LIFENET INSURANCE COMPANY

Question and Answer Summary at 1Q Financial Results Briefing for the Fiscal Year Ending March 2024

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[Answerers]

Ryosuke Mori	President and Representative Director
Takeshi Kawasaki	Executive Officer
Kota Matsubara	Head of Accounting and Actuarial Department

Question & Answer

Question: Please tell us the background of the increase in insurance service results, including the breakdown, in the revision of the consolidated business forecasts on page 13 of the presentation material.

Kawasaki: As described on page 7 of the presentation material, "Expected claims minus incurred claims" is a component of insurance service results. The business forecasts of insurance service results have been changed due to the fact that actual payments of claims and benefits were lower than expected in 1Q of FY2023.

Mori: It is difficult to predict the situation from 2Q of FY2023 onwards, but the revision of business forecasts is not based on an optimistic view of the remaining nine months. If the favorable payment situation continues, the same upward effect can be expected. However, as it is the first year of the voluntary adoption of IFRS, the consolidated business forecasts have maintained a cautious stance as before.

Question: What methods of corporate valuation will you use to communicate with shareholders and investors in the future as profits will be generated from the voluntary adoption of IFRS?

Mori: We regard European Embedded Value (EEV) as an important management indicator of corporate value in the current Management Policy and aim to achieve 200 billion yen as soon as possible. There is an approach where EEV is regarded as an important indicator of shareholders' value. On the other hand, regarding the earnings, we aim for 10% continuous growth of insurance service results and some investors favor valuations based on price- to-earnings ratio. We would like to discuss our valuation using both indicators.

Question: The actual result of the difference between the expected claims and the incurred claims in 1Q of FY2023 on page 7 of the presentation material is approximately 370 million yen. To what extent are the assumptions used as forecasts conservative? Also, which items will be affected if inflation assumption is raised in the assumptions update?

Kawasaki: The payment related to the COVID-19 has been settled and non-COVID-related insurance claims and benefits payments have also been lower than expected. Consequently, actual results came to approximately 370 million yen. Last year, an irregular factor was the higher-than-expected insurance claims and benefits payments related to the COVID-19 pandemic, but basically, actual payment do not exceed expectations. If we continue to perform well, this difference will be likely to generate profits.

Mori: In a short period such as one month or three months, "Expected claims minus incurred claims" may be negative due to the impact of volatility, but on a yearly basis, it is expected that the result is positive from the empirical view.

Matsubara: The inflation assumption will be reviewed at the end of 2Q and the end of the fiscal year. It will be reflected in "Impact of assumption changes, etc." and "Amortization in current period" in the CSM Movements on page 28 of the presentation material.

Question: With regard to the CSM Movements on page 28 of the presentation material, what are the factors behind the "Impact of assumption changes, etc."? Also, what is your view on the fact that the difference between "New business CSM" and "Amortization in current period" is negative?

Kawasaki: Regarding "Impact of assumption changes, etc.," there were no changes in assumptions at the end of 1Q of FY2023, and this reflected the fact that surrender and lapse ratio, and renewal rates, etc. in in-force business performed better than expected. The weaker growth and acquisition efficiencies in new business of individual insurance impacted the “New business CSM” decline in 1Q, resulting in a lower result than the “Amortization in current period”. At the end of 2Q of FY2023, we expect positive growth in CSM due to assumption changes, so we will closely monitor the progress.

Question: On page 21 of the presentation material, what is your analysis of the factors behind the lack of growth in number of new business, with approximately 18,000 deals in 1Q?

Mori: Demand for coverage life insurance products has been falling since October 2022, and we recognized that demand for pull-based business model like Lifenet has not returned in particular. In light of the fact that 2023 will be a year in which the backlash from the demand-increasing phase due to the spread of COVID-19 will continue, we will prepare for a demand-recovery during this period for re-growth from next fiscal year onwards.

Question: With regard to the “Insurance Acquisition Cash Flows (IACF) Efficiency” on page 23 of the presentation material, what is the background for a deterioration in efficiency? Will the shift to IFRS change the strategy for improvement?

Mori: IACF efficiency shows that it is difficult to acquire new business even if we invest in marketing when customer demand is declining. On the other hand, looking at the quarterly trends on the right-hand side, we have reduced expenses in the 1Q of FY2023, compared to the previous quarter. As a result, we have seen a certain degree of improvement in efficiency. In addition, although the transition to IFRS will not change our initiatives based on the Management Policy, we will consider reviewing our sales activities if the business environment that leads to deterioration in efficiency continues.

Question: Regarding “Other investment income” on page 26 of the presentation material, please tell us about the factors behind the large increase from negative 330 million yen in 1Q of FY 2022 to positive 320 million yen in 1Q of FY2023.

Kawasaki: As for 1Q of FY2022, there was a decline in the market value of investment trusts, and a large valuation loss was recorded. On the other hand, in 1Q of FY2023, foreign exchange gains on foreign bonds and valuation gains on stocks investment trusts mainly made a significant positive contribution.

Question: In the revision of consolidated business forecasts on page 13 of the presentation material, the net increase of annualized premium of policies-in-force in individual insurance has been reduced from 1.9 billion yen before the revision to 1.5 billion yen after the revision. Is the new business performance in individual insurance expected to decrease by about 20% as a result?

Also, on page 23 of the presentation material, the insurance acquisition cash flows per new business remains high at 117,000 yen. Please tell us about your perspective on what level is acceptable.

Kawasaki: While the business forecast regarding new business performance is not disclosed, we are cautious in setting our forecasts given the possibility that demand in individual insurance will continue to be weak for some time this fiscal year. Please refer to the monthly sales performance, which discloses new business results as before.

The current level of IACF efficiency is not satisfactory, and we intend to improve it from the current level over the medium to long term. At the same time, in order to re-accelerate our Internet channel, we intend to control costs for our existing sales activities while making certain investment in new initiatives for further growth.

Mori: Under Japanese GAAP, the entire amount of marketing expenses was recorded in the fiscal year’s P/L. However, with the change to IFRS, the impact of the IACF efficiency on insurance service results and net income in the current fiscal year under IFRS will be limited.

On the other hand, the increase in CSM (future profits) will not accelerate unless there is progress in improving IACF. Therefore, we would like to work on the re-acceleration of new business performance first, and then aim to improve IACF efficiency.

Question: In the revision of consolidated business forecasts on page 13 of the presentation material, the net increase in annualized premium of policies-in-force in group credit life insurance was raised from 2.6 billion yen before the revision to 2.7 billion yen after the revision. What impact will this have on the outlook for net income under IFRS and value of new business for FY2023?

Also, how will group credit life insurance affect each item of insurance service results on page 25 of the presentation material?

Mori: The group credit life insurance business is expected to make a limited contribution to earnings in FY2023 under IFRS. On the other hand, we expect the business to make a solid contribution to the growth of insurance service results and net income from FY2024.

The impact of group credit life insurance business on EEV needs to be calculated more precisely in the future, but at this point we expect a positive impact of several billion yen.

Kawasaki: Contracts for group credit life insurance are basically renewed for a year. In terms of calculating insurance service results, it is assumed that premiums under JGAAP will be included in "Insurance revenue" under IFRS and expenses related to payments for insurance claims will be included in "Insurance service expenses."

Question: Are there any efforts that Lifenet can make to grow the group credit life insurance with au Jibun Bank? Do you basically rely on your partner banks?

Mori: Looking at the competition among mortgage loan providers in recent years, I think that competitiveness is defined by mortgage loan interest rates, and the combination of coverage adequacy of group credit life insurance and low additional interest rates. From the perspective of sales efforts, au Jibun Bank's efforts to expand its mortgage loan balance will be a basic growth driver, but we also want to support the differentiation of au Jibun Bank's mortgage loan business by continuously developing attractive group credit life insurance products.

Question: Could you give us more specific figures on the contribution of group credit life insurance business to IFRS and EEV?

Matsubara: As for contribution to earnings in the first year of the transition to IFRS, group credit life insurance business started in July of this year, so roughly three quarters of the annualized premium of policies-in-force of 2.7 billion yen in the business forecasts is expected to be recorded as insurance revenue.

On the other hand, the reason for the limited profit contribution in the first year under IFRS is that the total of insurance claim payments and operating expenses is expected to be not significantly different from the premiums received. These expenses are expected to be included in the insurance service expenses. Unlike individual insurance, CSM is not established in group credit life insurance, where future profits are not counted under IFRS.

For EEV, the calculation is based on the expected future profits of group credit life insurance. The figures for EEV are larger than those for IFRS because we estimate the future insurance premiums, the future insurance claims and operating expenses and then calculate the profits as the present value.

Mori: As for the impact on EEV, we also expect that the addition of group credit life insurance contracts will lead to a certain degree of improvement in statistical fluctuations in mortality risk and non-hedgeable risk.

Question: How do you intend to rebuild the current weak new business performance?

Mori: In addition to our pull-based business model, we do not force customers who are not considering insurance to purchase insurance as our corporate stance. Therefore, if the current situation is the time for revenge consumption from COVID-19, we will wait for the insurance demand to recover.

During this period, we will make steady progress in reforms to strengthen our brand awareness and brand power, and when insurance demand recovers, we will raise the Company to a higher growth stage than before.

In the meantime, we expect our group credit life insurance business, which began in July, to more than offset that situation and contribute to the growth.

Question: What is the profitability of group credit life insurance?

Mori: We believe that this is a business that will make a positive contribution to our corporate value.

Question: Regarding the CSM Movements on page 28 of the presentation material, please explain the reason why "Impact of assumption changes, etc." in FY2022 pushed up the total CSM by nearly 10%.

Matsubara: A major factor in FY2022 is that improvements to the assumptions were made by reflecting the results of incident rates and renewal rates of insurance contracts. On the other hand, no changes were made to the assumptions in 1Q of FY2023, and the changes will be implemented at the end of 2Q of FY2023 and the end of FY2023.

Question: Do you have any plans to disclose IFRS sensitivities in the future, as in EEV?

Matsubara: As in EEV, IFRS sensitivity will be disclosed in the notes to the financial statements at the end of FY2023. Since disclosure on a quarterly basis is not mandatory, we would like to consider it in the future.

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