MS&AD Insurance Group Holdings Inc 2018 1st Information Meeting

Company Participants

- 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
- Tomomi Narimatsu, Analyst
- Wataru Otsuka, Insurance Industry Analyst

Presentation

Yasuyoshi Karasawa {BIO 7391405 <GO>}

Hello, everyone. My name is Yasuyoshi Karasawa. And I'm the President and CEO of MS&AD Insurance Group Holdings. Thank you for joining us at our information meeting today despite your occupied schedules. I really appreciate your participation today.

Without further ado, the main points of today's explanation are as shown here. Please turn to Page one of your documentation. The main points of today's explanation are as shown here. I will begin by briefly explaining our achievements under Next Challenge 2017, which ended in fiscal year 2017. And our understanding of issues to be addressed in formulating the new Medium-Term Management Plan. I will then talk about our new Medium-Term Management Plan Vision 2021, including our aspirations, basic strategies and 3 key strategies, the status of each business domain and our capital policy. Finally, I'd like to discuss our shareholder return policy and fiscal year 2017 shareholder returns.

Please turn to Page two of the handout. As explained at our financial results announcement last week, our fiscal 2017 business results were disappointing, with incurred losses due to large-scale natural catastrophes in Japan and overseas reaching around JPY 200 billion and with group core profit amounting to JPY 105.1 billion, which is much lower than our initial forecast JPY 230 billion. However, the profitability of the Domestic Non-Life Insurance Business, which was our biggest challenge when the group was established in 2010, continued to improve throughout the period of the previous Medium-Term Management Plan. Group core profit in the Domestic Non-Life Insurance

Business quadrupled from five years ago to JPY 190.1 billion in fiscal 2017; thus, the Domestic Non-Life Insurance Business has turned into a strong profit base for the group.

Please turn to Page three of the handout, which summarizes all the strategies we have brought on under Next Challenge 2017. Reorganization by function, which was one of the growth drivers promoted under Next Challenge 2017, was more or less completed over the past four years, leading to the significant improvement in the profit of the Domestic Non-Life Insurance Business through the simultaneous achievement of growth and higher efficiency. ERM, which was another promoted growth driver, was also properly established as the foundation of the group management throughout the period of the previous plan. On reflection in fiscal 2011, the ESR fell to 140% due to the impact of the flooding in Thailand, the Great East Japan Earthquake and the European sovereign debt crisis. And we had no choice but to procure hybrid debt capital. However, as a result of the promotion of ERM, even after frequent natural catastrophes such as hurricanes in North America last year, when global insured losses reached their highest-ever level, the ESR remained at the 200% level. And we have managed to achieve financial soundness, which is the target.

Please turn to Page 4. Upon formulation of the new Medium-Term Management Plan, this time, when we look ahead, there are various issues that need to be considered. With the Earth reaching its limit due to mass production and mass consumption and faith in capitalism fading as the rich become richer and richer, we have entered an age in which conventional wisdom and generally accepted ideas are shaken. Specific risks such as the increasing frequency of unusual weather events, the occurrence of terrorism and conflict and the rise of populism are starting to significantly impact the business. Meanwhile, technology is evolving at breakneck speeds bringing innovation to society but, at the same time, giving rise to risks not envisaged before, such as cyberterrorism. And the sense of social instability just keeps on increasing.

Through our 5 business domains, we have created social value in the form of stable lives of people and dynamic business activities. And we have also enjoyed economic benefits in the form of revenue and profits.

In line with our story of value creation, which is to realize a resilient and sustainable society by solving social issues and providing peace of mind and security and to fulfill our mission of contributing to the development of a vibrant society and helping secure the sound future for the planet, social stability -- sustainability is essential if we are to continue growing in the long term. And we are reminded that we are a business that would not exist without a society in which it is possible to reduce the impact of years' environmental changes and unforeseen events.

Based upon this understanding of the environment and our achievements under the previous Medium-Term Management Plan, the issues to be addressed under the new medium-term plan are the 6 shown here.

The first is harmony with society, which is an issue to be newly recognized. We believe that continuing to create shared value, CSV, with society through our corporate activities is essential to fulfill our mission.

However, to continue to be resilient in achieving sustainable growth, it is also important to maintain solid financial foundations and profitability. From this perspective, the second issue is capital efficiency. The group aims for ROE of 10%. And to achieve this, we believe it is important to seek sustainable expansion and profits with further developing ERM and constantly improving capital efficiency.

The third issue is innovation of the business portfolio. At present, group's profit structure relies heavily on the Domestic Non-Life Insurance Business. However, to become a resilient and sustainable corporate group, it is incredibly important to reform our business portfolio.

The fourth issue is enhanced ability to respond to changes in the environment. While natural catastrophes are becoming increasingly severe due to the impact of global warming, one by one, new risks are emerging along with the changing times. We believe that the question of what kind of cover we can provide globally to address these risks will become a major issue that we'll be required to face in the future.

The fifth issue is a further exertion of diversity, a strength of the group. As part of the reorganization by function completed under the previous plan, we sought to share functions across the group, especially among non-life insurance companies in Japan. However, we believe that extending these efforts for the entire group and seeking to further improve efficiency within the group while, at the same time, promoting diversity will help strengthen our competitiveness.

The sixth issue is maintenance and expansion of Domestic Non-Life Insurance Business that holds a prominent position, which is another of our strength. The Domestic Non-Life Insurance Business underpins group profit. And we believe it is important to avoid balanced contraction and to maintain and improve upon the current level of profitability.

Please turn to Page 8. On its formation in 2010, the group set as its mission to contribute to the development of a vibrant society and help secure a sound future for the planet, aiming to become a world-leading insurance and financial services group. We then put together MS&AD's value-creation story, describing what kind of value we would create based on this mission. And we have been developing this story since the second half of the previous Medium-Term Management Plan. As mentioned earlier, MS&AD's story of value creation is based on the approach of CSV, creating shared value. Under the new Medium-Term Management Plan, starting this fiscal year, we will reacknowledge that creating shared value is fundamental to our business. And we'll achieve to -- the sustainable growth of both society and the MS&AD group.

Next, I'll explain the group numerical management targets. Please turn to Page nine of the handout. The numerical management targets for fiscal 2021 are set at a level for becoming a world-leading insurance and financial services group, which we set as one of our medium-term aspirations at the time of our formation. At the end of the new Medium-Term Management Plan, we aim to be within the top 10 non-life insurance groups in the world in terms of revenue and to achieve group adjusted profit of JPY 350 billion and group adjusted ROE of 10% while securing ESR of 180% to 220% as a measure of our financial soundness. We have also formulated a sustainability Medium-Term Management Plan alongside the new management plan for the realization of a resilient and sustainable society, which is our image of society in 2030. We also plan to set nonfinancial monitoring indicators from the viewpoint of initiatives for the realization of CSV and to seek steady realization of our image of society.

As already announced, under the new Medium-Term Management Plan, we have changed the method of calculating adjusted profit and decided to include gains or losses on sales of strategic shareholdings in adjusted profit and exclude provision for catastrophe reserves, et cetera. Please refer to Page 10 of the handouts later as it shows an example of calculation using the replacement calculation method.

Next, I'll explain the basic strategies and 3 key strategies of Vision 2021. Please look at Pages 11 through 14 of the handouts. Under the Vision 2021, we aim to create a world-leading insurance and financial services group and create resilient systems that can respond swiftly to changes in the environment through basic strategies and 3 key strategies tied to the basic strategies.

The first key strategy is pursue the group's comprehensive strengths. We will further implement reorganization by function, which has (inaudible) focus on the 2 domestic non-life insurance companies. And we will promote initiatives such as review of the divisional roles, strengthening of cooperation and use of diverse networks across the entire group. We believe that the improvement of efficiency through consolidation in areas where standardization and sharing is possible and improvement of quality through utilization of our expertise in each area will help improve the competitiveness of the group as a whole.

The second key strategy is to promote digitalization. We will establish sectors and projects responsible for promoting digitalization at each group company in Japan and overseas. And group companies will cooperate with each other under the leadership of the CDO to implement initiatives for business transformation. Through this, we will improve the value of experiences of our customers and also improve our business productivity at the same time.

The third strategy is to reform the group's portfolio. Our profit structure currently relies heavily on the Domestic Non-Life Insurance Business. However, during the period of Vision 2021, we will strengthen earnings in Domestic Life Insurance Business and International Business and would like to achieve 50% of profit from these 2 businesses and the remainder from the Domestic Non-Life Insurance Business. The step after that is to achieve 50% of profit from International Business.

We believe that the strategic moves we have already made to invest in International Business during the period of the previous medium-term plan, such as the acquisition of Amlin and First Capital; capital participation in ReAssure and Challenger; and expansion of the BIG business, have laid the foundation for us to be able to organically increase the weight of International Business for our business portfolio. We will steadily build on this foundation, increasing the contribution from International Business and during the period of Vision 2021 and will transform our business portfolio.

I will talk now about strategy by each business domain. Please turn to Page 17 and 18 of the handout. Starting with the Domestic Non-Life Insurance Business, the group's Domestic Non-Life Insurance Business is a core business, boasting the largest scale of operations and profitability in Japan. And the combined ratio for Domestic Non-Life Insurance Business reached the benchmark of being less than 95%, which was much better than the target. During the period of Vision 2021, the profit is expected to be adversely affected, mainly in voluntary automobile insurance, as anticipated by the hike in the consumption tax rate and a reduction in the statutory interest rate. We believe that one issue we need to address the question of how to maintain and expand profitability of voluntary automobile insurance while absorbing such negative impact. As for fire insurance, which was posted consecutive underwriting losses, we have been steadily in preventing initiatives to improve profitability through widespread implementation of ERM. And we believe there is a good potential for growth -- profit growth.

We also consider casualty line insurance, a new business line, to be an area in which high growth can be expected through the development of SME market, which has shown strong growth momentum in recent years and which still has room for development; and through development and expansion of products to address new risks and products to create new product (sic) (markets.)

The domestic non-life insurance market is a market with little prospect of significant growth due to the shrinking population. But we aim to maintain and expand the profitability of Domestic Non-Life Insurance Business through such initiatives to transform the business portfolio.

R&D investment aimed at improving productivity and quality is essential for sustainable growth in a society undergoing rapid digitalization. Previously, we explained the investment in systems of above JPY 100 billion over the four years from fiscal 2016 to fiscal year 2019; but more specifically, we said R&D-related investment to address advanced digital technologies, including InsurTech. The expense ratio is currently between 32% and 33%. But if we are to compete with global players in the middle -- medium to long term, this ratio needs to dip below 30%, which is the level of our competitors. We believe that to achieve this, we need to improve productivity by promoting the systemization of administrative processes that can be systemized and by shifting human capital to high added-value work.

Next, I will explain Domestic Life Insurance Business. As shown on Page 22 of the handout. So far, group's Domestic Life Insurance Business grew into a business that can stably generate profit of around JPY 20 billion every year, driven mainly by MSI Primary Life. During the period of Vision 2021, we plan to complete the transfer of third sector insurance policies in force to MSA Life. And including the effect of this transfer, the profitability of MSA Life is expected to improve significantly.

Next I will move to the International Business. Please turn to Page 29 of the handout. In fiscal 20 -- year of 2017, International Business posted a large loss due to the occurrence of large-scale natural catastrophes and decreased profitability in the lines of business other than natural catastrophes at MS Amlin. However, as explained before, MS Amlin are already making steady progress. And we expect to be able to restore its profit to JPY 30 billion level in fiscal year 2020 -- 2019, same as fiscal year 2017 initial forecast. We also anticipate profit of around JPY 45 billion from MS Amlin, which will enter a growth phase; profit of around JPY 35 billion in the International Non-Life Insurance business in Asia; and America's profit of around JPY 8 billion from the BIG, Toyota Retail businesses and the ADI Head Office Reinsurance Business, which will move into profit; and profit in International Life Insurance Business to around JPY 17 billion. And we expect to be able to generate profit of over JPY 100 billion from such organic growth by fiscal year 2021.

In addition, taking into consideration new investment initiatives, such as strategic alliances and capital increases in Asia and the integration and reorganization of overseas businesses, we expect profit growth of up to around JPY 117 billion during the period of this Midterm Management Plan. And JPY 2 billion profit growth by a Chinese life insurance business we announced yesterday is included in this organic growth.

Let me give you some additional explanation about MS Amlin. Please turn to Page 30 and 31 of the handout. As for MS Amlin, we have already identified areas in portfolio with decreased profitability and are strongly implementing measures to restore profitability, such as strengthening underwriting discipline, implementing cost reductions and strengthening business management in each operating company. The portfolio is steadily improving. And we are -- we anticipate a recovery in profitability in fiscal year 2019. We believe that the business will be able to enter a profit expansion phase after fiscal year 2020.

MS Amlin is a core part of the group's International Business. And we believe that MS Amlin's sustainable growth and the demonstration of synergy with MS Amlin are extremely important for the growth and development of the MS&AD Group. We are confident that it will be able to achieve the recovery of profitability and further growth under the new management framework, headed by new CEO Simon Beale. In addition, the competent senior underwriters, that have been the source of competitiveness of MS Amlin's business, have been maintained. And there is no change in MS Amlin's position as a leading underwriter in its areas of Reinsurance, Marine & Aviation, others, at Lloyd's or in the strength of its core business. MS&AD Group intends to support MS Amlin in ensuring business stability and aggressively expanding its business. And we decided to boost its capital through a capital injection of around JPY 70 billion in June. We have caused our investors to worry since the acquisition of Amlin. But we would like to assure you that we will definitely restore profitability in two years.

Next, I will explain capital policy of the new Medium-Term Management Plan. Please turn to Page 45 and 46 of the handout. During the period of the previous Midterm Management Plan, ERM became firmly established as the basis of group management. And similarly, under the new Medium-Term Management Plan, we positioned ERM as the basis for management and plan to further enhance ERM.

During the period of previous Midterm Management Plan, we made significant progress in improving financial soundness and profitability. During the period of the new management plan, we will work on improving capital efficiency, including capital control and securing further improvement in profitability. As announced already, our shareholder return policy is to return approximately 40% to 60% of the group adjusted profit to shareholders. We will achieve sustainable growth by allocating retained earnings primarily to investment to strengthen the competitiveness of existing business, including the promotion of digitalization investments to diversify and expand our business portfolio, including investment in new businesses and investments to create new business through collaboration with partners.

Please turn to Page 47 of the handout. We adopted a more sophisticated calculation method for ESR. And in addition to using the aftertax value of taxable items as the basis for calculation, we also adopted a more sophisticated measurement method for the natural catastrophe risk amount. Under the new Medium-Term Management Plan, we set between 180% to 220% as an appropriate level for ESR calculated by the new calculation method. And we aim to maintain this level. The ESR level at the end of fiscal year 2017 was 211%, which is within the appropriate range.

Page 49 of the handout shows the status of the sales of strategic equity holdings. We sold a cumulative total of JPY 556.6 billion of strategic equity holdings during the previous Midterm Management Plan period compared to a sales target of JPY 500 billion. Accordingly, at the end of fiscal year 2017, the risk weight of strategic equity holdings in integrated risk amount was 32.7%. And the fair value weight of strategic equity holdings in a consolidated total asset was 12.7%. Under the new Medium-Term Management Plan, we plan sales of JPY 500 billion over five years, including fiscal year 2017. As a result, the risk weight of strategic equity holdings of less than 30% and the fair value weight in consolidated total asset of less than 10% are likely to be achieved.

Please turn to 50 -- Page 51 of the handout. Under the new Midterm Management Plan, we will promote group-wide diversity and inclusion to build management platforms that enable employees to play active roles. Under the leadership of their executive officer in charge of diversity and inclusion, we will foster acceptance of diverse opinions around the world and create workplace environments where diverse human resources can fully develop and demonstrate their abilities and create innovation.

Lastly, I will talk about shareholder return. Please turn to Page 55 of the handout. The group core profit forecast for fiscal year 2017 was lowered significantly. But we resolved to pay an annual dividend of JPY 130, an increase of JPY 10 from the previous fiscal year, as forecasted at the beginning of the year. In light of our stock price and the state of capital, we decided to repurchase JPY 30 billion of our own shares. Our shareholder return policy under the new Medium-Term Management Plan is to return approximately 40% to 60% of group adjusted profit to shareholders through dividends and share buybacks. The basic policy for dividends is maintain stability and to aim for DOE level of 2% to 3%. For fiscal year 2018, we expect an annual dividend of JPY 130, the same as in fiscal year 2017. And DOE of 2.7%.

We will continue to do our very best to meet the expectations of our shareholders and other stakeholders and ask for your continued support in our endeavors. Thank you.

Questions And Answers

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Daiwa Securities, my name is Watanabe. I have 2 questions, please. Question number one relates to the concept behind this shareholder return policy confirmation purpose. In the new medium-term plan, you said -- set the shareholder return in the range between 40% to 60%. On the previous meeting, you said that because of the higher volatility of our group profit, you are going to introduce this range. This time, about JPY 135 billion, which is 50% of JPY 270 billion. So even with the performance variation, you are going to use this range to mitigate the impact. So I would like to seek the confirmation of this understanding. Second question relates to your concept and philosophy behind strategic equity holdings. Compared with the past, it seems that the pace of sales of strategically held equities seemed to slow down. Is the reason behind that relate to the reduction of the percentage of strategic equity holdings with a more satisfactory level than in the past? Or depending upon the status of a negotiation with the issuing companies, is there any chance or room for further accelerating the sales of strategically held equities? These are the 2 questions that I'd like to put forward.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Thank you very much for your questions. With respect to the concept behind shareholder return policy, as you have just mentioned in your question, vis-Ã -vis the adjusted profit, we are now using the range between 40% and 60%, the middle of the 50%. And that's not the basis of everything. But generally speaking, from the viewpoint of our stakeholders, when the range of 40% to 60% is set, they might think of 50% as the central average of that. In that framework, a certain portion will be used for cash dividend, which is said to be JPY 130 per share. And the remainder may be used for share buyback, depending upon the share value level or the number of shares outstanding. So taking those factors into consideration, we would like to be quite forthcoming in share buyback. And you might think that, that remainder will be used for share buyback. And that may be the consensus among stakeholders. And we do understand that. However, when it comes to dividend payment, not in the previous year but in the 3 fiscal years prior to that, at the end of the fiscal year, with respect to the shareholder dividend, we revised upward the cash dividend for 3 consecutive fiscal years. This was not the basic assumption for the current fiscal year. But trying to achieve the performance which exceeds the target, we would like to be quite forthcoming with respect to both cash dividend as well as share buyback. And therefore, the first priority is to expand the adjusted profit. So the adjusted profit, well, vis-Ã -vis the guidance, we -- in the previous fiscal year, we revised that once. But basically, we would like to exceed the guidance or announced yardstick for that. With respect to your second question, the sale of our strategically held shares over medium term, one yardstick we use in reducing that is its weight in the risk weight, that is we would like to keep the strategic shareholdings to 30% of the risk exposure. Earlier, I cited it's 32.7%. And if we sell JPY 500 billion during this cover -- period covered, we'll be able to reach this 30% level. So on that basis, we set JPY 500 billion to be the volume of share sales. The second yardstick is the percentage of strategically held equities to the total assets. We would like to keep it to 10% or below. Earlier, I said it stands at 12.7% currently.

But by selling JPY 500 billion shares, we'll be able to make the equity holdings to 10% or less of the total assets. So beyond that, how low are we going to aim at would be presented in the next medium-term plan. And in that context, I would like to share with you our next period target for the share -- strategically held shares.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

I would like to make a follow-up question to the second question. You cited ROR level with respect to strategically held equities. What is its ROR level? If you have a figure of that, please share it with me.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

That is on Page 40 -- Page 50. Now let me confirm the question you have just asked. You are talking about the ROR of strategically held shares? And what could be the level of ROR that we would stop selling those shares, is that your question?

Q - Kazuki Watanabe {BIO 15948747 <GO>}

In '21, you said 10% of total. So how far is the divergence be between the 10% and the point in which you might stop selling it?

A - Unidentified Speaker

With respect to the strategically held equities and ROR, around 4%.

So please, the person sitting in the second row.

Q - Masao Muraki {BIO 3318668 <GO>}

Muraki from Deutsche Securities. I have 2 questions. First question is on Page 18. This is the investment into Domestic Non-Life Insurance Business. So you mentioned that the total investment will be JPY 135 billion. So why do you need to invest into this Domestic Non-Life Insurance, which is not incurring any profit? Why do you need to invest so much amount? And if you look at this graph, there is a line graph. And this expense ratio, how do you expect the loss ratio to fluctuate in the future? My second question is the overseas businesses. In your company, you have MSI and ADI. They have been engaged in overseas businesses. And recently, the holding company's function has been strengthened. However, compared with competitors, the subsidiaries are still -- they hold their -- still their own authorities. And when you think of transferring functions to the holding company, are there anything that's hindering that, such as credit rating or procurement or maybe some relations with specific companies like Toyota? Are those becoming impediments to transferring functions? And if you are going to integrate overseas businesses, maybe there's room to enhance ROE of the overseas businesses.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

As regards to your first question on Page 18, because of the profit shrinking in the Domestic Non-Life Insurance, why are we investing? And also your next question is our forecast of the expense ratio in the future. The Domestic Non-Life Insurance Business is --

in 2017, it incurred JPY 190 billion of profit. And in the next management plan, around half of the profit will come from this Domestic Non-Life Business. So this is the core business for profit. And this is a very competitive market. And we need to increase the corporate efficiency. And we need to have good clients. And we need to respond to customers' needs and to strengthen the channels. So in order to expand the productivity, we need this much amount of investment and advanced investment. As for expense ratio, in 2017, it was 32.2%. And in 2021, the R&D expense is 1.1%. So -- over 1.1%. So the expense ratio will be 33.3%. However, in the next management plan, the R&D expense -- we are investing 1.1% now. So in the next management plan, this -- we don't need this 1% anymore. So I think we will see it -- the loss -- expense ratio to decrease. So 32.2% will come to 31%. And in the future, it will drop to 30%. And we need to increase our top line. And we don't want to decrease the top line. And we need to decrease the corporate expense. And if -- we hope that even with the increased expense ratio, it could -- should be absorbed by corporate expense. Now your question about overseas business. In the reorganization of the functions, we have separated the roles of the operating companies. In Aioi Nissay, they are mainly doing the Toyota Retail auto -- voluntary auto business. And that's a consensus that we have. In other areas, Mitsui Sumitomo, we'll engage in voluntary auto. So each operating companies, rather than integrating everything to the holding company, each operating company is -- has the expertise in each business. And to invest in those areas, I think we will see a better efficiency. And that's how we look at the division of roles. However, in the future, of course, there are some integration going on. And in some areas, one company -- or integrating into one company may be better or -- but right now, the business models are totally different. So each operating company is doing its own. Aioi Nissay has a total cooperation with Toyota; MSI has -- as in the past, for general overseas, the business is transferred from Aioi Dowa. So that's how they are doing their overseas business. Does that answer your question?

Q - Masao Muraki {BIO 3318668 <GO>}

The Toyota's Retail businesses. So the profitability, even if there is improved profitability, ROE is not that high. I don't know how to put it. So I thought that Mitsui Sumitomo will not be engaged in this kind of business. But why should it be doing this overseas? Is there any -- because you are not getting enough profitability, why do you need to do this business overseas? Is it something that you have to do because you have relations with Toyota?

A - Unidentified Speaker

The voluntary automobile insurance is not such a high ROE business globally. However, on one hand, the automobile industry will become -- like they'll be selling connected cars or self-driving cars. So there's a big shift in the industry. Toyota says it's not a car company. But it's a mobility company. So doing business together with Toyota, of course, in traditional automobile insurance, it may be difficult. But in telematics insurance, we will launch this kind of product. I think that we are able to launch this because we have a close relationship with Toyota. And Toyota is also thinking of transforming its business in Japan and its overseas business in an integrated way. So I think we will see some effect. However, if you look at each business. And if you say is this profitable, maybe some businesses will not be profitable. However, between Toyota, we will conduct fee business. And we will not put so much capital. That's the way we are investing in this business.

Thank you very much. May I move on to the person seated to the next seat, maybe second row from the front.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Nomura Securities, Otsuka is my name. The first question relates to ROR; and the second one, the International Business. In your presentation today and looking at the handouts and looking at Page 3, as shown there, the challenges seem to be not the financial soundness but the improvement of ROE and ROR. I fully understand that. But in the next four years, what sort of risks -- what sort of good risks are you willing to take? I'm interested in that. Referring to Pages 49 and 50, ROR or risk portfolio are described in these 2 pages. And looking at these 2 pages, International Business and Domestic Life Insurance Business, especially the investment activities, the risk portfolio has different colors. So does that represent the areas in which you will be taking risks? Am I right in understanding that? That's the first question. Secondly, by referring to Page 29, Mr. Karasawa explained this orally, in 2021, JPY 117 billion, this is the group core profit. That is the breakdown of the new adjusted profit. But other than the Amlin, it seems that you plan to generate substantial profit areas from other -- other than Amlin. What are the probability of achieving those figures or risks therein? I'm sure you have some assumptions there. Could you elaborate on that, please?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Thank you for the question. The first question, what sort of risks are we going to take? And with respect to adjusted ROE, by taking what sort of risks are we going to achieve 10% of adjusted ROE? And I earlier cited JPY 117 billion. And you're talking about the probability and also the breakdown of that, the probability of achieving that figure. The first question, what sort of risks are we going to take? On that, in terms of risk allocation, the 60% is allocated to Domestic Non-Life Business; 20% to Domestic Life Insurance; and 20%, International Business, roughly speaking. ROR, that is through management of our risk and return portfolio, we are trying to diversify risk portfolio, which we think is one of the important pathways to improve ROE. And in that context, the International Business, the life insurance business and Domestic Nonlife Business, we are hoping that Domestic Non-Life Business is accounting for 50%. And life and international together accounting for 50%. So that's the first benchmark. The second one, the probability of achieving JPY 117 billion in International Business profit. With respect to Amlin, I cited a figure of JPY 45 billion earlier. As far as Amlin is concerned, over the years, before our acquisition, on average, over 10 years, it has been generating profit of between the JPY 30 billion to JPY 50 billion over 10 years. And we integrated our Lloyd's syndicate and also Reinsurance business to that. And Lloyd's syndicate generates the profit of JPY 7 billion to JPY 8 billion. And our own Lloyd's syndicate had been generating JPY 3 billion or so in profits. So integrating all that into Amlin, including those benefits from that integration, we would like to return to the average of the past 10 years, that is JPY 30 billion, by 2019. And beyond that, generating synergy of integration between 2020 and 2021, we would like to achieve the profit improvement of a JPY 45 billion -- to a JPY 45 billion. We discussed that with Amlin. In terms of pathway up until 2019, is it quite solid to attain that level by 2019? This has been discussed in teleconference as well rather extensively. But for Amlin, as far as natural disasters are concerned, the cat risks. So this is based upon the risks occurring in 30 to 40 years once in that. And the remaining that the incurred loss of JPY 70 billion that incurred with respect to the general line of business, how is Amlin going to improve that?

Structurally speaking, first and foremost, prior to 2016, there are certain policies underwritten before 2016. We decided to increase at once stroke the IBNR reserves. So this year and beyond, that additional IBNR reserving will not occur. And in 2016, we will increase pricing or sometimes rejecting the business or increasing rates, we are likely to make up for JPY 25 billion or so. And by tightening the underwriting standards and discipline, we'll make a further improvement. And therefore, there has been clear pathway to achieve improvement of JPY 75 billion. So for these increased losses relating to general lines, we believe those increased loss will be eliminated in the period between 2018 and 2019 and generating JPY 30 billion as this generate. However, as far as natural disaster is concerned, maybe once in 30 or 40 years, those natural disasters would happen. And therefore, by, depending upon the general trend, taking out greater reinsurance, we will make up for those natural catastrophe losses. JPY 45 billion and also I cited JPY 35 billion coming from other International Business. Asian holding companies and Hong Kong combined, organically speaking, we can expect to generate over JPY 20 billion in profit; and in India, China and the Americas, including those areas as well. So the figure JPY 35 billion can be attained through the annual growth of 10% to 15%. And therefore, the International Business other than MS Amlin business generating JPY 35 billion is not an unachievable level. Furthermore, around JPY 8 billion is likely to be generated by Reinsurance business of AD and with Toyota's Retail business or BIG, the point in which Mr. Muraki asked a question about earlier, the combined total corresponds to that. In terms of inward reinsurance business, generally, this generates JPY 5 billion to JPY 6 billion. That's the business model that we are operating under. And therefore, the -- out of JPY 8 billion, about JPY 5 billion comes from reinsurance inward. And the Toyota Retail business is already profitable. Because of the IT systems, reorganization before 2018, it will be loss making for a while. But after that, it can generate positive profit. And BIG business is likely to break even and generate positive profit in around 2020. So the JPY 8 billion is likely to come from the AD's financial business. In addition to that, the life insurance business outside of Japan, putting aside China for a while. But right now, the life insurance business in Asia conducted by MS. So Asian Life Insurance Business will generate between JPY 8 billion to JPY 9 billion. And holding company owns ReAssure business and also the Challenger business together is expect -- are expected to generate JPY 17 billion or so. That is overseas life insurance business. The remainder is added -- it adds up to over JPY 10 billion. But of that, JPY 2 billion is expected to come from China. So about JPY 10 billion or so represents inorganic net growth, that is to say capital injection or the capital provision because of our alliances and partners. And it might include some M&A. So between JPY 10 billion to JPY 15 billion in profit is expected from those International Business. So that's the structure of achieving those figures.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Sorry for dwelling on this. But the areas where you are going to take risks in international arena, you're -- are you going to take natural disaster risks? Or are you going to take reinsurance or casualties? What are specific areas of risk-taking? With respect to life insurance business, I think the primary portion of that would be asset management risks. Are you going to be quite aggressive in buying foreign currency denominated bonds or anything else? Could you share that with us, please?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Starting with the non-life business outside of Japan, overseas, I forgot to mention in relation to Asia, First Capital accounts for maybe JPY 10 billion. That need to be added. So also added that to the previous year, JPY 10 billion is not a problem. And in terms of nat cat business, for the group as a whole. And especially the Amlin playing a central role. And also Aioi Nissay Dowa is taking inward reinsurance business. So those are the areas we have nat cat exposure. And other than that. And the commercial business, mediums -- SMB business and sometimes including retails, the remaining natural catastrophe risks are included in the ordinary insurance lines. And those will be the risks we'll be taking. What was the question relating to life insurance?

Q - Wataru Otsuka {BIO 16340098 <GO>}

And the risk portfolio, it seems that asset management risk exposure is going to increase. And my question is whether you are going to move on to riskier asset classes? You are saying that...

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

No. I'm talking about -- looking at this bar of a risk portfolio shown on Page 49, the light green, that is domestic life insurance, asset management risks seem to have increased. So yes, we are going to take asset management risk.

Q - Tomomi Narimatsu {BIO 17170039 <GO>}

SMBC Nikko Securities, Narimatsu is my name. One question. So you talked about the overseas adjusted profit target, the organic target -- growth is (JPY 115 billion). So in organic, which area, which business do you have the priorities set?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Yes. In organic business growth, if I say something, I'm sure Nikkei Shimbun will quote me. So I won't go into details. It's the existing capital injected business. Maybe to increase our capital or if these businesses that have a (big) capital, if they need new capital in M&A or so, then we will increase our capital; or with our cooperation and other cooperation is integrated. And we need capital in integration. And we want to have a big portion of capital in the integrated entity; and in Asia, we may have other capital increase; or if there is any good business in U.S.. So those are some assumptions where we have -- we might have M&A. Thank you.

A - Unidentified Speaker

The person on the farthest left, please.

Q - Koki Sato {BIO 19983862 <GO>}

Mizuho Securities, Sato is my name. I have 2 questions: one relates to capital policy; and second one relates to Amlin's medium-term direction. So the first question, in the new medium-term plan, Page 9, you have cited some numerical targets. And looking at that, it seems that in terms of adjusted profit over four years, it will be JPY 1 trillion to JPY 1.2 trillion, according to this table. And at the same time, in terms of the net asset at fiscal year-end, you have assets of JPY 3.2 trillion. So even if you return 50% of that ROE, 10%

may be a very difficult target to achieve, roughly speaking. But earlier, you've mentioned that 50% is more or less the figure people should keep in mind. So in your own simulation, by returning 50%, you can attain ROE of 10%. Is that the case? Or in M&A, you might have to take some goodwill that causes reduction in net assets. So are you incorporating or assuming such factor to be considered? So the capital management and also the attainment of ROE 10%, the correlation between the 2 is the point I would like to seek clarification. Second question relates to Amlin. There seems to be some attention focused on pricing increase during the current fiscal year. But structurally speaking, the reinsurance market still seems to be overcapitalized. That remains unchanged. If that is the case, the cycle management that Amlin is exercising may be a very hard exercise. Over medium and long term, the situation and status of our reinsurance market, including the availability of capital in that market, how do you view that? And what is the prospect of hardening of the markets? So I would appreciate you sharing your views on those.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Those are 2 questions. With respect to the first question, that is to say, based upon the adjusted group profit, you are asking about how we are going to attain this ROE of 10%. This adjusted group core profit, goodwill -- in both cases, both for numerator and denominator, we excluded goodwill. And excluding those, the adjusted ROE is going to be 10%. The structure of attaining JPY 350 billion in group core profit, one important factor relates to International Business, I'm sure core of your question must be. And I already responded to that, I guess. And I hope you have gained understanding on how we are going to attain that JPY 350 billion through the international profit contribution as well. And the second question related to Amlin cycle management, basically speaking, the cycle management, usually, assuming that a major catastrophe hits once at 10 years. And the reinsurance market becomes harder from the softer. And that is the pattern of the market to be considered. However, specifically speaking, looking at the reinsurance negotiation conducted by Amlin or on our part, in North America, those areas that are hit by hurricanes, there has been a pricing increase by around 15%. Those were the hurricane-hit areas. But areas other than that, the price increase has only been between 0% to 5%. In June, there's going to be another round of a reinsurance negotiation. And there, Amlin is expecting, on average, a pricing increase of -- had been expecting pricing increase of 6% or so. But as we pointed out, because of the capital market -- capital flowing into the reinsurance market. So 6% may be rather difficult. But still, the pricing increase is likely to be at the level which is within the assumption made by Amlin. On the other hand, because of the capital market (graph with the) capital, the reinsurance market is not really hardening as had been expected. So this is advantageous for us when we try to buy the insurance. But those companies trying to take natural catastrophe risk to them, this is going to be a very tough market. So what sort of a cat risk and to what extent is one important point of management. So focusing very much on the general trend of the market, we'll consider how far we will expand the range of cat risk. In 2018, our risk position would be even. But if there is any hardening situation, if the market conditions would be quite good, we will try to enter that market without seizing opportunity of gaining earlier pricing. Did I answer your question?

Q - Koki Sato {BIO 19983862 <GO>}

I would like to add to my first question. What I wanted to ask is that you have too much capital in your company. So even if you can attain those group core profit target, you may not be able to reach ROE target. That was the gist of my question. So any -- aiming at attaining ROE target figure, could you think about shareholder return in excess of 60%? Is there any adjustment of capital policy?

A - Unidentified Speaker

Let me respond to that. In your earlier question, you mentioned that M&A would cause goodwill. And that's going to be eliminated. And therefore, if there is a substantial acquisition made, you -- are we expecting substantial elimination of goodwill? But as I answered earlier, the inorganic growth we have in terms of a profit expectation is JPY 10 billion to JPY 15 billion. And therefore, this plan does not incorporate any substantial acquisition which could result in substantial goodwill. The second point, you said it doesn't add up. It's not -- there is nothing that we have decided as to the concrete actions we are going to take. But overall, aiming at -- or moving to 2021, our target level of JPY 350 billion and 10% in ROE, how we are going to strike the balance between the 2 would be continued to be studied. Did I answer your question? Thank you very much.

Q - Tatsuo Majima {BIO 15338044 <GO>}

From Tokai Center, Majima is my name. On Page 18, you have the increase in the productivity of the non-life. And you have 6 items. And the bottom 2 are the integration of the 2 companies, I suppose. The first one is the operate ongoing large-scale projects and renovation of agent and customer online system. Is it going to proceed with one company? And this kind of a standardization of products, is it going to finish by 2021, or are you going to continue to do this kind of thing? The back office or the HR systems are probably separate. But are you going to standardize them? And are you going to synthesize them in one -- to one as much as you can?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

We have a person in charge of the system, (Mr. Inagaki.)

A - Unidentified Speaker

Yes. This renovation of agent and customer online system, this is going to be done together with -- it's common with 2 companies. So MS, AD and the -- both companies will be engaged in this project.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

How much of standardization is it going to be? In the functional reorganization, we have finished one stage. Now we are going to have common administrative materials and claim services. So after all that is complete and when we have the claim services basis and if we can see any commonization of the basis and if Mitsui Direct and Aioi's non-life, if they can engage in same business or if they can cooperate in the sales part. So the claim service and the administrative business will be standardized. And we often get this kind of question. So I would like to answer the question using this opportunity. So we are doing the functional reorganization. And as for the merger, we get a lot of questions. So as for merger, we are not going to neglect mergers at all. In the future, probably, mergers will be very effective in enhancing our group's value. And if we deem so, we will see measures. And if we are going to have common back office and if we separate the functions, that will be more -- that will -- that would be more suitable for our customers, then we could think of separating the functions. And so we are right now constructing the backbone for this kind of common base.

A - Unidentified Speaker

The person in the back of the room, the third row from the front.

Q - Koichi Niwa {BIO 5032649 <GO>}

Citigroup Securities, my name is Niwa. With respect to International Business and also shareholder return, these are 2 areas that I'd like to ask question about. Number one, looking at the profit contribution from the Americas, in terms of a net profit, the contribution is JPY 3.1 billion. And in this new medium-term plan, while it increases. But it's not likely to become a major pillar of profit contribution. The global players both in Japan and overseas, how to compete well in the U.S. market seems to be one of the core points for your profit expansion. So how are you going to increase the profit portfolio in the Americas or in the United States? This time, the major acquisition that is to say higher in the JPY 100 billion area, that doesn't seem to be included in the plan. But what sort of strategy do you envision for that? The second question, that is to say rather than the United States. But maybe your idea is to trying to increase the profit contribution through the acquisition of a Chinese business, that may be strengthening your character even further. And next time, looking at the actual track record of a shareholder return and also the future course. And this may be the same as the previous answer -- question, for fiscal 2018, according to the calculation, JPY 135 billion is the figure. And for fiscal 20 -- no, that's the figure likely to be calculated for fiscal 2019, applying the same approach, it doesn't seem to increase very much. So what is the pace of rhythm of shareholder return? How should I interpret that over medium term? If JPY 310 billion is likely, then it may not necessarily be 50% payout. So how flexible can you be in that context?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

So including some correction, let me reiterate my answer. Once again, in terms of International Business, when we talk about International Business, our focus has been on Lloyd's market and Asia. And by leveraging our strength in those areas, we would deploy business internationally. And those were the objectives and strategy that we have been taking. Amlin has been thrown into a rather tough situation. However, based upon known experiences, we are quite confident in our ability to conduct business in that. And therefore, that's why we acquired Amlin. And in Asia, we have been #1 in ASEAN markets. And our strength would also contribute to our business deployment in Lloyd's market or elsewhere. And so it's not probably covering every nook and corner of the entire globe is too big and have proposition for us. We are not as strong as that. And therefore, we intend to further leverage our strength in those areas where we have particular strength and use that as a characteristic strength in International Business. And in that case, the Amlin and the Toyota Retail business and also the Asian business, those, I believe, would be the 3 major strength of the business. And therefore, in the Central and South America, we have been allying with MAPFRA to -- MAPFRE to create win-win situation. And in Middle East, we have -- and we have allied with Generali. And with AXA, we have partnership in Africa. Or in the Oceania, we have been working with QBE. And this time, with the former parent company of First Capital, that is with Fairfax, in that sense, in South Africa or in the

Middle East, including those regions; or the Fairfax does have in the United States the worker compensation business. So some specialty-like companies or reinsurance companies, we could cooperate or partner with those companies. And for those, our strength in Lloyd's business or Asian business serve as a backbone. So that's why -- where we would like to strengthen our business. China, of course, has the largest population in the world. And the potential growth is expected very high. So in that sense, for China and India, we'll perceive both life and non-life insurance businesses to conduct our business solidly. So that's our strategy. With respect to the United States, as you correctly pointed out, it's the biggest non-life insurance market. So how can we enter that market, with what sort of partner. And what sort of company can we work together? We need to have a good partner. There should be a very good match of corporate culture. We should be able to exercise good management, although it may be in the hands off approach. And in the future, can we really generate the synergy with or can we exercise good risk management over the company? So these would be the key factors for consideration. So as we consider those various factors, if we can identify good potential partners, we would like to pursue that. JPY 10 billion is just an example because if I cite the figure of JPY 50 billion, it will be considered as a big acquisition in mind. But if there is good opportunities, we'll consider that. And the contribution coming from that will be included in the adjusted profit. With respect to dividend, the JPY 135 billion and its midpoint between 40% and 60% and looking at that level, that level seems to represent the consensus view. It's not that I'm the one citing that level. But I simply do not deny that because it seems to be the consensus of the general viewers. In the future, when we talk about 40% or 60%, we are not saying we'll focus on the midpoint between that. We could be paying out 60% or 40%. And this year, at only JPY 270 billion, it may not be that much different next year as well. But 2019 is the year in which consumption tax rate is going to be increased. And automobile insurance is likely to face some more difficult profit situation. So if the environment such that we can deploy our strategy appropriately and if we are quite confident to be able to achieve the targets for adjusted profit for fiscal years 2020 and '21, we would consider the appropriate level of return in the context of that range mentioned earlier. So we would be very happy we can return large amount of our capital. So by accumulating solid outcome, we would like to live up to the expectations of the shareholders to return good capital. Important point that is that we will not retreat from the past policies when it comes to shareholder returns. But by setting the range, well, let me say that once we talk about increasing trend of dividend, once you increase dividend, you will not be able to lower that. So unless you are very confident and secure in achieving your target, it's very difficult to retreat from that. So it doesn't reflect or a promise. But we would like to pay out stable dividend. But this demonstrates how forthcoming we are in terms of shareholder return. We would like to show that as a solid performance. But this is not a commitment. But -- so the actual outcome may not be in line with that. But that's the level we want to aim at.