



LIFENET INSURANCE COMPANY

Question and Answer Summary at Q1 Financial Results Briefing for the Fiscal Year Ending March 2023

Aug 10, 2022

[Answerers]

Ryosuke Mori

President and Representative Director

Takeshi Kawasaki

Executive Officer

Masanori Sakasai

Executive Expert, Corporate Planning Department

Question & Answer

Question: Looking at the marketing efficiency per new business on [page 6 of the presentation material](#), it has deteriorated for a while. Is it due to a decline in coverage needs caused by the reopening of economic activity following the decrease of COVID-19 cases or due to an increase in the unit price of advertisements cost? In addition, what do you expect the level of marketing efficiency in this fiscal year and beyond?

Kawasaki: We have not changed the basic stance of aggressively investing in marketing expenses. Although there was a slight improvement in marketing efficiency in 1Q of FY2022 compared to the previous quarter, we recognize that the level remains high, and we believe more improvement is needed in the medium term.

Mori: As for unit price of advertising expenses, we recognize it has decreased in 1Q of FY2022 compared to 2H of FY2021. On the other hand, in terms of coverage needs, the recovery of the online channel is moderate. While marketing efficiency in FY2022 will depend on the situation of COVID-19 infection and consumers' behavior, we expect improvement of efficiency in the current fiscal year. Although we need to improve the current level of the marketing efficiency of JPY 80,000, we do not intend to slow down the growth rate excessively and shift to a stance of emphasizing efficiency.

Question: Regarding the operating experience variances of JPY 116 million loss on European Embedded Value (EEV) on [page 12 of the presentation material](#), does it include the effect of an increase in insurance claims and benefits related to COVID-19? In addition, will this effect the assumption changes in September 2022?

Mori: COVID-19 claims in 1Q of FY2022 was JPY 278 million and we recorded the loss of the operating experience variances because the payment of benefits and claims has exceeded the assumption we have made.

Kawasaki: Based on the recognition that the increase in COVID-19 claims is temporal, it has not been included into the assumption changes for EEV as of March 31, 2022, which we applied as of June 30, 2022. While there is a possibility that the actual payments may be incorporated into some of the short-term assumptions in the future, this will not be reflected in the long-term assumptions that have a significant impact on EEV.

Question: Regarding the [page 18 of the presentation material](#), please tell us the background of Eisai Co., Ltd.'s investment to Lifenet.

Kawasaki: On our understanding, Eisai has strength in the area of dementia. It is aiming to build an ecosystem within a consistent flow of preventive care, treatment, and aftercare. In this context, Eisai will enter the insurance field and strengthen its online business by confirming the commitment with business and capital alliance between the two.

Question: In the current business environment, do you expect monthly new business performance to grow again? Are you considering further reductions in marketing expenses from the second quarter onward?

Kawasaki: In the past, we substantially reduced marketing expenses when new business performance slowed down and marketing efficiency deteriorated. That had an impact on the subsequent momentum in the new business growth. In light of this experience, we will not change our policy that we prioritize growth and continue to invest in marketing efficiency under the current circumstances. Since mid-July, we are aware of some changes in consumer awareness of life insurance, which we hope will lead to future growth opportunities.

Question: Regarding the business alliance with au Jibun Bank Corporation on [page 17 of the presentation material](#), what is the expected financial impact of the group credit life insurance business?

Mori: As a result of this alliance, au Jibun Bank plans to change the underwriting insurance company for group credit contracts from the current insurance company to Lifenet. The transferred contracts will not only be contracts for new mortgages but also for mortgages currently held by au Jibun Bank. As for the financial impact, in the first year of the transfer, we will receive premium income from existing group credit contracts at one time. On the other hand, we will also increase the amount of insurance risk at one time, which will require us to accumulate policy reserve. Therefore, we expect a certain level of pressure on the profit and loss in the first year of the transfer.

Question: I assume that the transfer of group credit contracts will increase the burden of accumulating policy reserves, thereby reducing capital on statutory accounting basis. Is there a possibility to consider new capital raise?

Mori: We have examined the impact of the transfer on capital internally. We believe that we have raised enough capital for growth in FY2021.

Question: If the group credit life insurance business is launched, can we assume that the amount of mortgage loans provided by au Jibun Bank will be added to Lifenet's policies-in-force? How long is the term of the group credit contract? Does the timing of the transfer of policies depend on the renewal timing of each policy?

Mori: In general, not all customers who take out a mortgage loan are covered by a group credit life insurance, and it depends on the individual contract. In addition, in case of our term life insurance, the amount of coverage is fixed during the insurance period, but in case of group credit life insurance, the amount of coverage would be reduced in accordance with the balance of the mortgage loan. The term of a group credit contract is generally one year, but the timing of the transfer is not tied to the renewal of the group credit contract.

Question: Please tell us about the progress and future prospects of the white label business with Money Forward, Inc.

Kawasaki: Since the service with Money Forward was launched in July 2021, we have been steadily responding to issues and problems. The number of applications through this channel has been increasing, and we expect a certain level of contribution to our business performance this fiscal year.

Question in the text form and Answer

Question: What kind of products and how many insurance products do Lifenet's policyholders purchase?

Mori: As shown on [page 28 of the presentation material](#), approximately half of the policies-in-force consist of term life insurance, and the remaining half comprise whole-life medical insurance, long-term disability insurance, and cancer insurance. There are approximately 520,000 policies-in-force, while there are approximately 330,000 policyholders, so on average, each policyholder has purchased approximately 1.6 policies.

Regarding of the demographics of our policyholders, about half of them are those who purchased life insurance for the first time and about 20% are those who switched from different insurance companies. We believe this is due to our growth strategy that focuses on approaching younger consumers. We will continue to appeal to new insurance enrollees with focusing on younger generation. On the other hand, we also have to consider how to reach out to the generation that will need to review their insurance policies while utilizing white label channels, etc., because Japan already has a high ratio, around 90% of households with insurance coverage.

Question: Regarding of insurance claims related to COVID-19, we would like to know comparison with amount of historical claims and your outlook for the future.

Mori: As shown on [page 2 of the presentation material](#), the claims, which are almost due to hospitalization benefits, amounted to approximately 278 million yen for 1Q of fiscal 2022. In terms of comparison with historical results, the amount of claims occurring in 12 months of FY2021 and the first 3 months of FY2022 are almost the same level. We refrain from disclosing figures for the outlook due to a number of uncertainties, including trends in the spread of COVID-19, changes in the classification of "Infectious Diseases Control Law" by the government, and measures by the life insurance industry. We will closely monitor the trend in the claims because there is a possibility that future claims may exceed the assumption at the beginning of the period. In addition, the financial impact will also be carefully scrutinized.

Question: On [page 18 of the presentation material](#), will the alliance with Eisai strengthen Lifenet's reach to middle-aged and older customers? How do you expect to acquire customers? Is it possible to improve marketing efficiency through initiatives by this alliance?

Kawasaki: Let us make sure that our existing growth strategy of strengthening our approach to young people remains unchanged. On top of that, we think that it is possible that we can strengthen the reach to the middle-aged and elderly generations utilizing Eisai's network. Both companies will discuss specific collaboration initiatives in the future.

Question: On [page 17 of the presentation material](#), please explain the impact of the group credit life insurance business on your EEV and value of new business.

Mori: According to our estimates, the group credit life business will be a profitable business for us. We expect a certain degree of positive impact on EEV when the existing group credit contracts are transferred to us. We also anticipate a positive impact on the value of new business if we underwrite new group credit contracts for new mortgages at au Jibun Bank after the start of our business.

Question: On [page 17 of the presentation material](#), I understand that the structure of group credit life insurance is that a bank, as a policyholder, and an insurance company would share the mortality margin that would be recorded each year. In that case, I wonder that the contribution to the increase in the value of in-force business would be limited.

Mori: The distribution of margins between a bank and an insurance company depends on the terms of individual contracts. We recognize that there will be a certain degree of positive impact on EEV.

Question: On [page 17 of the presentation material](#), is it possible that Lifenet will collaborate with other financial companies of the KDDI Group besides au Jibun Bank in the future?

Mori: We believe that the value that life insurance companies can demonstrate in partnering with other industries will continue to increase. Based on this recognition, we would like to discuss the realization of highly convenient financial transactions for our customers, while taking opportunities to exchange opinions with the companies of the Group.

Question: On [page 18 of the presentation material](#), what is the most important aim of the alliance with Eisai?

Kawasaki: Both companies will promote initiatives that will help reduce the burden of increasing medical and nursing care costs in Japan's aging society, which is one of social issues in Japan. While utilizing Eisai's knowledge and data, we would like to consider developing insurance products and services in the future, as well as expanding into the healthcare domain.

[END]