



## **LIFENET INSURANCE COMPANY**

Question and Answer Summary at 2Q Financial Results Briefing for the Fiscal Year Ending March 2023

November 10, 2022

### **[Answerers]**

Ryosuke Mori

President and Representative Director

Takeshi Kawasaki

Executive Officer

## Question & Answer

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**Question:** Regarding [page 26 of the presentation material](#), how do you analyze the factors that contributed to the growth of the new business performance in 2Q of FY2022, particularly in August and September? On the other hand, it seems that the performance was sluggish in October. Please tell us about the outlook for the new business performance.

**Kawasaki:** In addition to the fact that the consumer's need for insurance became apparent due to the spread of COVID-19 in 2Q of FY2022, we recognize that the effective use of marketing expenses contributed to the growth of new business.

**Mori:** The new business performance in October was a backlash against the increase in insurance needs in August and September due to the spread of COVID-19. In 3Q of FY2022, I think the situation will gradually normalize despite the backlash. In 4Q of FY2022, we will make sure to be prepared as we expect our business performance to grow for seasonal factors.

**Question:** Regarding surrender and lapse ratio on [page 27 of the presentation material](#), how has it been affected by the trends of COVID-19?

**Kawasaki:** Lifenet has regarded patients with COVID-19 recuperating at home or accommodations as equivalent to those who have been hospitalized and are eligible for claiming benefits. However, in line with the recent government's policy to simplify COVID-19 case count rules, benefit payments are limited to those who have high risk when they are diagnosed with COVID-19 after September 26. We have been internally monitoring the surrender and lapse ratio since we revised the scope of coverage related to COVID-19 on September 26, 2022. At this point, the impact of early surrender due to the revision of coverage has not been reported, and a stable level has been maintained.

**Question:** Regarding [page 12 of the presentation material](#), please tell us in detail about the revision of renewal rates and claim incidence rates which was reviewed as part of the "assumption changes" of EEV (European Embedded Value).

**Kawasaki:** Based on the latest results, we have reflected the fact that renewal rates of term life insurance and claim incidence rates have been progressing better than expected. In addition, in light of the recent economic conditions, inflation rates in operating expenses have also been reviewed, which became a certain amount of downward pressure on the assumption changes.

**Question:** Regarding the insurance claims and benefits payment related to COVID-19 on [page 29](#) and [page 31 of the presentation material](#), it says that the actual payment amount was 883 million yen. Please tell us the amount that includes reserves for outstanding claims.

**Kawasaki:** The amount including reserves for outstanding claims is not disclosed.

**Question:** Regarding [page 29 of the presentation material](#), the insurance claims and benefits payment related to COVID-19 is expected to be approximately 150 million yen for the five months from November 2022 to March 2023. Do you think the annual payment level of 300 million yen will continue for the next fiscal year onwards?

**Mori:** The estimated payment amount on [page 29 of the presentation material](#) is an illustrative image, but we expect payments caused by at least the seventh wave of COVID-19 to decrease from November. It is difficult to estimate the future impact of the eighth wave and the coverage of insurance benefit payments, which has been revised since September 26. Still, we estimate the payment to be about 150 million yen based on current conditions. As of now, we do not expect this level to continue into the next fiscal year and beyond. However, we would like to examine and announce our business forecasts for the next fiscal year after assessing the actual results for this fiscal year.

**Question:** If COVID-19 transitions to an endemic where it repeatedly occurs regularly with a certain morbidity rate, is there a possibility of reviewing the characteristics of insurance product, premiums rates, and risk management?

**Mori:** As for the characteristics of insurance product and premiums rates, if the epidemic is recognized to have a repeatable nature, it is possible that we reflect that in setting premiums rates. On the other hand, at this point, as with the concept of assumption changes for EEV, we do not regard the outbreak of COVID-19 as repeatable. Hence, it will not significantly affect our pricing strategies. In terms of risk management, we have been able to understand the relationship between infection trends and payment status in the last two and a half years. We hope that this will lead to more sophisticated risk management in the future.

**Question:** As the number of elderly policyholders at Lifenet is relatively small, I assume that the rate of decrease in payments will be higher than the industry average after coverage of insurance benefit payments related to COVID-19 was revised on September 26. To what extent do you think it will be?

**Mori:** As a premise, the actual COVID-19 claims for October on [page 29 of the presentation material](#) includes cases where policyholders were tested positive before September 26, as well as cases where payments were made in October due to delayed procedures. In fact, most of the payments occurred before the revision of coverage. As you pointed out, the age group of our policyholders is relatively young, and the number of policyholders who meet the requirement of “65 years of age or older” after the revision of coverage is limited. On the other hand, there is a possibility that claims from policyholders who meet other requirements will increase. Such requirements include “customers who are pregnant” and “customers who are at risk of severe symptoms and need to receive COVID-19 treatment”. We are not overly optimistic and will continue to monitor these trends.

**Question:** Regarding the revision of business forecasts FY2022 on [page 21 of the presentation material](#), what is “Reserves for COVID-19 claims”? Also, I would like to know the details of “Others”.

**Kawasaki:** The reserves for COVID-19 claims of 300 million yen refers to the IBNR reserve, a type of required preliminary reserve. As the amount of insurance benefit payments, etc. increased, it was recorded in accordance with the calculation formula prescribed in the Insurance Business Act.

Others includes the modified co-insurance and operating expenses of 700 million yen. The impact of modified co-insurance was included about 200 million yen mentioned on [page 21 of the presentation material](#). This was due to a drop in the number of original contracts subject to reinsurance stemming from the difference between the assumed annualized premium of new business and product mix of acquired new business at the beginning of the period and actual results up to 2Q of FY2022. As for operating expenses, it includes rising personnel costs due to an increase in payments including COVID-19 claims and investments for new initiatives in the future.

**Question:** Regarding [page 16](#) and [page 17 of the presentation material](#), please tell us about the business impact that business alliances with au Jibun Bank, Eisai, and Sumitomo Mitsui Card will bring to Lifenet.

**Mori:** With regard to the alliance with au Jibun Bank, we recognize that a certain amount of premium revenue can be expected, if au Jibun Bank change its underwriting insurer of existing group credit life insurance contracts to Lifenet around 2Q of FY2023. Details of the impact will not be disclosed, but we would like to be able to include the impact of this alliance when we disclose our business forecasts for FY 2023 in May 2023.

The alliance with Eisai may be more abstract than that with au Jibun Bank, but over the medium term we will consider providing products and services that address the social issue of dementia.

Regarding the alliance with Sumitomo Mitsui Card, the timing of service launch, etc. will be disclosed at an appropriate stage. It is difficult to present numerical expectations at this point, but they have a large customer base and sell various financial products. We will take a firm grasp of the trend toward digitalization of financial services and proceed with preparations for the launch of services.

**Question:** Regarding the business alliance with Sumitomo Mitsui Card shown on [page 17 of the presentation material](#), what roles will Lifenet play? Is it possible that you will sell products other than life insurance products through this alliance?

**Mori:** The key point of this alliance is that it is a business alliance among three companies including not just Lifenet but also our subsidiary, Lifenet MIRAI. Lifenet is expected to offer products and Lifenet MIRAI is expected to offer digital insurance store functions. We believe that this alliance has been realized as Lifenet Group. In terms of product sales, Lifenet MIRAI carries non-life insurance in addition to life insurance, and it also plans to sell other financial products in the medium term. We would like to leverage these characteristics in this alliance.

**Question:** Regarding [page 16](#) and [page 17 of the presentation material](#), what is the backdrop for the acceleration of business alliances with other companies? Is developing new businesses with high return on investment (ROI) positioned as part of future growth strategy?

**Mori:** Currently the channel that accounts for the majority of our new business performance is direct internet channel. The main growth drivers are improvements in website UI/UX and aggressive investments on advertising. At present, we are aware that there is much room for growth in direct internet channel through the increase of our brand awareness. However, in the long term, we anticipate that performance growth through increased advertising expenses will be limited at some point. We are strengthening collaboration with business partners as the second growth driver in the future. In terms of ROI, we have

different views on the marketing efficiency of the direct internet channel and the channel with business partnerships, so we want to achieve sustainable growth while combining the attractiveness of both.

**Question:** Is there a causality between the appointment of Mr. Hasebe as Outside Director in June 2022 and the acceleration of business alliances?

**Mori:** Mr. Hasebe provides valuable advice both inside and outside the Board of Directors and contributes to improving the quality of decision-making. Discussions on the business alliances were underway before his appointment, but we hope that Mr. Hasebe will continue to reflect the expectations of shareholders in the Board of Directors and contribute to better discussions and more efficient decision-making.

**Question:** What discussions are being held within the Company as to reflecting shareholder value in management KPIs?

**Mori:** While setting management goal of EEV as fundamentals, we aim to commit investors and shareholders to total shareholders return (TSR) and stock prices as well. In addition to aiming for sustainable growth in EEV, we will continue to engage in communication with investors and shareholders to improve the market's evaluation of our EEV. We will introduce a new accounting standard called International Financial Reporting Standards (IFRS) from fiscal 2023, and we would like to show our corporate value by utilizing multiple indicators.

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