



LIFENET INSURANCE COMPANY

Question and Answer Summary at 3Q Financial Results Briefing for the Fiscal Year Ending March 2023

February 9, 2023

[Answerers]

Ryosuke Mori

President and Representative Director

Takeshi Kawasaki

Executive Officer

Question & Answer

Question: Regarding marketing efficiency on [page 27 of the presentation material](#), the marketing efficiency per new business increased to 96,000 yen in 3Q of FY2022. It seems Lifenet aimed at capturing the demand for life insurance stemming from the eighth wave of COVID-19, but in reality, demand for insurance did not increase. How do you analyze this? Please also tell us about your view on the use of marketing expenses going forward.

Kawasaki: Demand for life insurance has been falling for longer than expected since we revised the requirements of COVID-19 claims from September 26. We recognize that demand is still stagnant even after the eighth wave of COVID-19, and this is reflected in the current deteriorated marketing efficiency. In addition, we are not satisfied with the current level of marketing efficiency, and hope to improve it in the medium term.

Question: Regarding the assumption changes of EEV (European Embedded Value) on [page 12 of the presentation material](#), is the effect of the assumption changes at the end of March 2023 expected to be positive or negative?

Mori: The assumption changes as of March 31, 2023 is expected to show both positive and negative factors. We expected to see how much of a positive effect will be seen from improvements in incidence rates and unit costs, and renewal rates of term life insurance. On the other hand, we are currently undergoing inflation including in operating expenses, and if this is factored into assumptions to a certain extent, it could work in a negative direction. As these two factors collide, we will see whether assumption changes as of March 31, 2023 have a positive or negative effect.

Kawasaki: Current operating expense ratio has temporarily deteriorated due to investments in new initiatives. On the other hand, we expect improvements in the efficiency over the medium to long term while enjoying economies of scale caused by the expansion of policies-in-force. I think this result will be reflected in the assumption changes of EEV.

Question: How much impact do you think the group credit life insurance business scheduled to start in 2Q of FY2023 will have on Lifenet's business performance in the next fiscal year?

Kawasaki: As of now, the impact of the business is not disclosed. We would like to include its impact in our business forecasts for FY2023 disclosed in May 2023.

Question: Lifenet increased its inflation rate in assumption changes of EEV as of March 31, 2022 from 0.0% to 0.1%. In light of the rise in the consumer price index, is there a possibility of further increases in the inflation rate in the future?

Kawasaki: We raised our assumption of the inflation rate from 0.1% in the calculation of EEV as of September 30, 2022. This has caused a certain negative impact on EEV through assumption changes. Going forward, the inflation rate will be set at the end of the fiscal year, March 31, 2023, taking into account the consumer price index.

Question: How do you think inflation and the reopening of economic activity following the decrease of COVID-19 cases will affect the unit price of advertisements cost such as TV commercials?

Mori: We do not recognize that the unit price of advertisements cost such as TV commercials has been affected by the on-going inflation. On the other hand, we feel that companies in various industries are actively placing advertisements due to the reopening of economic activity, and the unit price of advertisements cost is increasing. This has a negative impact on our marketing efficiency in the short term.

Question: Regarding the early surrender of policies, I would like to know the situation after the revision of the requirements of COVID-19 on September 26.

Kawasaki: We continue to pay close attention to early surrender and there have been no major changes in the surrender and lapse ratio as shown on [page 26 of the presentation material](#).

Question: Regarding [page 27 of the presentation material](#), how will you address if marketing efficiency per new business continues to deteriorate? Also, please tell us about the business impact of business alliances with partners such as KDDI Corporation and Sumitomo Mitsui Card Company.

Kawasaki: We have not changed the stance of investing in marketing to a certain extent. However, we are not satisfied with the current marketing efficiency level. While considering further deterioration will limit the growth of value of new business in EEV, we will closely monitor the marketing efficiency.

Mori: Business partnerships are important factor in the continuous growth of Lifenet. KDDI is already an agent with promotion capabilities, and we will make up-front investments in business with Sumitomo Mitsui Card expecting that it will grow into a channel comparable to the KDDI channel. At present, it is difficult to tell the timing and scale of the business impact of the partnerships. However, over the medium to long term, we expect the partnerships to contribute more than the direct internet channel, our current main business.

Question: Under the current inflationary environment, it is expected that the demand for reviewing life insurance premiums in addition to mobile phone charges will increase. Do you find any changes in customer trends, such as an increase in inquiries related to this? Also, are you thinking of changing promotion, such as appealing for review of insurance policies via advertising?

Mori: As you pointed out, price increases can be seen as a good opportunity for us to appeal for review of insurance policies as we offer products with affordable premiums. We have not confirmed a rapid increase in the number of related inquiries as of now. However, we hope to provide products and services that will satisfy our customers in terms of price. As for advertising, we have tried some promotions to encourage customers to switch to our products in the past. We would like to re-challenge it.

Question: As for the response to the interest rate hike as described on [page 14 of the presentation material](#), you explained that in addition to shortening the duration of yen-denominated bonds in the short term, other securities would be shifted to held-to-maturity bonds. However, I recognize that, generally, you acquire higher coupons by having a longer duration when using held-to-maturity bonds, and that is how contribution to EEV is obtained in the medium- to long-term. At some point in the future, is there any prospect of changing measures, such as lengthening the duration?

Mori: In the case of Lifenet, since we only sell coverage products, insurance liabilities tend to be negative as future expenses are lower than future premium revenue. Therefore, from the perspective of asset liability management (ALM), we do not necessarily have to hold long-duration bonds as other life insurance companies do. For this reason, we are taking measures that differ from those of other companies. We intend to maximize EEV while minimizing the impact of interest rate changes on net assets.

Question: Regarding “Olive”, comprehensive financial services by Sumitomo Mitsui Financial Group on [page 17 of the presentation material](#), what roles do Lifenet and Lifenet MIRAI play in this ecosystem? Does it offer additional revenue opportunities beyond traditional insurance sales?

Mori: I think there are two main business opportunities for this. First, Lifenet MIRAI will be responsible for the development and maintenance of digital insurance shops which is difficult for Sumitomo Mitsui Card and Sumitomo Mitsui Financial Group to cover, and we aim to make a profit by this service development. Second, Lifenet will play an important part in the products sold on their insurance platform. We aim to make it a channel that can increase our new business performance. This simultaneous acquisition of two revenue streams was one of the goals when Lifenet MIRAI was established, and we will further strengthen our commitment for business growth.

[END]