MS&AD Insurance Group Holdings Inc 2019 2nd 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
- Shinichiro Funabiki, Sr. Exec. Officer, Chief Info. Officer, Chief Info. Security Officer & Chief Digitalization Officer
- Shiro Fujii, Executive VP of Corporate Planning, Corporate Comm., IR & Internal Audit Dept., CFO and Director
- Yasuyoshi Karasawa, President, CEO & Director

Other Participants

- Kazuki Watanabe, Research Analyst
- Koichi Niwa, Director and Analyst
- Koki Sato, Senior Analyst
- Masao Muraki, Senior Analyst and Global Financial Strategist
- Natsumu Tsujino, Senior Analyst
- Tatsuo Majima, Senior Analyst
- Unidentified Participant, Analyst
- Wataru Otsuka, 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.

Natural disasters caused a variety of damages in Japan and overseas this year, again. A number of regions suffered serious damages, as a result. We would like to express our sincere sympathy to all affected people. Our entire group is making concerted efforts to help those affected to put their lives back in order as quickly as possible and aid the reconstruction of disaster-stricken areas through the prompt payment of insurance claims and other measures.

Following the conclusion of Stage 1 in this fiscal year, Stage 2 of our Vision 2021 medium-term management plan, adopting the SDGs as guideposts will start in the next fiscal year.

Natural catastrophes are becoming large and more frequent. The decline in the vitality of regional communities and economies is becoming serious. Under these circumstances, the role of our group should play is increasing. To realize a resilient and sustainable society in 2030, MS&AD Insurance Group Holdings will achieve resilient and sustainable growth by advancing CSV initiatives and strengthening ERM according to the Vision 2021 plan.

Let me start by explaining the main points of today's presentation. Please turn to Page one of the handout. This page shows the main points of today's presentation. First, I'd like to talk about the first half of fiscal year 2019 results and progress on the medium-term management plan. I would then like to talk about the 6 challenges in Stage 2.

Please turn to Page two of the handout. Large-scale natural disasters occurred in Japan in this fiscal year, again, causing losses estimated to surpass the forecast made at the beginning of the fiscal year. As a result, the group-adjusted profit for fiscal 2019 is expected to decrease JPY 43 billion from the forecast at the beginning of the fiscal year to JPY 220 billion. However, we anticipate that net income will reach JPY 200 billion as forecasted at the beginning of the fiscal year, thanks to the effect of the reversal of catastrophe loss reserve, among others. The effects of natural disasters in Japan and overseas in this fiscal year are as shown on Page six of the materials.

Our direct insurance payments for natural disasters in Japan, including Faxai and Hagibis are estimated at about JPY 400 billion. We will cover about 70% of them with reinsurance. We expect the net loss incurred to be JPY 123 billion. Judging from the conditions so far, we expect our direct payment for natural disasters overseas overall to fall below the forecast made at the beginning of the fiscal year.

Next, I'd like to report on the progress of the medium-term management plan. And please turn to Page 12 of the handout. Under the medium-term plan, we are working to achieve 2 goals adopted as our group's vision since the group's establishment, becoming a world-leading insurance and financial services group and building resilient systems necessary for realizing sustainable growth in the future.

In Stage 1, we established the domestic non-life insurance business as our stable earnings base, steadily advanced 3 key strategies and achieved many results toward the goal of building resilient systems. Meanwhile, in the area of business portfolio reform, portfolio diversification into the life insurance business advanced well. But the international business showed a delay in the recovery of profitability. We recognized the delay as one of the issues that we should examine further towards Stage 2. Group adjusted ROE at the end of fiscal 2019 is expected to be 7.1%, which is lower than the target for Stage 1 ending fiscal 2019 of 8.3% due to the effect of natural disasters. We will continue to strive to improve capital efficiency.

Next, I would like to report on the progress of our 3 key strategies. Please turn to Page 13 of the handout. Pursuing the group's comprehensive strengths is our first key strategy. Our group has chosen reorganization by function as a business model that simultaneously achieves growth and greater efficiency and has sought to achieve growth with its comprehensive strength, making the most of the group company's characteristics and strength and to produce synergy.

As a result, our group has steadfastly maintained top line predominance in the domestic non-life insurance market since the enforcement of the current medium-term plan. Initiatives such as joint front line efforts by MS&AD, joint product development and collaboration in the cybersecurity field utilizing the expertise and functions of inter-risk research and consulting also advanced steadily.

For example, the claims department consolidated the 2 company service centers in charge of overseas PL cases into MS in April. Furthermore, the 2 companies are advancing joint initiatives, including the joint use of claim appraisers and cooperative investigations by their adjusters following typhoon Faxai.

In addition, many different initiatives are in progress in different fields of the group, including cooperation between MSA Life and MSP Life in the domestic life insurance field. We will improve our productivity and achieve future growth, applying the group's strength of diversity to the maximum extent possible.

Please turn to Page 14 of the handout for the promotion of digitalization, our second key strategy. Our initiatives for addressing the issues identified in the Vision 2021 such as the promotion of business and process reform for improving the quality of products, services and customer experiences; the development of new automobile insurance product and claim service systems; the application of telematics technologies; the establishment of corporate venture capital firms; and investment in business venture overseas are making steady progress toward the goal of developing platforms for promoting digitalization.

Thanks to the evaluations received for these initiatives, our group was selected for the 2019 Competitive IT Strategy Company Stock jointly sponsored by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. Major changes in social structure, including the development of 5G network technology that make high-speed, large capacity, ultra-load delay simultaneous and multiple access possible. And increase in unstructured data such as still images, videos and voices. And the use of AIs on a daily basis will continue into the future. Our entire group will promote our digitalization and link it to business model reforms taking environmental changes into consideration.

Please turn to Page 15 of the handout for the portfolio reform, our third key strategy. Regarding the risk portfolio reforms, the sales of strategic equity holdings advanced ahead of the plan. The sales brought the ratio of such equity holdings down to 27.6% of the group risk amount at the end of September, lower than the target level of less than 30%. We will continue disposing the equity holdings worth more than JPY 100 billion annually to achieve another target, which is less than 10% of the consolidated total assets to be in equities.

Regarding business portfolio reforms, the profitability of domestic life insurance business improved steadily with close to JPY 30 billion in the group-adjusted profit expected for this fiscal year. And it has grown into one of the stable earnings base for our group. The balance between the non-life and life insurance businesses, including expanded investment in the overseas life insurance business improved and the improved balance enabled us to stabilize our earnings base. On the other hand, the recovery of profit from the overseas non-life insurance business is delayed somewhat. We will continue taking measures, including strengthening the system, which I will explain later, to address this as a medium-term issue.

Next, I would like to talk about the 6 issues stated here as the issues to work on in Stage 2 of the medium-term plan, which will start in the next fiscal year.

First, let me explain the maintenance of stable income or the expansion of income in the domestic non-life insurance business. Please turn to Page 17.

Our group has established the core domestic non-life insurance business as a stable earnings base by steadily raising its profitability since its implementation. In the first half of fiscal 2019, our group achieved one of the highest premium growth rate in the industry. Again, the combined ratio, excluding the effects of natural disasters remained stably below 95% as well. When we prepared the medium-term plan, we were concerned about negative factors such as the adverse effects that the consumption tax increase and the decrease in legal interest rates may have. We will revise our automobile insurance products and their premium rates in January 2020 to deal with these factors.

Regarding fire insurance, their effects caused by factors including reinsurance premium hike due to large-scale natural disasters, we are continuing to step up our efforts to handle contracts with high loss ratio in addition to the revision of products and premium rates implemented this October. In the casualty insurance field, we expanded product sales to small; and medium-sized companies and worked on initiatives for new risks and new markets in fiscal 2019.

Next, I'd like to explain the second topic, our policy for addressing natural disaster risks. Large-scale natural disasters have occurred frequently in recent years. We are working on to control the -- retain the amount of natural disaster risks and reduce the risks of profit fluctuation by offering coverage at appropriate premium rates and managing risks group-wide through reinsurance and other means. Through these initiatives, we've reduced the retained net loss incurred substantially from the previous fiscal year to JPY 123 billion in fiscal 2019. We will achieve the group's financial soundness and earnings stability while continuing to provide adequate insurance coverage for natural disasters as a social infrastructure in Japan, our home market, in particular.

The third topic is our response to the ongoing global low interest rate environment. Please turn to Pages 27 and 47 of the handout. MSA Life susceptible to a big impact by low interest rate in Japan is working to reduce the effects of low interest rates by adopting a product strategy with an emphasis on protection-type products that are less affected by the low rates, strengthening asset management systems and promoting asset liability and management further.

In the asset management field, our entire group is also working to maintain and secure earnings from managed assets by diversifying investments into assets that are expected to produce relatively high returns. It is difficult for us to remain completely unaffected because security and the liability of funds are important for claims payment. However, we will also study a more efficient asset management strategy from a global perspective going forward.

Now I would like to talk about the fourth subject, the growth strategy of the international business. Please turn to Page 35 of the handout. Since 2000, the group has steadily expanded its presence in each region and segment through the investment of capital in local markets and M&A. We have expanded our business based on the market characteristics of each region.

In particular, we have established the largest presence in the ASEAN region through measures such as the acquisition of Aviva's (Asian) business in 2004. We have also successfully built a platform as a global insurance and financial services group through moves such as acquisition of Amlin in 2016 and the acquisition of the First Capital in 2017.

However, the environment surrounding the international business is changing rapidly with the development such as advances in digital technology and increased risk of natural disaster. Amidst these environment changes under the original holding company framework, the resources of each group company could not be sufficiently utilized and delays in decision-making issues with the nature of group governance could be seen due to the overlapping structure of Japan and regional holding companies. Or in the case of MS&AD, company-based management and SBU-based management.

For example, MS&AD has many resources such as excellent underwriters and skilled human resources with outside contacts. However, I suspect that these resources were not being sufficiently utilized across regions. And we were missing out on growth opportunities in some respect. In view of these issues, we had long been considering the organizational framework of the international business.

After comparing and examining numerous proposed frameworks, we decided to restructure the international business as announced the other day in order to achieve further growth by effectively and efficiently using the strengths of each company in response to changes in the business environment.

Please refer to Page 36, rather, of the handout to see what we aim to achieve. In concrete terms through this reorganization under the new structure, MSI Head Office will take the lead in business promotion and management. MSI Head Office departments in Japan, including the Investment Planning Department, the Corporate Risk Management Department and the Information Technology Planning Department will deepen their commitment and strengthen the group's governance. The function of developing global strategies will be concentrated in the new international planning department, which is to be established and the new structure will be able to facilitate management decisions, change the business model in response to rapid changes in the environment due to the development of digital technology and identify opportunities for business investment promptly.

First, we will improve productivity and promote the concentration of functions and elimination, consolidation and streamlining of organizations and bases. We plan to cut annual costs by more than JPY 10 billion by fiscal 2021. We will pursue the group's comprehensive strengths and will use the group's company strengths such as skills and networks across each region. In this way, we will accelerate the growth of the entire group.

For example, we will use MS First Capital's expertise in large-scale construction insurance and business insurance and related human networks, not only in the ASEAN region. But also in a larger area, including India. We will use MS Amlin's skills in specialty insurance and reinsurance in collaboration with group companies, particularly in Asia and will, thereby, promote marketing in new markets.

In addition to this, we will establish task forces in a number of areas using specialists at MSI Head office and human resources at overseas entities who have a high level of expertise and extensive experience and knowledge. And will, thereby, develop and pursue group-wide growth strategies in the field of digitalization, asset management and reinsurance as well as strategies for increasing profitability.

Please turn to Page 37 of the handout to see an outline of the reorganization. First, the strategy planning functions of each regional holding company will be concentrated in MSI Head office. The existing international departments will be reorganized as international planning department, which will be responsible for considering global growth strategies and international business department, which will be responsible for developing regional strategies as well as business promotion and management.

MSI Head Office business management system will thus be strengthened. Regional holding companies in Asia, Europe and the Americas will be eliminated. Excellent human resources that overseas entities who are well-versed in management and the specific circumstances of each country will become members of committees at MSI Head Office, including international business strategic committee and MSI Head Office, will directly supervise overseas entities. MSI Head Office departments, including accounting department, the investment planning department, the corporate risk management department and the information technology planning department will support the international business in each field.

Please refer to Page 38 of the handout to see the temporary effect of the reorganization on the results. As we explained in the recent conference call regarding our results, MS Amlin Group has been treated as 1 asset group for an impairment test, which goodwill was recorded. Following the reorganization, Lloyd's business, the European primary insurance business and the reinsurance business will be treated as independent asset groups for an impairment test.

Consequently, the Lloyd's business and the Europe primary insurance business need to post an impairment loss of JPY 175.4 billion before tax, which is approximately JPY 160 billion after tax will be posted for both companies as extraordinary losses. In association with the reorganization, the shares of subsidiaries of the regional holding companies held by the regional holding companies will be paid as individual in kind -- as dividends in kind and as a result, are deemed loss on scale -- a sale will be recorded at the Mitsui Sumitomo Insurance for tax purposes. As a result, tax expense will be decreased by approximately JPY 170 billion. The effect of the extraordinary loss and the tax expenses is reflected in the first half of fiscal 2019 and the full year forecast.

Next, I would like to explain our initiatives for improving capital efficiency. Please turn to Page 57 of the handout. ERM is the basis of a group management at MS&AD Insurance Group. We are monitoring ROR in each business and each company and are promoting initiatives for improving ROR. We are using ROR and VA as criteria where we consider the methods of asset management and reinsurance schemes. We have introduced the evaluation using ROR when we develop or change products and consider sales policies. We will continue to promote initiatives for achieving ROE of 10%, an ongoing challenge.

I will now outline the sixth issue, CSV activities. Please turn to Page 64 of the handout. We aim to develop management based on CSV activities. We set 7 key issues in the medium-term management plan.

To enable our shareholders and investors to understand the results of our initiatives more easily, we have calculated quantitative economic and social impact. For example, in our initiatives to help mitigate and adapt to climate change, we wrote approximately 4,600 new policies for a comprehensive guarantee plan for mega-solar power generation. The policyholders' power generation reduced CO_2 emissions by more than 1.69 million tons compared with thermal power generation.

To promote the creation of values shared with society or CSV activities in the company, we held sustainability contest this year. This was the second consecutive year that we held the sustainability contest. I felt that the understanding of the story of value creation and CSV activities have been enhanced into the whole group and sustainability initiatives has been established. Two teams that earned the same score were awarded the grand price.

I will now outline the initiative of one of them, namely cmap. cmap is a website on which forecast of the numbers of buildings that will be affected by typhoons, heavy rains and earthquakes are displayed on the map immediately after the disasters occur. The websites can be viewed on the personal computers and smartphones, among other device, 24 hours a day, every day. We have been able to obtain information on warnings and advisories and precipitation amounts. But it has been difficult to identify the areas that will be affected by -- or are flooded.

Cmap enables users to obtain real-time damage predictions in areas that are relevant to them. Cmap has been acclaimed by local governments, which support evacuation of residents and self-defense forces, which rescue people on the front line. They say that they are able to use cmap to identify the scale of the disaster in their regions and save lives.

Meanwhile, MS&AD Insurance Group will be able to build a system to respond rapidly to disasters and customers and promptly determine the scale and amount of damage. I'm sure that if each group company and each employee implements the story of value creation, society and the group will be able to achieve resilient and sustainable growth.

Lastly, I would like to talk about shareholders' returns. Please turn to Page 70 of the handout. As we announced last week on November 19, we will pay an interim dividend of JPY 75 for the first half of 2019, up JPY 5 year-on-year and we will pay an annual dividend of JPY 150, up JPY 10 year-on-year.

Also, we decided to repurchase our own shares of JPY 20 billion or less. We have just over four months left in the fiscal 2019. We will do what we should do in Stage 1 of Vision 2021. In Stage 2, we will continue to pursue initiatives to become a world-leading insurance and financial services group and build the resilient systems that can respond rapidly to changes in the environment.

We will continue striving to meet the expectations of investors and other stakeholders. And we ask for your continued support. Thank you.

Questions And Answers

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

So we would move on to Q&A session. The microphone will be brought to you by the staff. (Operator Instructions) Furthermore, we'd like to have as many questions as possible from the people. So I'd like to ask individuals to limit to 2 questions per person. So please raise your hand if you have question.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Watanabe of Daiwa Securities. I have 2 major questions. The first question relates to shareholder return. Do you keep in mind an amount of the total shareholder return set at the beginning of the fiscal year? Please share with us your thought.

I asked this because in the previous fiscal year, major natural disasters occurred and you adopted 60% of the total payout ratio, which is the upper end of the range. Considering 60% of group adjusted profit after revision for this fiscal year. And that corresponds to 50% of the group adjusted profit at the beginning of the fiscal year of JPY 263 billion. So I'd like to know your thoughts on that.

The second question relates to the international business reorganization. Reorganization of international business was led by MSI. Please advise us why the reorganization this time did not extend to integration of international businesses under ADI's control.

Furthermore, our 2 domestic non-life company is going to move closer toward integration or do they continue to keep some distance? Please let me know the direction.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Thank you very much. I'll respond to these questions. With respect to the first question, our thinking on so-called shareholders' return. I may have said this on the previous occasion. But using a range between 40% to 60%. If adjusted profit is revised down, we will respond to your expectations by applying the upper end of the range. It's not a determined rule. But basically, we want to live up to the expectations. And from that perspective. And considering also the current stock price, we repurchased up to JPY 20 billion worth of our own shares in the interim period. I hope you understand it to be a testimonial over positive attitude to shareholder return, although it cannot be promised.

As for the reorganization of international business. Considering reorganization of ADI and MSI of international businesses, it was one of the perspectives. However, the AD's -- Toyota retail business presented various issues such as collaboration with Toyota Motor Corporation and related schemes and IT systems. And therefore, we are going to turn around our international business under MSI's leadership, centering around MS Amlin and to establish direct control structure.

Naturally, they're going to be the next stage going forward, would that involve overall structure, including ADI? Or would combined consolidation be better? Or having separate companies better? I think there'll be several options and including a business environment at that time, if there are factors that brings our original strength to bear, accelerate growth and efficiency, we'd like to examine other their alternatives as well. So the reorganization this time did not yet show the final form.

I'm also often asked about MSI and ADI's reorganization. I think I talked about this several times. We had not discarded a merger option when we opted for reorganization by function. If the domestic non-life market is such that combined ratio is at or below 95%, just as we have today, pursuing and achieving higher growth rather than higher efficiency is more effective in producing better real amount of profit. Since we have 2 business models over which to capture customer needs firmly. So accelerating our growth by capturing customer needs is an option we should take now, we think.

We've always had one of the best revenue growth rate since we embarked on this plan. And it's a proof of our growth, I believe. To achieve higher efficiency, we are working on reorganization, including joint usage within the group. And we are ready for integration anytime. Or maybe, as I've been explaining for some time now, splitting into different functions could be an option, too.

With digitalization advancing, various business models may work in different forms with business structure also changing. In such a situation, a former business that is divided into functions may be easier for customers to understand. If that's the case, based on the current form. But dividing it into different businesses and have business line by business line, this model could be an alternative as well. An alternative merger would best suited totally to pursue higher efficiency. But now is not the right time to seek higher efficiency at the expense of growth, in my view.

The proof of the matter can be seen in the growth achieved by both ADI and MSI, ranking among the top because both companies capture the needs of the market well. Should combined ratio, however, exceed 100 and efficiency enhancement becomes a top priority, we are ready to think about the merger right away. And this is a shared understanding within the group.

Q - Masao Muraki {BIO 3318668 <GO>}

Murasaki (sic) (Muraki) of SMBC Nikko. I have 2 questions as well. First of all, with respect to risk reduction, you showed risk versus return by segment analysis. What is the proportion or percentage of higher or domestic natural disaster risks in the total risk exposure? Page 15 of the handout shows strategic equity holdings as a percentage of group's risk exposure or risk amount.

Likewise, what is your understanding of the size of a fire or domestic natural catastrophe risk? And I suppose reinsurance cost is going to increase significantly. As the cost of reinsurance increases, is it really possible to reduce such risks? I understand what you can do is to raise pricing. But other than price hikes, are there any means of reducing such risks? That's the first question.

Secondly, second point relates to the cost reduction. Having heard your presentation, I believe, a merger is not a concrete option you are studying right now. Under Stage 2 that starts next year, what is the centerpiece of cost reduction? What part are you going to focus on? Could you give us a clue?

The announced reorganization of holding companies under MSI alone is going to save JPY 10 billion in cost. It means there was still a big room for cost reduction. That's how I felt about it. So have you identified quite a number of such hidden reserves? Or was this the last remaining area of such inefficiency?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

So the first question relates to the risk amount of fire and natural catastrophe. Is that right? And for so-called risk reduction, are there means or methods for risk reduction. So I would like to ask Mr. Ohkawabata to answer that.

A - Fumiaki Ohkawabata {BIO 19079772 <GO>}

The question that is to say, the so-called storm, flood and snow and natural catastrophe risk exposure, first of all, the risk amount of the entire non-life underwritten at the end of September totaled JPY 480 billion. And of that, we estimate the risk exposure relating to storm, flood and snow and natural catastrophe to be a little over JPY 370 billion.

And we've been rigorously managing natural catastrophe risks, especially the level of risks we retain on the group-wide basis over the past few years. And the holding company indicates each operating company's net retention amount. The net retention amount is determined by taking into account the financial strength effect on ESR. And more recently, impact on earnings, especially from the viewpoint of profit and loss of the period. So from both perspectives, the net retention level is set and managed.

And your second question relating to the reduction of natural catastrophe risks. Basically, the efficient utilization of reinsurance is at the base of our risk control efforts. Starting in the current fiscal year, the reinsurance cost is a factor for consideration and in considering rational economics, starting in the current fiscal year, we want to step up further in studying and purchasing concretely the reasonable purchase of reinsurance through a common coverage to unify the group's retention level. So including those group-based efforts, we would like to pursue the rational economic consideration for that.

A - Shinichiro Funabiki {BIO 19455601 <GO>}

May I add. If reinsurance premium would rise to lose its economic rationality, should we take a certain risk or continue to use reinsurance? Our basic thought is to pursue the best method from the ROR viewpoint as has been touched upon earlier. Since we do not know the situation for next year, I hope you would understand that we are considering this now.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

As to a response on behalf of the entire group toward natural disasters, in the situation where these large-scale natural disasters frequently occur in Japan and become almost normal state, we believe we have responsibility to offer coverage stably in the long term. In that sense, we should properly manage our own risk and increase the rate to proper level.

Meanwhile, we will try to level profitability, in case catastrophe occurs, with securing catastrophic loss reserve and other measures, including tax system support. We will provide advice to each policyholder from ERM perspective on proper disaster reduction measures and preventive actions against facility aging so that the accidents can be reduced, while premium will be adjusted accordingly. We would like to enhance the team-based initiatives to different regions to activate their disaster reduction efforts in order to strengthen resilience against disaster damage.

Reinsurance can cover risks when appropriately utilized. But it will eventually increase cost as it must be paid back in the long term. Reinsurance is not unusable though. But it should be recognized that reinsurance can be used for each fiscal year for leveling. Let me touch up on cost and especially overseas.

Is there such a thing like a treasure chest? Lloyd's, the U.S. and other firms earned high profits, especially Lloyd's. And this made them organizations with high cost, which is a fact. For example, our Lloyd's syndicate had expense ratio of over 40%. But in the last three years, faced with severe situation, they implemented many reforms to restore the structure to secure top line, to change complicated structure to simpler, effective one.

By conducting risk management on the whole, Amlin abolishes a holding company. And (SVU) is to be revised, which will reduce cost. Therefore, it is not true there are potential treasure chests of that sort. We were aiming at reducing total cost by JPY 50 billion through functional reorganizations. Actually, JPY 60 billion cost cut was achieved. Mr. Funabiki will explain this in the current plan.

A - Shinichiro Funabiki {BIO 19455601 <GO>}

In Page 21, expense ratio and large system investment return are shown. Mr. Matsumoto will add some points related to overseas business.

As the system investment during the latter half of the previous midterm management plan and the first half of the current midterm plan, substantial cash out was done. Some of them were completed in the current plan, especially sales area. As to online renovation to realize better efficiency, we have released some of them every six months. And the one released in October will bring the most efficacy. The total amount of cash out is planned to be recovered in about five years after the release.

The insurance policy reach maturity every year. And contribution to profit will appear half to us one year later. The released versions will be in effect -- effective cycle for five years.

For example, online innovation will contribute about JPY 15 billion per year for profit. If BRIDGE is completed, we expect a JPY 12 billion of effect per year. Thus, our investment now should bring good effect in the future.

A - Masahiro Matsumoto {BIO 22172854 <GO>}

I'm Matsumoto. Let me explain the costs related to overseas reorganization. In case of Amlin operation, under the Amlin holding company, there are Lloyd's reinsurance company, a reinsurance company in Switzerland and (EC) company on the continent. Namely 3 insurance companies exist.

Because of the group's structure, Amlin holding company needed functions like consolidated accounting function and risk management functions. But if all these operation companies will be directly under the MSI head office, all the redundant functions will no longer be needed, which means we can reduce head counts as well as save office space. In addition, we are revising portfolio to restore profitability, then the JPY 10 billion include all the savings.

Please recognize similar situation existed for the ASEAN holding companies and the companies under them. It is not directly relevant to our operation. But in October, Lloyd's announced Blueprint One strategy, which tries to pursue efficiency of the entire Lloyd's markets. Thus, taking into account these external factors, we would like to promote cost reduction. Thank you.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I'm Tsujino of Mitsubishi UFJ Morgan Stanley. As the ESR declined a little, I suppose hybrid ratio is about 15% of the group's capital. What is your intention to increase it further? To what extent?

Hybrid procurement is good. But without doing other measures and if you assume acquisition at the level of twice the book, what is the scale potential acquisition that can be quickly implemented? If you want to do more, I suppose you need to do other things seriously, such as reduction of strategic equity holding. So could you tell us more on these points? That's my first question.

My second question. If some people think reinsurance rate is likely to go up by 10% to 20% next year for the Japanese typhoon risk, then your cost may increase by JPY 10 billion or JPY 20 billion. You said you will consider different factors for reinsurance. This year, it was good. You have increased the coverage. But do you have any secret plan or ideas for next term and the future?

For example, by rearranging the combination of different approaches, the similar reinsurance effect can be achieved without increasing the rate or the premium or paying the insurance amount.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Then I'll give you the overview in my response. And then I'll ask Fujii and Ohkawabata respectively, to give you accurate answers.

A - Shiro Fujii {BIO 16476704 <GO>}

About our fundraising policies and reinsurance, I'll be giving you just that answer. The question was about our current thinking on the spare financial capacity we have for M&A and other investments. As shown on the material, we have capital buffer totaling approximately JPY 2.2 trillion or a little less. When we want ESR at or above 180%, as we have shown, how much capacity do we still have in restore -- in store? I think the level is around JPY 100 billion.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Over medium and long term, however, we'll reduce risks, including equity sales. And accumulation of earnings will be included in the plan. And if new investment generates positive earnings, it will also be added. Therefore, we can keep some flexibility rather than being fixated on the current situation and take response if there are good opportunities. I think we can do that. So we'll consider it within the available capital buffer.

And with respect to the reinsurance, I would like to ask Ohkawabata-san to respond to that first on reinsurance.

A - Fumiaki Ohkawabata {BIO 19079772 <GO>}

Yes. It is quite true that as you asked or mentioned in your question, we are studying reinsurance, assuming that reinsurance premium increase is undeniable. As you mentioned -- or as was mentioned, we are earnestly discussing to secure reinsurance as efficiently as possible and preparing for renewal activity. We have no secret scheme. But we want to work out more pragmatic way or joint purchase or to prioritize profit and loss of the period. So we'd like to combine a variety of patterns to work out a reinsurance coverage.

So for fiscal '20, we would like to secure reinsurance coverage conducive to improvement of ROR and earnings while firmly holding the perspective of rational economics.

Earlier asked how much issuing capacity we have. And the current situation is, as you described earlier, by calculation, we can issue up to around JPY 500 billion. But do we need to do that? Then if you ask how we are going to finance M&A, an answer would be different depending upon specifics, the circumstances and what sort of a company the target is.

If it is vital for growth, we cannot preclude -- or rather, we might consider a capital increase to carry it out. Realistically, is such a thing in our mind at this moment? No. That's not in the case -- that's not the case. Whether to finance the deal with our own funds or with external procurement, we'll make decision rationally. And that's how we've been doing thus far. And we will continue to resort to that methodology.

So allow me to add some remarks with respect to reinsurance. Reinsurance is a business done in a world of gentlemen's transactions. In my view, it is a sort of business that doesn't hold if we unilaterally benefit and get the better of reinsurers at their expense. We ourselves must earn adequate premium and if -- it needs to be higher than rates -- premium rate in Japan and then cede the business to reinsurer at an appropriate rate.

On the other hand, I mentioned disaster prevention and mitigation in Japan at the offset, including ERM by companies or advice on disaster prevention and mitigation. Our activities to reduce natural catastrophe claims will be conducive to earning trust for the next round of reinsurance. Our company is relatively well trusted by reinsurers. So for the time being, we won't have any trouble securing coverage. However, if we continue doing this, as a consequence, reinsurers will run away from Japan. So to avoid such eventuality, we ourselves must advocate the need for enhanced infrastructure of the Japanese economy and measures for disaster prevention and mitigation, offering customized advice to corporates or individuals and encouraging renewal of outdated facilities. And furthermore, we need to propose introduction of disaster prevention services.

Q - Koki Sato {BIO 19983862 <GO>}

Sato of Mizuho Securities. The first question relates to the impairment loss on goodwill triggered by the reorganization of international business. In terms of a qualitative explanation, you said you passed an impairment test on the group basis. But when treated as an independent asset group, the business posted an impairment loss of JPY 170 billion. While I understand that for this reasoning to hold the value of a future of reinsurance need to be quite large, the future value. Otherwise, by calculation, it doesn't hold. So in that sense, how the future outlook of reinsurance business changed from the time of acquisition? I would appreciate it if you could share some quantitative aspects, if possible, such as growth potential and profitability, among others.

And although it is not an essential aspect. But I'd like to confirm a persistent importance you attach to the initial accounting profit plan. A variety of mixed items were in the plans, some positive and some negative. But you kept the net income unchanged. ADI did not make additional provisioning for cat loss reserves. It was not included in the plan, which led me to think that there could be some additional factors going forward.

But even then, do you still insist on keeping the initial net income plan of JPY 200 billion? Or in that context, if it is necessary for ADI as well, are you going to generate more capital gains on sale of strategic equities? Could you share your thoughts on that?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

When treated as 1 asset group, an impairment test was passed. But treated independently, 2 businesses had to post an impairment loss. So on this, this means, for reinsurance business, the cash flow before discount is assumed to be quite large. And I would like to have Mr. Matsumoto talk about the reinsurance business outlook. And also, I'll have Mr. Ohkawabata talk about this net profit plan.

A - Masahiro Matsumoto {BIO 22172854 <GO>}

Matsumoto is my name. How we see the overall trend of reinsurance business, that's the first point that I'd like to explain to you. The reinsurance business of the world has thin, roughly 2 digit increase, in pricing last year and again this year, not as much as for Japanese risks. At the same time, what we saw was not just a rate increase. But continued growth of the market overall, including emerging market growth. So from that perspective, we think reinsurance is a promising market.

In such a situation, our group is endeavoring to grow while reducing volatility than in the past through underwriting method or combining heavier risks portion with lighter risk portion. Or geographically speaking, including emerging countries, we try to grow in those geographies where reinsurance business itself is going to grow while keeping an eye on geographical balance. So from this perspective, reinsurance business per se will grow in the future. And we intend to earn profit in the reinsurance business as well in a well-balanced manner while mindful of our balance between reinsurance and general risks. That's all.

A - Fumiaki Ohkawabata {BIO 19079772 <GO>}

So as to the question on net income on accounting. Basically, accounting net income and adjusted profit will be both considered in performance forecast. So no change in our stance. So we maintained and did not change JPY 200 billion outlook of accounting net income because, as has been mentioned earlier, by the reversal of the catastrophe loss reserve and other measures, JPY 200 billion net income is likely to be anticipated.

Where we did not adjust the forecast, we will flexibly cope with the future situation while being aware of the forecast figure to make continuous efforts. Did that answer your question?

Q - Unidentified Participant

My first question is on reinsurance business. Compared with acquisition, corporate value or share value is not changed, is it correct?

A - Masahiro Matsumoto {BIO 22172854 <GO>}

Reinsurance business. I am Matsumoto. The reinsurance business entails 3 firms: Lloyd's, Swiss reinsurance firm and the European continent insurance company, the direct insurer. And please take it that of these 3, reinsurance firm and Swiss reinsurance company will not be subject to any change. They are growing as we had anticipated at the time of acquisition.

In terms of the catastrophe loss recovery, it may look like we were matching the numbers. But we think catastrophe loss reserve for the fire insurance seems a bit insufficient. So MSI is focusing on special reserve. And ADI has set the reserve at 12% from the beginning of the year and 6% for MSI.

At present stage, ADI has no need for special reserve and MSI need additional reserve. That is why MSI added JPY 30 billion for reserve. Net profit on accounting base is according to the initial forecast by reinforcing financial base, especially by strengthening the preparedness against natural disaster of future. We maintain the initial forecast.

Of course, toward the end of the fiscal year, it is possible heavy snowfall and other incidents may occur. In that case, it is possible that scenario may be adjusted.

Q - Tatsuo Majima {BIO 15338044 <GO>}

I am Majima of Tokai Tokyo Center. I have 2 questions concerning the corporate properties and natural disasters. Recently, Typhoon Hagibis caused inundation of many business properties in many locations, including condominiums near (Tako Tamago) by the river. How was your P&L affected adversely by the typhoon damage on corporate properties taking into account the recovery by your reinsurance? In Page 18 or so, there's a description that rate hike was implemented once in September. But my first question is that will you raise the rate again for corporate properties in the near future or not?

My second question is related to this. As you wrote in this material, you support business operation against risks of natural disasters. Frankly speaking, after the typhoon damage, you probably had to pay the claim by the major transportation companies like railroad company. For example, special loss may be accounted for the fiscal year. I guess many operating companies could not receive the insurance claim fully to cover the entire damage incurred which shows a kind of a mismatch between the insurance product and the actual claim payment. Since you say you support business operations against natural disaster risks, what do you think of this kind of situation? So these are my 2 questions.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Are you asking the weight of corporate property within the claim payment made after the natural disasters?

Q - Tatsuo Majima {BIO 15338044 <GO>}

Well what is your P&L concerning corporate property? If you know, I suppose you are not focusing only on the corporate property.

Are you referring to the corporate property per se, not particularly about natural disaster? What is your feeling if you're especially focused on the recent natural disaster?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

I see you're asking our thought on the impact of the recent natural disasters on the P&L of corporate properties as well as whether provision of coverage is sufficient or not. Maybe there is a mismatch. And what you are thinking about it. Mr. Fujii will respond.

A - Shiro Fujii {BIO 16476704 <GO>}

As shown on Page 18, for household sector, basically, the premium is set based on the advisory risk rate. And premiums for commercial properties are set by concerned individual companies conditions in addition to advisory rates. As stated on that page, condominium management association, in general, have high loss ratios.

So we took measures to improve profitability. We raised premium or revised underwriting conditions by which I mean setting deductible amount or raising it. So through those means, we try to improve profitability.

With respect to 270 commercial policies mentioned there, we revised terms and conditions of policies with deteriorating loss ratio. In doing so, instead of just raising prices, we make a proposal that setting a deductible amount at JPY 500 million will have, for instance, negligible impact on P&L, given the size of the company. In this manner, we changed terms without changing the level of premium match. As a result, it improves ROR. We've been implementing this underwriting. Having said that, are we making money on fire insurance overall or not? Regrettably, overall profitability of fire insurance continues to be negative, as shown in the handout.

About the issue of a mismatch you asked about, I don't know specifics of a company reported by newspapers. If a company is really aware of its risks and share it with us, we'll provide as much coverage as possible provided, as Karasawa said earlier that we receive a price commensurate with the risk we underwrite. Then in that context, we'll decide on the scope of coverage.

If a payment does not match expectations despite the coverage had been taken, it may partly due to our inadequate explanation, we'll continue to make efforts in concluding contracts to avoid such a risk. And we have adopted a methodology called risktech, as mentioned earlier. And I'd like to ask Funabiki to talk about it.

A - Shinichiro Funabiki {BIO 19455601 <GO>}

Thank you. Question directly related to digitalization. So allow me to explain digitalization to a certain extent. For commercial insurance, the scope of coverage, the amount and premium rate have been decided bilaterally between the insurer and the policyholder based upon the historical experience in most of the processes. A key point going forward is how to predict various risks that will occur in the future by analyzing historical data and come up with a new coverage proposal.

For example, what sort of phenomenon should it occur causes what sort of damages and where? This is not limited to natural catastrophes. But also includes deterioration of natural environment, man-made disasters among others. And as Karasawa explained this several times, it is about how to forecast damages suffered by plants, the accidents and catastrophes. And oftentimes, financial technology is called fintech and insurance technology instech. Our group initiated a full-fledged new business of how to forecast risks using technology this year. And we gave it a specific name, risktech.

And in this business, we match our data we accumulated, catastrophe data we accumulated with individual companies' data and project and predict future risks to their business or their industry to prevent and mitigate disasters. And at the same time, work out new form of insurance coverage.

Since our group has very many large property policies by examining the industry overall as well as the company in question, we can propose an insurance best fitting to the industry. And that's what we aim at through this new business. Thank you very much.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Thank you, Mr. Majima. Allow me to add one word further. And you may not be fully convinced about the mismatch issue. To us, it is a very regrettable outcome for an issue of mismatch at the surface and taken out in this manner. Of course, I wouldn't refer to any specific name of companies. But very many corporate customers are basically satisfied. They are glad they had insurance that help them. The reason is we paid JPY 400 billion or so for this natural catastrophe, of which commercial properties account for such and such proportion is not really disclosed. But many companies are really satisfied.

On the other hand, as mentioned by Fujii, even if we suggested that we could underwrite in this form or if you do such and such, we could underwrite. So they were not accepted. Or because of a trade-off, it is very difficult to underwrite such a civil engineering structure, unless such and such conditions are met. So through such negotiations, insurance coverage conditions were explained. And basically, we underwrite what can be underwritten to the extent possible.

For retail business, only 70% of so-called policies have flood coverage. We are making efforts to promote flood coverage through those and other efforts. We'd like to eliminate a sense of mismatch. However, media might tend to report about people who are angry because they make more interesting articles. Satisfied people do not make interesting stories. So we ourselves have many really pleased customers. And we'd like to continue working for ensuring a stable supply. Thank you.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I am Otsuka of JP Morgan. I just have one question. Please tell me the relation between the overseas business reorganization and the adjusted net income overseas, which you are considering in the medium-term management plan. Specifically, in the previous information meeting, mid-term plan, the current original plan for 2021 is JPY 117 billion of net income. And you indicated, it may need some adjustment.

But as you have shown today, the target 2021 ROE is 10%. Thus, it has remained the same that overseas divisions have to recover profitability. Please tell us more from the viewpoint of how you would reach the targets through regional and overseas reorganization or through impairment loss.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

The assumption of the adjusted net income does not consider goodwill. In this impairment loss, the package processing of goodwill was sort of done, which reduced the burden of goodwill. But adjusted net income does not consider it, which means not positive impact. However, as I said, cost of JPY 10 billion is a positive factor. For the after-tax figure, it will be positive as this is realized by fiscal 2021. But in total, unfortunately, profitability recovery is slightly delayed in overseas business. I think we have to review and revise it in the stage 2.

On the other hand, natural disaster pushed down our asset, which may undermine slightly the target of ROE 10%. Taking into account this factor, we're committed to keep 10% target after reverification. I hope you would recognize that there could be some fluctuation in the group net income each business operation.

Q - Koichi Niwa {BIO 5032649 <GO>}

I am Niwa of Citigroup. I may make some overlapping points. There are 2 points: fire insurance profitability and your thought on Stage 2. Let me ask my first question.

When you talk about fire insurance profitability, what's the time spent to achieve profit? For example, can you forecast time line to achieve 95% profitability in a certain item of insurance product? Some members of other companies are saying they aim at achieving higher profit in the certain line or item of product. I would like to share your explanation on your thoughts as well as the industry mood on this.

My second question is about your idea on Stage 2. You told us about the overseas business. In the presentation material, it shows in the fiscal '21, the group aims to achieve JPY 350 billion adjusted net income. Payout ratio is 40% to 60%. Will you maintain this outlook? I would like to know your thought on this.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

I will respond with outline. And others will give you details. First, with regard to the fire insurance. We mentioned that in October, revision of products, the underwriting income will be positive before the fiscal '21. Due to the effects of this revision, about JPY 13 billion level of income will be restored. But turning it into black letter may be difficult within this plan period because of increasing costs of the work revision. Because the -- even though the rate hike takes place for the fire insurance, there are many long-term existing policies, which have no impact.

In September, other companies rushed to increase higher insurance policies. But we were relatively self restraint in our move. I hope it does not sound impolite to customers. But we did not rush actively to respond to demand before the rate hike. So if we had done so, profit to recovery would have been delayed in our structure.

So if based upon the referenced rates and other product revision is done, it may be difficult during this time period. However, we will implement the countermeasure to corporate properties by offering ideas for disaster prevention reduction as well as increasing rates to the proper level. Though difficult, we'll make effort to make it almost profitable in the fiscal '21.

However, in the mid to long term, fire insurance should improve to enable the disclosure of profit. To stably supply it to so-called national livelihood and corporate activities in the long term, we want to design products to achieve combined ratio of 95% or enhanced disaster prevention reduction or secure proper rates. It is difficult to clearly tell the timeline as we do not disclose the next revision of rates at present. But we have such a mid; to long-term perspective.

As to our thought on Stage 2 plan, as I said earlier, we have a long-term stable range of ROE 10% or ESR 180 to 220, shareholders' return of 40 to 60, the payout ratio. So this policy remained unchanged. Did that answer your question?

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