



LIFENET INSURANCE COMPANY

Question and Answer Summary at 2Q Financial Results Briefing for the Fiscal Year Ending March 2024

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[Answerers]

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Question & Answer

Question: On [page 29 of the presentation material](#), in insurance service expenses, 600 million yen was recorded as “incurred claims” related to group credit life insurance (hereinafter “GCL”). Approximately how much are the temporary initial costs associated with the launch of the GCL business?

Kawasaki: The detailed breakdown of costs is not to be disclosed, however, we expect that GCL’s contribution to profits will be limited in FY2023 as initially assumed. We also expect the business to contribute to insurance service results from the next fiscal year.

Question: Value of new business in GCL for 1H of FY2023 was 4.4 billion yen as shown on [page 8 of the presentation material](#). What is your forecasts for 3Q?

Kawasaki: Our forecasts are not to be disclosed, but the monthly sales performance indicates that growth in the GCL business is proceeding smoothly. We believe that GCL will continue to grow at its current pace.

Question: Regarding “expected claims minus incurred claims” under insurance service results on [page 28 of the presentation material](#), what is the reason for the increase in claim payments in 2Q? Also, what is the temporary adjustment in “reinsurance results” on [page 6 of the presentation material](#)?

Kawasaki: As you know, claim payments have increased compared to 1Q. However, this is not due to any special factors, and is because of fluctuations as our business scale has not yet grown sufficiently. Even taking into account the current situation, we have not made any changes to our full-year business forecasts as of the 2Q financial results. The details of the temporary adjustment in “reinsurance results” are not to be disclosed, but the adjustment will not occur from the next fiscal year.

Question: You explained that you are aiming to expand the number of partner banks in the GCL business. Are you also considering regional banks and online banks? Do you have any specific prospects for expanding partners in the future?

Mori: As there are banks with various business scales and characteristics in Japan, we would like to carefully investigate and prioritize the alliances with banks that can demonstrate our strength in GCL business. Future information will be disclosed in a timely and appropriate manner.

Question: With regard to CSM movement on [page 32 of the presentation material](#) and [page 28 of the 1Q presentation material](#), the amounts for the three months of 2Q for “new business CSM” and “amortization in current period” are approximately 600 million yen and minus 1.8 billion yen, respectively and the difference is negative. To what extent do you emphasize the balance between “new business CSM” and “amortization in current period” in management?

Kawasaki: We believe that “new business CSM” results were restrained due to the current slow performance in acquiring individual life insurance business. On the other hand, we also believe that “impact of assumption changes, etc.” is a source of profit. Therefore, it is important to consider “impact of assumption changes, etc.” in addition to “new business CSM” when understanding the CSM movement.

Question: Regarding “impact of assumption changes, etc.” on [page 32 of the presentation material](#), how much of an impact did the improvement in operating expenses ratio following the start of the GCL business have? Also, will the scope of improvement increase as the GCL business grows?

Kawasaki: Although the exact financial impact of the improvement in operating expense ratio is not to be disclosed, unit costs have been reduced due to the start of the GCL business, and the effect is also shown in the operating expenses ratio on [page 27 of the presentation material](#). In terms of the degree of improvement going forward, both the individual life and the GCL are expected to have positive effects as business scale expands.

Question: Regarding the GCL business’ contribution to key indicators on [page 9 of the presentation material](#), the value of new business of 4.4 billion yen is higher than the annualized premium of policies-in-force of 2.6 billion yen. Is this because future profits are factored in based on the expectation that GCL contracts will continue in the future?

Kawasaki: The term of GCL contracts is one year, but the future profits generated from GCL contracts are recognized as the value of new business.

Question: Regarding the GCL business’ contribution to key indicators on [page 9 of the presentation material](#), if the current borrowers of mortgage loans continue the GCL contracts and the number of new policyholders is zero, will the value of new business in the next fiscal year be zero? Is it correct to assume that the value of new business will be positively affected by an increase in the number of new mortgage loan borrowers?

Kawasaki: In 2Q, the value of new business includes the amount transferred from other company and the increase in the number of new mortgage loan borrowers after the transfer. From FY2024, increases in future profits due to new mortgage loan borrowers will be recorded as the value of new business.

Question: The growth of new business for individual life insurance is slow as shown on [page 24 of the presentation material](#). What future measures are you considering other than partner business channels?

Mori: Although the external environment is characterized by a temporary decline in customers’ needs for coverage type insurance products, we are in the midst of taking some measures which are explained on [page 11 of the presentation material](#). First, for brand enhancement, we have been appealing to a young customer base by offering low insurance premiums to reduce their financial burden. In response to changes in customer preferences and behavior patterns, we would like to appeal more about Lifenet’s core value. As for nurture marketing and data utilization, we incorporate the recent evolution of advertising technology and app, and provide an online experience optimized for each customer. For nurture marketing, we would like to spend some time to motivate prospective customers in particular to purchase without any misunderstandings. Along with a recovery in customer demand for coverage type products, we believe we can return to our original growth path by proceeding these measures.

Question: Regarding partner business expansion on [page 12 of the presentation material](#), there are generally few successful examples of financial super apps. Also, the contribution of Lifenet’s partner business channels to new business performance to date appears to be limited. What are you expecting of the strategies to integrate Lifenet into the financial ecosystem?

Mori: As an online life insurance company, we would like to support our partner companies to provide customers with the services they want. It is encouraging to see their commitment to capture customers’ needs and take initiatives in the financial ecosystem. We will continue to strengthen our alliances and work with our partners to provide new value to customers.

Question: Regarding “assumption changes” of European Embedded Value (hereinafter “EEV”) on [page 8 of the presentation material](#), I understand that currently, an increase due to assumption changes is expected as the business scale increases because the assumptions are conservative. The contribution from assumption changes should be limited when the business scale reaches a certain size in the future. When do you think this will be?

Matsubara: “Assumption changes” used to be set conservatively, but we are now working to bring it closer to the actual situation by best estimate. Changes accompanying the growth of in-force business, such as assumption changes for operating expenses ratio and risk coefficient when the law of large numbers comes into effect, are expected to continue in the future.

Mori: There are two main elements to the assumption changes. The first is improvement in the operating expenses ratio. Since our business model has large fixed costs, we expect operating leverage to be effective. The second is the improvement of the mortality rate. In order to reduce the fluctuation range of the mortality risk, expansion of business scale is necessary. Investment in growth to expand the business scale is reflected not only in “value of new business” but also in “assumption changes,” which results in EEV growth and increases corporate value.

Question: Please explain the background to the “economic variances and assumption changes” in the changing factors of EEV on [page 8 of the presentation material](#). What is the extent of the impact of the expected rise in yen interest rates? Please explain the impact of the rise in interest rates in Japan and overseas for holding foreign currency bonds.

Kawasaki: The impact of a rise in interest rates on EEV is a decrease in the value of in-force business and a decrease in net assets due to the recording of valuation losses on securities. As described in the EV sensitivity analysis on [page 36 of the presentation material](#), we believe that the degree of decline is linked to the degree of fluctuation when the risk-free rate rises by 1.0%.

Matsubara: As yen interest rates are expected to rise, EEV is expected to have a negative impact on both the value of in-force business and adjusted net worth. On the other hand, EEV is also expected to have a positive impact due to the rise in asset management yields. On the asset side, foreign currency bonds are affected by the rise in overseas interest rates. However, as shown on [page 31 of the presentation material](#), most of our portfolio consists of JPY bonds. Therefore, the main factor for the decrease in the “economic variances and assumption changes” is the valuation loss on JPY bonds.

Question: Please explain why there was a large difference between the “assumption changes” of EEV of 1.3 billion yen in on [page 8 of the presentation material](#) and the “impact of assumption changes, etc.” on CSM movement of 5.1 billion yen on [page 32 of the presentation material](#).

Matsubara: One of the reasons is that the CSM is pre-tax, whereas the EEV is after-tax. Also, CSM does not include the impact of reinsurance, on the other hand, EEV includes. In addition, the difference in the definition of operating expenses in the assumptions for the operating expenses ratio between the two also has an impact.

Question in the text form and Answer

Question: With regard to policies-in-force movement on [page 3 of the presentation material](#), are there reasons for the limited net increase in individual life insurance other than a decline in customer demand for coverage type products, such as the competitive landscape or deterioration in marketing efficiency?

Mori: In light of changes in the competitive landscape and taking on new challenges in the area of investment in marketing, we are conducting various internal discussions on the current business environment, including the factors you pointed out. At the same time, a factor that greatly influences the efficiency of investment in marketing is the response of customers to such investment, and we recognize that customer's response is currently stagnant. While we have yet to see a recovery in the efficiency of investment in marketing, we believe signs of improvement are beginning to emerge. We will carefully assess the timing to reaccelerate investment in marketing based on cost efficiency.

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