takashi Sato {BIO 22057835 <GO>}

So well, I don't feel like I'm shopping a company. Insurance company, I believe, has much more potential that it offers. So we want to deliver safety and peace of mind to the world. Delivering the peace of mind is a very big deal because now you have to go into the mindset or feeling of the people and bring stability there. And if that's the case, there's much more we can do. There's much more data we can collect. So I'm walking like this. So

I hit my feet pinky somewhere. It's extremely painful. But 5 minutes later, I would forget the pain. This is not covered by insurance, by the way. The insurance company after -- so they close this claim after the accident. Now, that's a very important role of insurance as safety net. And so you would be using data to do the loss prevention. That's what we are looking into. But maybe we can use data in a completely new way in a new field to offer different value. So this is -- everyone says, in Silicon Valley, who is engaged in insurance industry. But nobody know what this is -- what it would be. They feel the potential. So maybe I'm going to make our top management upset. I shouldn't be stepping too close to the head-office people because that makes it a little more difficult for us to launch new business. Now people in the head office is the real professional of insurance. And that may end up causing substantial loss. That's a risk. Of course, we are not mistaken, that's a common sense. But Silicon Valley is not a place to find the right solution. It's a place to create a right solution. So of course -- so the distance is very important, we should not be too close to the head-office people. But we should not be too apart from head-office people. So I think the successful teams, they have exactly the right distance from the top management of a company and they are mindful that they have to control that -- this distance. So I don't have any this -- so I think we are MS&AD, I think we are striking out a very right distance in that sense.

## A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Thank you. So I'm not quite sure whether this is going to be a direct answer to your question. So yes, we are keeping the right distance from Sato-san's team, myself. And us, the top management, like we have guided by 2030. So we are going to establish resilient and sustainable society.

So in Japan, we are talking about Society 5.0, super-smart society. And to do that, we have to have a lot of innovation going on. We have to drastically pull-up our labor productivity. And in our current midterm plan -- so one of our strategy is to swiftly adapt to several key changes in the society. So we need to enhance the resilience of our company and that's the strategy, it's about the digitalization that they are embodying and the assertion of comprehensive power of MS&AD Group.

So what we -- where we are heading? What we are targeting? So if we continue with the current economy model, there's going to be some very big disruption coming in which would disable us to continue with the current model. I think that's the perception shared more or less globally. So we have to come up with something sustainable and that's the milestone that we are placing. So we need to incorporate changes in the society and, of course, the changes in the needs of our customers. So we need to adapt to that. And so, Jon and Sato-san embodying one model or we have other -- two more models. But still there are some uncertainty, which cannot be covered by these models. So Jon, I think we are at a much closer distance. But we have to have -- keep the right distance from these two gentlemen so that we could do this speedily, flexibly. And we have to be innovative ourselves. Of course, several of our initiatives end up in failure. But you have to know the failure as -- we have to identify the failure as failure as early as possible. And we cannot look away from the needs of our customers. And we have to be able to offer something more convenient to our customer, offer something that would enhance the customer value. So that's what we are working on.

So we cannot just say, I mean, this is going to happen when using this slide. But again, we want to do this fast because we really have sense of crisis, we have to do this with a lot of speed, faster than now. And we have to be looking into -- continuously looking into the customers' needs and the changes in the society. So sorry for being very generic in my answer. But yes, that's how we are managing the company. We have much closer distance with Jon-san because we do share the same value? Yes, because the first time talked to san, I was able to confirm our vision are quite the same. We want to eradicate accident. And we're going to use the power of venture in our AI, IoT, to deliver insurance which were not otherwise deliverable to certain people. So I would like you to carefully monitor the progress, our apologies.

(Statements in English on this transcript were spoken by an interpreter present on the live call.)