MS&AD Insurance Group Holdings Inc 2019 1st Information Meeting

Company Participants

- Fumiaki Ohkawabata, Senior Executive Officer of HR & General Admin., Accounting, Compliance Dept and Chief Risk Officer
- Masahiro Matsumoto, Executive Officer of International Business
- Shiro Fujii, Executive VP of Corporate Planning, Corporate Comm., IR & Internal Audit Dept., CFO and Director
- Unidentified Speaker, Unknown
- Yasuyoshi Karasawa, President, CEO & Director

Other Participants

- Kazuki Watanabe, Research Analyst
- Koichi Niwa, Director and Analyst
- Koki Sato, Senior Analyst
- Masao Muraki, Director and Senior Analyst
- Tatsuo Majima, Senior Analyst
- Unidentified Participant, Analyst

Presentation

Yasuyoshi Karasawa {BIO 7391405 <GO>}

Good afternoon, ladies and gentlemen. My name is Karasawa, President of MS&AD Insurance Group Holdings. Thank you very much for taking time out of your occupied schedules to join us for this information meeting. I really appreciate your participation.

In fiscal 2018, a lot of large-scale natural disasters occurred. In Japan, there were 520,000 accident reports received for the entire group, significantly exceeding the number received in the wake of the Great East Japan Earthquake. Overseas, hurricanes in the United States, wildfire in California and continuous earthquakes in Indonesia resulted in the fourth largest natural disaster losses in history. We express our sincere sympathy to all the victims and people affected. Our entire group has made concerted efforts to support the victims in rebuilding their lives, restoring businesses and recovering and reconstructing the stricken areas through swift payment of insurance claims and other measures.

The group adjusted profit exceeded the revised forecast announced in November with the impact on net income kept within a certain range by strengthened ERM. The Reiwa Era began this month. But uncertainty over the global situation is growing mainly because the trade friction between the United States and China is becoming increasingly severe and

North Korea resumed missile launches. In addition, natural disasters have become even larger and more frequent with the losses of historic magnitude incurred overseas in fiscal 2017 and in Japan in fiscal 2018.

Under these circumstances, the roles of the group are needed all the more as the infrastructure to support the stability of customers and society during this time. The group implements the Medium-Term Management plan with SDGs as a guidepost. While contributing to the realization of a resilient and sustainable society, the company itself aims to achieve resilient and sustainable growth by strengthening ERM to further stabilize the group's financial soundness and profitability.

Let me move on to the explanation. Please turn to Page one of the handouts distributed to you. This shows the key points covered in the presentation today. First, I will briefly explain the operating results for fiscal 2018 and the forecast for fiscal 2019. I will then describe the progress of the Medium-Term Management Plan in the order of numerical targets, 3 key strategies, growth strategies by business domain and ERM.

So please turn to Page two of the handouts. The operating results for fiscal 2018 and the forecasts for fiscal 2019 are as explained on Monday of this week. Due to the impact of frequent natural disasters in Japan and abroad, the group adjusted profit decreased about JPY 10 billion year-on-year. However, the adjusted profit surpassed the revised forecast announced in November mainly because the reinsurance coverage functioned properly and the loss ratio was favorable excluding natural disasters. The group adjusted profit for fiscal 2019 is expected to fall slightly below the target primarily due to a slightly slower recovery of earnings in the overseas business. However, all other businesses performed well. And we will aim, to achieve profits higher than the targets.

Please turn to Page four of the group adjusted profit by business domain. The Domestic Non-Life Insurance Business remained solid with #1 growth rate in gross premiums. Excluding the impact of natural disasters, the loss ratio also remained favorable. And profitability was greater than anticipated. In the Domestic Life Insurance Business, both MSA Life and MSP Life recorded steady top and bottom line growth and secured a future profit base.

In the International Business, the results fell short of the revised forecast chiefly due to natural disasters that occurred in the second half. However, MS Amlin's initiatives to recover earnings progressed steadily. And its earnings strength excluding external factors such as the impact of natural disasters and the asset management environment has improved significantly.

The effects of natural disasters in Japan and overseas in this fiscal year are as shown on Page five of the materials. Payments under primary insurance in relation to natural disasters in Japan were JPY 655 billion, the highest on the record, including the heavy rainfall in July, Typhoon Jebi and Typhoon Trami. However, about 70% of this payment will be recovered by collection under reinsurance. So the net loss incurred was JPY 210.8 billion. And the financial accounting impact was limited due to the reversal of catastrophe loss reserves.

Overseas, numerous disasters occurred in fiscal 2018 such as hurricanes Florence and Michael and the California wildfires. And the total net loss incurred by the group was JPY 74.4 billion. This was significantly lower than the loss in fiscal 2017, which was the highest in history. We will regard the natural disaster risk as one of the group's important risks and continue to strengthen group-wide management.

Next, I would like to talk about the progress we have made in implementing medium-term plan. And please turn to Page 10 of the handouts. In the Medium-Term Management Plan, one of our aspirations is to become a world-leading insurance and financial services group, which has been a vision of our group since its establishment. Specifically, this means achieving a business scale that is globally ranked among the top 10 non-life insurance groups, achieving group adjusted ROE of 10% in capital efficiency. And also securing 180% to 220% in ESR (a soundness) indicator.

In terms of business scale, in fiscal 2018, we ranked seventh in income for the non-life insurance category of the Global 500 published annually by the business magazine Fortune. We maintained our position among the top 10. We constantly maintain soundness at appropriate levels throughout fiscal 2018. However, for capital efficiency, the group adjusted ROE was 6.1% falling below the initial forecast, mainly due to the effects of multiple natural disasters leaving issues to be solved. This fiscal year, the final year of stage 1, we intend to achieve 8.3%. The target in stage 1 without fail and aim for 8.7%.

Next, I would like to talk about the progress we made in implementing 3 key strategies. And please turn to Page 11 of the materials. The second major aspiration set forth in the Medium-Term Management Plan is to create resilient systems. The needs of society are changing, including increases in the size and complexity of risks, the emergence of new risks and the social structure. To respond swiftly to these environmental changes, we must become a resilient and sustainable company.

We have developed 3 key strategies to achieve these aspirations. In the first key strategy, pursuing the group's comprehensive strengths, we have been working on a number of initiatives to enhance competitiveness, leveraging group synergies by reviewing the division of roles and cooperation to improve quality and operational efficiency. To introduce one case from fiscal 2018, in the non-life insurance field in Japan, Mitsui Sumitomo and Aioi Nissay Dowa jointly developed, Observe and Protect Automobile Insurance, dash cam type, to support safe driving using a drive recorder, which made product development quicker and lower in cost. The product was launched in January 2019 and was extremely well received. By the end of March 2019, MS&AD had sold 80,000 policies of this product.

In the Domestic Life Insurance field, we will expand sales channels for MSP Life insurance product by utilizing MSA Life's sales network. In October, we will launch sales at approximately 70 agents in the Tokyo metropolitan area and then expand it nationwide.

With respect to the promotion of digitalization, second item, please turn to Page 13 of the handout. In fiscal 2018, we developed a number of platforms to promote digitalization. In October 2018, we established a corporate venture capital in Silicon Valley. Including project under the due diligence, we have already proceeded with investments in 20 companies. In addition, we have recently established a framework and structure to identify advanced digital technologies and cybersecurity technologies in Israel. Going forward, we plan to use these platforms and leverage the technical know-how of startup companies to improve customer experiences, increase business productivity and create new business models.

For third key strategy, portfolio innovation, please turn to Page 16. The business portfolio reform has been delayed slightly due to the slower recovery of earnings in the overseas non-life insurance business. But we will continue to work on the reform as a medium-term issue. The profitability of the life insurance business in particular is improving and surpassing the plan. And the balance between the non-life and life insurance businesses has improved, including expanded investment in the overseas life insurance business. This enabled us to stabilize our earnings base.

In the Domestic Non-Life Insurance Business, while revenue from automobile insurance has remained stable or expanded, profit from casualty insurance is steadily increasing. And the product portfolio is shifting from one in which more than half of the profits come from automobile insurance to a more balanced one. The sale of strategic equity holdings has progressed ahead of the plan. And at the end of fiscal 2018, the integrated risk amount accounted for by these holdings was 28.8%, achieving the target of less than 30% of the risk amount. To achieve our other target, keeping equity holdings to 10% of the consolidated total assets, we will continue to make disposals of more than JPY 100 billion annually in this fiscal year and beyond.

Next, let me describe the status of implementing activities relating to creating shared values. And please turn to Page 59 of the handout. Under the current Medium-Term Management Plan, which specifies SDGs as a signpost, we have focused on 7 priority issues with an aim to develop CSV-based management to create shared value with the society. For example, to revitalize the Japanese economy, regional renewal and resilient talent development are required. Therefore, the group offers partnership with local governments across the country to help develop business continuity plans, BCP; held risk management seminars; supported sports for people with disabilities and so forth. We have been boosting the regional economy while promoting our group's business. I'm confident that by introducing such activities to create the value of the group with society to every location of group companies in Japan and overseas, both society and our group should be able to achieve resilient sustainable growth.

Next, I'd like to explain about growth strategy by business domain. Please turn to pages from 18 to 21. The Domestic Non-Life Insurance Business, the group's core business, achieved a high premium growth rate in fiscal 2018. And the loss ratio fell below the initial forecast excluding the impact of natural catastrophe. As a result, profitability was maintained and expanded.

With respect to fire insurance, which has profitability issue, we strengthened response to contracts with high loss ratio and have achieved steady results in both the individual and corporate fields. Following the product and premium rate revisions scheduled for

October, the underwriting profit is expected to rise gradually with an increase of JPY 13 billion in profit by fiscal 2021. As a result, we expect a surplus by fiscal 2021.

With respect to the casualty insurance field, in fiscal 2018, we also expanded sales of products for small and medium-sized companies and worked on initiatives for new risks and markets. In fiscal 2018, this field continued to drive a premium increase. And it is growing as a pillar of earnings, second to automobile insurance.

As we explained in the previous meeting, in order to achieve 30% level of expense ratio in the future, we have been working to improve productivity by promoting R&D investment during this Medium-Term Management Plan. In fiscal 2018, we promoted online system renovation and the standardization of products and operating procedures. As a result, expense ratio excluding R&D expenses decreased by 0.3 points. In fiscal 2019, we expect a slight increase in expense ratio due to the impact of the consumption tax hike. But we will work toward the lower ratio without the impact of the consumption tax hike.

As for the joint non-life insurance service system, we were scheduled to have a cutover from fiscal 2019. However, considering the response to natural catastrophe in fiscal 2018, we decided to review the timing of the introduction to enhance ability to respond to large-scale catastrophe and reinforce the introduction of advanced digital technologies.

Next, growth strategy for the Domestic Life Insurance Business, please turn to Page 27. In the Domestic Life Insurance Business, we develop and provide a range of new products in line with the aging society and changing lifestyle. In April 2018, MSA Life launched new medical insurance, Ace Premia, which provides coverage for dementia, birth and infertility treatment and anticancer drug treatment. It has been evaluated as the best coverage in the industry. And the number of contracts is growing steadily.

In addition, MSP Life has launched pension products that fully utilize -- use the Tontine system and whole life insurance with a focus on advancement. These products have been adopted as a sales lineup by many financial institutions. The group adjusted profit of the Domestic Life Insurance Business has consecutively exceeded JPY 30 billion since fiscal 2017, becoming one of the group's stable earning basis.

Now I'd like to talk about the International Business, please turn to Page 35. In fiscal 2018, we welcomed MS First Capital into our group and captured growth markets, such as India and China. And we thus solidify the strong base in Asia. In addition, MS Amlin is on the road to earning recovery due to the effect of the loss ratio setting under the local supervision policy. The company holds a leading position at Lloyd's, the world's leading insurance market, on excellence of its human resources, expertise and specialities. High presence in the market and brand power have not changed at all. We believe that these 2 strong basis form the platform for the group's International Business, which can respond to changes in the global environment in the future.

We're also working to diversify our portfolio. For example, we are codeveloping a telematics business with Toyota Motor Corporation and the International Life Insurance

Business with blue-chip partners in a variety of regions. The environment surrounding insurance is expected to experience many changes such as increase in natural catastrophe, intensifying competition in emerging markets, progress in digitalization and transitions in capital control and supervision enhancement. However, we believe that by leveraging our strength, we will be able to pursue resilient and sustainable growth.

Explanation about MS Amlin is on Page 37. Mainly due to the large-scale natural disaster, natural catastrophe in fiscal 2017, Lloyd's overall profitability declined. Since fiscal 2018, local authorities in Lloyd's headquarters have been strengthening supervision. Although Lloyd's faced several crisis in the past, it managed to sidestep them through management reform and reorganization. During the current period of earnings deterioration, signs of market improvement are emerging as a result of various initiatives. And we believe that we'll be able to recover steadily.

MS Amlin has been working to improve its portfolio and reduce costs since fiscal 2017. Consequently, in fiscal 2018, the loss ratio excluding natural catastrophes improved markedly. In addition, as a result of the company's steady cost reductions, its profitability recovery efforts have begun to show effects. One of the group's strength is the global development of the mobility service business, leveraging our partnership with Toyota Motor Corporation.

Please refer to Page 40 of the materials. Telematics automobile insurance is a growing market and is expected to expand approximately tenfold by 2035. The group collaborates with Toyota Motor Corporation to offer telematics insurance in Europe, Thailand and Japan and is providing telematics services for car dispatch service companies such as Grab in Asia. In the United States, we are running a data business that sells data to local insurance companies through a joint venture established with Toyota Motor Company and Toyota Financial Services Corporation.

Next, I will talk about the policy on actions against natural catastrophe risks, please turn to Page 51. Following the hurricanes in North America and other catastrophe in fiscal 2017, large-scale natural catastrophe hit Japan in fiscal 2018. This situation has led to concerns among shareholders and investors. One of the group's mission, however, is to protect the lives of people from natural catastrophe and support business activities. Particularly in Japan, which is the mother market, we believe that providing long-term stable insurance coverage for natural catastrophe as a social infrastructure is an important role for the group.

Meanwhile, in order for the group itself to be resilient and sustainable, when underwriting, we will examine the regional insurance reading and conditions that fully reflect the risks of natural catastrophe and enhance the group system for risk transfer through reinsurance in order to control the natural disaster risk amount held and reduce the risk of fluctuation in periodic profit and loss. Specifically, during the renewal in fiscal 2019, we reduced the held risk amount of U.S. storm and flood disasters, arranged reinsurance coverage common to MSI/ADI for the risk of domestic storm and flood disasters and reduce the risk of fluctuations in periodic profit and loss.

Next, I will talk about the business investment policy, please turn to Page 58. As we explained previously, the group will return 40% to 60% of the adjusted profit to shareholders and invest remaining funds in system improvement for steady growth of existing businesses and in excellent businesses conducive to diverse regions and classes as well as in new business creation in collaboration with partners. The policy for business investment including overseas M&A is to consider the affinity of the corporate culture with the counterpart company, the possibility of the creation of synergies, diversification of risk portfolio and other factors.

With regard to economic rationality, we intend to make investment only when we can confirm the rationality of investment prices by verifying them in conservation of the capital cost of 7% based on business, regional characteristics, synergy effects and other factors.

Lastly, now to shareholders return, please turn to Page 64. As announced on Monday, we plan to pay a full year dividend of JPY 140 to shareholders for fiscal 2018, a JPY 10 increase from the previous fiscal year. Then in addition, for the fiscal year 2019, we expect to pay a full year dividend of JPY 150, another JPY 10 increase from the current fiscal year. Also we decided to repurchase our own shares of up to JPY 32 billion.

The fiscal year 2019 will be the final year of Vision 2021 stage 1. Towards stage 2, we will strive to achieve 2 aspirations: become a world-leading insurance and financial services group; and create resilient systems that can swiftly respond to changes and development. We will continue striving to meet the expectation of investors and other stakeholders. And we ask for your continued support.

Thank you.

Questions And Answers

A - Unidentified Speaker

Now I'd like to move on to Q&A. We have microphones held by our staff people. So please wait for the microphone. And state your name and affiliation before stating a question.

(Operator Instructions) Now if you have any questions, please raise your hand. The person on the far side of this, probably the person from the sixth row from the front.

Q - Masao Muraki {BIO 3318668 <GO>}

Deutsche Securities. My name is Muraki. I have 2 questions, please. Question number one related to Page 16, that is International Business and business deployment outside of Japan during the current fiscal year. Looking at the percentage of International Business, profit is around 20% vis-Ã -vis the plan and compared with other 2 peers, you are a bit behind in terms of this ratio. During the current fiscal year, just as last fiscal year, you placed highest priority on profit remediation of Amlin. Is that your priority from a medium-term perspective? Or are you giving thoughts to the large-sized M&A outside of Japan, considering the excess capital?

Page -- question number two relates to Page 53, that is return on risk. Looking at the return on risk, you are very much focused on ERM, embedded management. How is it being practiced at the present? Looking at this chart, it seems as a medium-term target, 10% in ROE is your target. And in that case, the ROR is 13%. So conducting new businesses or when considering withdrawing from the existing businesses, rather than looking at 7% in capital ratio, probably you should look at the cases that owe the higher ROR than 13%. That should be the standard. But if you have any businesses below ROR of 13%, what is the time you will allow to such businesses continue to monitor the performance and give some time to remediate? In the case of European insurance companies, they monitor businesses in the -- within a cycle of one year. So they take a more stringent view. But monitoring cycle, you conduct in your committee. So what sort of actual actions or responses are you making vis-Ã -vis those businesses with ROR below 13%?

A - Unidentified Speaker

Thank you, Mr. Muraki. Your first question relates to the percentage of International Business -- to increase the percentage of International Business in the overall portfolio. What is International Business? Which stage is RO -- International Business' related stage? And looking at the International Business or new M&A, ROR of 13% could be the standard of criteria. And how are you -- we monitoring the business was the second question.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

With respect to the first question, that is to say our stance vis-Ã -vis M&A, aiming at the reform of business portfolio, at this juncture, during fiscal '18 -- 2018, there has been some slowness in recovery of MS Amlin. So there has been some slippage there. However, moving toward 2022, we are aiming at reforming and changing the business portfolio as shown here. And that stance remains unchanged. So from that perspective, in terms of organic growth, including some capital increase, the organic growth, for that, we are aiming at JPY 90 billion to JPY 100 billion. And currently, we have JPY 120 billion or so, which means around JPY 20 billion or so could be used for new cases of M&A.

Of course, earlier the better in implementing that. But as I mentioned earlier, our policy vis-Ã -vis M&A, that is to say, the affinity in corporate culture with our own group or contributing to risk diversification or whether the target company has solid growth strategy or whether we can maintain solid investment discipline. So these factors will always be taken into consideration. Of course, we will have our antennas high so that we can identify good cases. But if we tend to be too hasty, we might simply end up having some non-high-quality deals. And therefore that would cause concerns on the part of investors. And therefore, we would like to retain the current standards of looking at various factors in making decisions.

In terms of the ERM and ROR, I would like to ask Mr. Fujii, CFO, to respond to that.

A - Shiro Fujii {BIO 16476704 <GO>}

As Mr. Muraki mentioned, if we are to use ROR, the businesses with a low ROR must be eliminated. How are we going to withdraw from those? In Japan, there are some lines which has a low ROR, in the case of fire insurance, I mentioned earlier. Are we going to withdraw from fire insurance? Realistically, that is not doable. So we are trying to increase premium rate. How are we doing that with respect to fire insurance or casualty lines, including looking at those businesses as a group? If the group has a low ROR, we try to increase premium rate. Or even if we do not raise premium rate, we may change and revise terms and conditions of underwriting. So this is how we try to improve ROR. And these efforts are underway, especially focusing on commercial businesses.

And similar perspective could be applied to International Business. But at the same time, what sort of network are we going to deploy and establish. With respect to withdrawing from any specific geographies, of course, we review and monitor on the quarterly basis as to the existing business. But realistically speaking, we only have 2 concrete cases where we immediately withdrew from those businesses as a result of ROR analysis. One example of such withdrawal was the life insurance in China. But as we monitor the businesses, we validate what the ROR levels are. So that's how we respond to those low ROR businesses.

Q - Masao Muraki {BIO 3318668 <GO>}

Also with respect to ROR, I'm looking at Page 54. There -- as interest rate decreased and that must have impacted that. But the capital required for life insurance increased and that represents a large chunk equivalent to strategically held equities. It only accounts for 13% of adjusted profit. And therefore, life insurance has being contributing to lowering this profit. And the interest rate risk inherent in MSA Life cannot be eliminated totally immediately. So how are you going to improve ROR of your life insurance business?

A - Shiro Fujii {BIO 16476704 <GO>}

As we just mentioned and right now, especially given the interest rate decline in Japan that increased capital cost of MSA Life without a doubt. But at the same time, as you already know, in the context of ALM, we are trying to improve the situation. So with respect to MSA Life and as was mentioned in the presentation, including investment in foreign bonds and alternative investment, by diversifying investment, we are trying to take some risks. And as a result of that, this year, we are not expecting ESR to improve substantially. But taking certain risks is some of the ideas that we have given thoughts to and taking actions on.

A - Unidentified Speaker

Now the second from the front in the third row.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Watanabe from Daiwa Securities. Two questions. First, Page 19, that's about fire and pricing strategy. 7% premium increase was suggested this time. When you divide them into individual versus companies, what could be the impact to the different categories? And in fact, this can improve the profitability earlier. But especially for individuals, we expect improvement in profitability in a long run. That's why I'm asking this question.

The second question is about Page 6. And that's about the contingency reserve. The balance -- the target was lower than before. But as of now, the -- what is the level of reserve that you're contemplating for fire? And also, whether there could be additional risk coming from the additional inclusion in the reserve?

A - Unidentified Speaker

Thank you, Mr. Watanabe. The first question was about the premium change for fire for individual versus companies. And next is about the target for catastrophe loss reserve for fire.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Then I'd like to ask (sic) (answer) in general. And then I ask Mr. Okawara (sic) (Mr. Ohkawabata) to supplement my answer. First, about the fire insurance premium increase, that was first reported by mass media. We did not make any official announcement. And hope that you would understand that, that will be around 7%. And that will be mainly for household and for corporations. This is more diversified according to individual companies. And therefore, on average, that would be lower than 7%. But depending on companies, the rate could be quite different. Based upon ERM, we enter into negotiation with different companies. And therefore, it's hard to generalize. But on average, that will be 7%.

As to catastrophe loss reserve target, in general, the target in conjunction with reinsurance, we made sufficient reinsurance coverage preparation. And therefore, the target level itself is now coming lower. But in terms of the balance of catastrophe loss reserve, if the reversal or addition as planned would take place, then we believe by fiscal year 2020, we will achieve the target.

And as for inclusion rate, in the case of MS, due to tax revision, that will be in the range of 5% to 6%. For Aioi Nissay Dowa, due to the impact of the reinsurance in overseas, that will be in the range of 8% to 12%. And we consider that, that would be the level for the current fiscal year. We don't expect major reversal for this year. And if there is no major reversal, then we are confident that we can achieve the goal. And if there is anything to add, Mr. Okawara -- Ohkawabata?

A - Fumiaki Ohkawabata {BIO 19079772 <GO>}

Not much to add. But as has been mentioned earlier by product and by line, the rate of revision is quite different depending on loss ratio. There will be higher rate in some line or depending on the region. But on average, the number that was just mentioned, that is 7%, would be considered. And for the target of catastrophe loss reserve, addition of reinsurance and the coverage common to the group with introduction of some capital for that. The target, according to regulation, I believe, we achieved that -- the level that complies with the law and within the current medium-term business plan with that inclusion rate, by 2020, we will achieve the goal. And in fact, we can even exceed that level entering the medium-term business plan period.

A - Unidentified Speaker

Thank you very much. The fifth row from this side, third column from the front. The lady there, please.

Q - Unidentified Participant

I have 2 questions. The first question is quite simple this time. The reinsurance cost for 2019 fiscal year, how much is it going to increase year-on-year? That's the first question.

And the second question is somewhat complicated. Needless to say, you used adjusted profit for medium term. And also excluding the reversal from cat loss reserve, we need to look at various numbers. And I fully understand that. But vis-Ã -vis the GAAP-based profit, how much are you focused on GAAP-based profit? And let me explain the reason why I asked such a question. The next fiscal year, that is to say the fiscal year ending in March 2021 -- well, let me start with the March 2020, the fiscal year that we are in right now, the natural disasters for which the payment is still not complete will take place. And therefore, there has been some reversal from fire insurance. So that's a windfall. So to speak, for the current fiscal year to a certain extent. And moving on to the March 2022, there are some companies suffering from the impact in the current fiscal year. But suppose the loss ratio of automobile insurance cannot be improved and if it remains at the same level and if the cat loss reserve withdrawal continues like we saw a few years ago or maybe 10 years ago, looking only at the automobile insurance cat loss reserve, the reserve will come down to the level which is the minimum threshold. If that happens, that will have the downward pressure on GAAP-based profit. So those negative factors will continue for the next few years.

So on the business-as-usual basis, of course, we will look at those numbers on that period and running the business on the business-as-usual basis is acceptable. But I would also like to know what is your stance vis-Ã -vis those negative impact? Are you going to use equities and use capital gains from that -- from the disposal of that as you did during the last fiscal year? But for that to continue for a long run, that may not be quite appropriate. So I'd like to know the stance of the management on that.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

So I'll give you 3 rough answers. And if there is any additional comments, I'd like to ask Mr. Ohkawabata to do that. For reinsurance cost for fiscal 2019, the increase was JPY 22 billion. There has been some -- excluding the impact of reinstatement premium. Excluding that, there has been an increase of JPY 22 billion and also increased the reinsurance coverage as well.

In terms of GAAP-based profit, to what extent are we focused on that, as far as we are concerned, of course, by generating good adjusted profit. So that -- that can be used as a resource out of which the shareholder return can be made. So we focus very much on adjusted profit. But at the same time, vis-Ã -vis the market, when we give guidance to the market, the focus of the market is GAAP-based profit. And because of the different criteria used by different companies, mass media simply has to refer to GAAP-based profit in comparing performance of different companies. And therefore, the GAAP-based profit, which does not reflect accurately the adjusted profit, is released and used extensively. And that has -- causes trouble to us. However, as I mentioned, our focus is on the adjusted profit.

And also, within our group, Mitsui Sumitomo does have adequate reserve for cat loss reserve. And also, the loss level would be affected by consumption tax rate increase and also the change in revision of a statutory interest rate. And also, for the premium for automobile insurance, a great deal depends upon what sort of advisory risk premium the rating organization is going to announce. So these would be reflected. And we'll try to respond to those official numbers as much as possible. And also the -- oh, you asked about generating capital gains. With respect to capital loss reserve -- cat loss reserve, if the reserve needs to be increased by one shot, we have certain standards set internally. And in that case, we generate some capital gains so that we can use that for providing for those reserves. But we do maintain certain discipline even when we do that.

Mr. Ohkawabata, could you comment on that as well?

A - Fumiaki Ohkawabata {BIO 19079772 <GO>}

Well I mean to add some comments there. With respect to the cost of reinsurance, your first question, there has been some increase in cost by JPY 22 billion. The factors behind that cost included the establishment of a joint group-based reinsurance contract. And also, in order to enhance risk control, we added the reinsurance coverage. And at the same time, as the direct insurance exposure increased, there has been some increase in reinsurance. So including all those factors, the cost increase was JPY 22 billion. During the last fiscal year, from the very beginning -- those increase of JPY 22 billion is from the reinsurance cost at the beginning of the fiscal year. Compared with the running cost, since we did have to pay some additional reinsurance cost during the fiscal year, there has been hardly any change there.

And you also asked about the cat loss reserve of automobile insurance as a second question. And as we just mentioned a moment ago, starting in fiscal -- from fiscal 2019, it could reflect net withdrawal. But in -- with respect to keeping the loss ratio of automobile at an appropriate level, including the revision of a premium for 2018 and '19, we reexamined the coverage. And we tried to increase premium per unit. And in doing so, we would like to keep the withdrawal at an appropriate level.

The criteria used for reversal from the cat loss reserve and also the examination of those reinsurance policies, are they closely linked? Not necessarily, although they are linked to a certain extent. But paying attention to that, we also look at the long-term trend of loss ratio. And looking at the profitability situation, we would give thoughts to the usage of cat loss reserve. The consumption tax hike is scheduled. And also the credit law revision is being considered. So looking into those factors, we will consider whether it is necessary to change the premium as well.

Q - Unidentified Participant

This may have been already covered by the President or my understanding may not be in line with your comment. But if the cat loss reserve level of automobile insurance has come down in different companies. And -- does that mean that the general insurance rating organization may accelerate its change of advisory risk premium? Could that be the potential result of that?

A - Fumiaki Ohkawabata {BIO 19079772 <GO>}

Allow me to make some supplementary comment. There is a certain validation criteria before the advanced value advisory risk premium rate is revised. And incentive is somewhat difficult to explain on this occasion. But anyway, based upon the actual results conducted based upon valuation and also some estimate of the future trend is taken into account. So in terms of factors close to incentive, that sort of factor could be taken into account by the organization.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

If the cat loss reserve is withdrawn to a larger extent, then the provisions -- which means loss has increased generally speaking. And therefore, if the actual withdrawal is higher than the scheduled withdrawal, the reserve is likely to be depleted. And looking at that, there is a chance that the general insurance rating organization could decide to revise the premium. Of course, it's an impartial organization so I cannot predict what sort of action it takes. But that factor could be taken into attention -- account.

A - Unidentified Speaker

The gentleman on the front seat.

Q - Koki Sato {BIO 19983862 <GO>}

Sato of Mizuho Securities. First question is about dividend. Last year -- last fiscal year, at the beginning of the fiscal year, the -- it was announced as remaining the same. Then the -- in the interim announcement, despite the expected reduction in profit, you announced increase. And now this year, you announced a 10-year -- JPY 10 addition from the beginning of the fiscal year. What are the ideas behind those decisions? What was different from last year? That's the first question.

The second question is on Page 21. That's about system governance. Especially, the -- this is the amount that was announced last year. Compared to that, I think there is an increase by about JPY 26 billion. Well as the impact is rather small, what is the background reason for change in investment for that -- for increase in investment? And as a result, 30% expense ratio as the future target, when it could be achieved? It appears that, that will be later than originally expected. Is that the case or not?

A - Unidentified Speaker

Thank you. So first question is about dividend policy comparing 2018 versus 2019. The second question is about the system, especially the joint claims, there is definitely the cost difference. That's what is being asked.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

In terms of the 30.0% expense ratio, when that could be achieved, I'd like to answer that question -- that part of the question. Then I'd like to then turn to a group CEO to respond to the rest of the question. About dividend policy, we often receive this question. And therefore, we produced it in written statement, that is 40% to 60% against the adjusted profit. We often hear the question as to whether we can do it automatically. But in case, there is increase by JPY 10. Well as we explained before, we experienced natural catastrophe in overseas. And there were some uncertainties in that particular fiscal year. Yet, in Japan, we were rather conservative, watching the trend and then we became confident. And therefore, originally, we did not intend to increase the dividend. But at the time of the interim announcement, we first wanted to be conservative and announced JPY 130 at the beginning. And then we announced a JPY 10 increase at the time of the interim result announcement.

Therefore, when we decide dividend, we look at the last year's result and then the current year's result as well as the next year's projection. We look at those 3 and try to strike a right balance in deciding the level of the dividend. So that -- for instance, in the previous year, due to natural disasters and so on, the adjusted profit had to be -- had to go through the downward revision. Therefore, we tried to look at the upper range of 40% to 60%, the reference that I mentioned earlier. But for the rest, we also refer to the next -- the medium-term business plan. And when the future is somewhat uncertain, for instance, when timing-wise it is considered to be rather difficult to achieve, then we refer to 50% level. What we can commit is that we would never go below 40%. And by way of a share buyback, that is included. Depending on the market condition, there may be a situation when we could be higher than that. This time it was not. But there could be such a possibility. Hope that this answered your question.

And 30% expense ratio, for the time being, the next plan as well as the next business plan after the next, that may be the time. But with digitalization, with data utilization, we want to drastically improve the productivity. And also, the kind of a drill structure of the agencies, that has been the major concern for us has to be rectified. And also top line has to continue to grow in a sustainable fashion. And those 3 are taken into consideration. And therefore, as to the delay in the claims systems development, we are trying to catch up with that by front loading some of the factors or other possibilities so that with that, eventually, we want to achieve the final goal, despite delay that is currently experienced.

A - Unidentified Speaker

About the system called BRIDGE, MS&AD intend to standardize lines. And with that, we aim at improved efficiency. Originally, we thought of JPY 13 billion. But looking at 2 systems of 2 entities, to standardize them, that requires rather a long time for development. And in the process last year, I have to say that we experienced unprecedented scale of catastrophe. Therefore, the way the claim department responds or the capacity that was originally anticipated or assumed, the -- in view of that, we have decided to be more conservative so to speak, that is to increase the anticipated capacity. That requires additional time and cost for redesigning the scale. And when the designs are changed, then the hardware and others would be also affected. And given such a size, that is why we have seen the difference in numbers, resulting in delay in timing.

And another factor that I'd like to refer to is that during several years for development of the system, the advanced technologies that are available in the market are also changing. In fact, we are seeing some disruptive technologies that are introduced. And therefore, at certain point of time, we might decide that the new technologies have to be captured and introduced. We want to be flexible in introduction of such new technologies. And in view of that need, we decided to change the design specification at least partially. So that in terms of the timing of main release, it was staggered by two years as a result. And therefore, they are securing the manpower and hardware increase, among others, contributed to increase in cost for the development. Technology to be adopted, given changing environment and society, for instance, the drive recorder and image information available from that could be utilized. In fact, key in digitalization, that's data and how we should go about analysis of such a data. In view of that, we decided to be flexible in adapting various elements and factors.

As to the compromised impact or effect in response to natural catastrophe, for those, that would correspond to adopted technology against anticipation, the system that was expected to function had to be separated for some time. And therefore, compared to what was originally expected, we decided that we have to delay some timing. And as a result, the whole schedule for release, that will be delayed. That is why we decided to announce the change in our plan. And in terms of the impact and the burden on the cost and accounting, the -- that will be equivalent of two years. That is as a result of delay in introduction. Thank you.

Thank you very much. The man on the third row from this side and also second row from the front.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Majima is my name, from Tokai Tokyo Securities. I'm referring to Page 37, relating to the performance of Lloyd's overall. And for 2 financial years, Lloyd's recorded losses. And at the end of March, Lloyd's had its press conference. And CEO of Lloyd's made the following comment. The pricing increase is going on. And the fundamental loss ratio is being recovered. And nonperforming loan is being removed and decreasing and structural reform is progressing. So Lloyd's actually had a very strong view with respect to its own improvement and recovery in fiscal 2019. Compared with that, your plan for Amlin for the current fiscal year, you are expecting (GBP 47 million) for the current fiscal year. So compared with the very strong view -- confident view expressed by Lloyd's, Amlin seems to be somewhat conservative or weaker. What is the major factor behind that? Is it related to asset management and investment? That's the first question.

And second one relates to reinsurance as well, Page 51. You talked about the increase in reinsurance by paying additionally JPY 20 billion or so. Had you introduced the same scheme a year before, the claims paid in the previous fiscal year, to what extent had that been reduced or lowered?

A - Unidentified Speaker

Thank you, Mr. Majima. The first question related to Lloyd's that seemed to be very confident for the performance recovery for fiscal 2019. Compared with it, Amlin seemed to be weaker.

And secondly, had the new reinsurance scheme had been introduced, what would have been the actual payment for the current fiscal year?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

With respect to the first question, that is to say the conservativeness relating to Lloyd's, I would like to invite Mr. Matsumoto to make a comment on that. And with respect to reinsurance, I would like to invite Mr. Ohkawabata to talk about that.

A - Masahiro Matsumoto {BIO 22172854 <GO>}

So I would like to respond to your first question. My name is Matsumoto. First of all, in terms of Lloyd's overseas, the Lloyd's market, to what extent is it very bullish about its own performance improvement, as you just mentioned, we believe that Lloyd's is going to make a very strong progress in improving profitability. And that's the view of John Neal, the CEO of Lloyd's. For the overall Lloyd's market, the underwriting capacity compared with the previous fiscal year has come down by 8% year-on-year. And within Lloyd's, there are approximately 100 syndicates. And some of syndicates increased its capacity. But overall, the capacity decreased by 8% for Lloyd's market. And with each syndicate, Lloyd's headquarters discussed the underwriting plan for fiscal 2019. And when the plan is formulated for different categories, the profitability was examined. And if there is no prospect of improvement in profitability, Lloyd's declined underwriting those businesses or instructed the amount to be underwritten. And therefore, very strong forceful stance was taken by Lloyd's overall vis-Ã -vis syndicates.

And this applies to Amlin as well. Compared with other syndicates, it's not that Amlin itself is bigger or stronger. At the same time, for 2019, looking at Amlin's plan, I'm sure you all must have felt in the following manner. The initiatives will improve, profitability is making good progress without fail. As we have been explaining to you in the last fiscal year, out of the natural catastrophe area, that is to say non-natural catastrophe business lines, the additional provisioning for IBNR has been completed. On the other hand, Lloyd's market -- and not just Lloyd's but overall London market for fiscal years '17 and '18 have performed quite poorly. And because of that, the supervisory authorities have -- took a very strong stance vis-Ã -vis reserving policy or budget formulation approach. And they took a very forceful approach there.

So that was the general environment in which the MS Amlin had to take its own actions with respect to the plan for non-cat business compared with the year before, the price increase or improvement of terms and condition. And despite those actions actually being taken, the ultimately expected or projected loss ratio was not changed from the previous year in this plan. What I have just mentioned is that in the future, the business will become the resources -- sources for profit in the future. That means the timing has been slipped or delayed for recognizing the profit to be generated in the future. That's how we understand the situation.

A - Fumiaki Ohkawabata {BIO 19079772 <GO>}

Now if the new reinsurance coverage had been adopted, what would have been the increased amount of reinsurance collection in fiscal 2018? These are the estimated level. And the collection will increase based upon joint coverage. And the reinsurance collection would increase by around JPY 30 billion according to our simulation. Did that answer your question? Thank you.

Q - Tatsuo Majima {BIO 15338044 <GO>}

So with respect to your comments on Lloyd's, now that the new CEO has taken over, this new CEO has been taking a very bullish attitude about the performance projection. Is that right?

A - Masahiro Matsumoto {BIO 22172854 <GO>}

Right. The new CEO of Lloyd's, John Neal, is a person with whom we exchange views as well. And as we did that, Lloyd's has a very strong determination to focus on profit remediation during the current fiscal year. And that's the impression we obtained by talking to him.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Generally speaking, in the Lloyd's market, Amlin still maintains either #1 or #2 positions there. And in that, as the profit has improved in the Lloyd's market, MS Amlin will become one of the model case to lead the entire syndicates in Lloyd's market. And with that strong determination, Amlin is going to make -- take a leadership role in trying to pull the overall performance of the Lloyd's market. So that's how we intend to make Amlin going forward. And I hope you understand that. Thank you very much.

Q - Koichi Niwa {BIO 5032649 <GO>}

Niwa from Citigroup Securities. The shareholders return and International Business are my questions. I'm sorry there are some redundancy with what has been already asked. First, about shareholders return, on Page 66, looking at the full version, it was mentioned earlier that it is rather difficult to respond. And -- but this looks somewhat colorful. In terms of shareholders return, can we expect that this is going to increase? According to simple math, the 40% to 60% that is referred to, arriving at (JPY 205 billion), (JPY 250 billion). But when the year ends up, would there be a reduction due to natural catastrophe or we have to hold our breath and wait until the end of this fiscal year? I'd like to hear your view about the likelihood of those numbers.

And now on Page 2, that's about International Business, overseas business and adjusted profit and progress. This may be somewhat specific or the -- compared to medium-term business plan, I was told that there is some delay. But it appears, in fact, it is delayed, the JPY 100 billion organic accumulation. This looks rather similar to what was mentioned in May 2017. So when we consider that, is it because of the downward revision of Amlin? Or is it because of Toyota, BIG and the life insurance subsidiaries and the BIG? Are they the reasons why?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

And so the first question related to dividend, answer is quite simple. First, as a denominator, we have adjusted profit. And by expanding that, we try to increase the return to the shareholders. And that's a basic position. And therefore, of course, dividend or share buyback as well would be taken into consideration so that we can increase the total shareholders return. But in case of any unexpected event, there may be a year when we ask for your -- the permission. But as long as we expect that adjusted profit would grow. So does the dividend. We are not trying to be stingy. But if we mentioned something more than aggressive, then the expected consensus could go up. And therefore, that would give us a higher hurdle to clear. But to us, in fact, the rising consensus is actually reflecting the expectation toward us. And therefore, that is viewed as an encouragement to us.

And as to International Business, for organic part, yes, that is due to the delay in improvement of profit by MS Amlin. On the other hand, the overseas life insurance and equity participation ratio as well as the life insurance business, in the organic context, we need to supplement some -- whether supplement is a good word or not. But anyway, we shouldn't be too hasty looking at MS Amlin business. As in the case of Lloyd's business, from 1988 to 1992, that's when the Lloyd's had to spend five years to turn loss to profit. So they are exactly in the same situation. Given huge capacity, it is rather difficult to increase the premium. And also underwriting discipline or use of reinsurance companies, the capital enhancement, among others, those measures were deployed back then. And therefore, the MS Amlin, if they make too much haste without taking full advantage of their management resources, the -- that is not the desirable. And therefore, they should solidify the ground -- the foundation for the business.

By so doing, we believe that they would contribute to our -- the business foundation. And as the member within the group, we would just support them to embrace them and then try to make up for the loss by them in other sectors -- other sections. We shouldn't betray your expectations. So once stage 1 is complete, then we would revisit the plan whether that requires further change or revision or not. We hope that we can maintain the grand plan as is as much as we can under the leadership by Mr. Matsumoto. If there's anything to add from your side.

A - Masahiro Matsumoto {BIO 22172854 <GO>}

Yes. A word or 2. In terms of delay, as was just explained, that is mainly due to MS Amlin. And as was mentioned earlier, it's not because of delay because they failed to implement what they should do. Rather, the -- how many years from now the profit could be achieved? That is rather difficult to identify. That is why it was not included in the current year's plan. And therefore, IBNR released last year whether that could be made in 2020 or 2021. We have to look at the market and watch for the environment. Without that, it is rather difficult to reflect in our plan. And also change in condition, including increase in premium and the reduction in loss ratio, when that could be -- that can start to reflect those changes? Again, it is rather difficult to identify when that could be made. And that is why it is not included in here.

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