LIFENET INSURANCE COMPANY

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

May 11, 2023

[Answerers]

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

Question & Answer

Question: Regarding marketing efficiency on page 36 of the presentation material, the marketing expenses per new business increased to 101,000 yen in 4Q of FY2022, and the value of new business increased by only about 270 million yen compared to 3Q of FY2022. In an environment where marketing efficiency cannot easily be improved, please tell us about your strategy for the use of marketing expenses for FY2023.

Mori: We are not satisfied with marketing efficiency for the three months of 4Q. Although we have not significantly increased marketing expenses, we are not receiving many positive responses from customers through our promotions, and we expect this situation to possibly continue for FY2023. Therefore, we plan to control the marketing expenses well and focus on monitoring the customer's behavioral trends instead of aggressively making more investments. In the future, we will consider increasing marketing expenses once we see good reactions from customers to insurance services.

Kawasaki: As described on page 20 of the presentation material, we will continue to invest a certain amount towards marketing expenses to strengthen our leading position as online life insurance market is expanding. We want to improve marketing efficiency, but we will consider making more investments in new initiatives for business growth to re-accelerate our Internet channel (our current main business) in the medium, while we pay close attention to the effectiveness of our current sales strategies

Question: Regarding insurance service results under International Financial Reporting Standards (IFRS) on page 28 of the presentation material, the results for FY2022 are about 6.6 billion yen. If you add up the 1.37 billion yen of COVID-19 claims in FY2022, the results will total about 8 billion yen. Since FY2023 business forecasts for insurance service results is 8.2 billion yen, is it correct to understand that the profitable growth, excluding the effect of COVID-19 claims, is 0.2 billion yen? Also, regarding the insurance service results under IFRS, please tell us about the impact of group credit life insurance, which is scheduled to start in July 2023.

Kawasaki: Regarding business forecasts for FY2023, we have adopted a cautious stance, considering the current increase in insurance claims payments and uncertainty towards the changes in the financial market. However, in terms of insurance claims payments, there have not been many cases where the actual payments have been higher than the projections in the past. Therefore, if we see a similar trend for FY2023, there is a possibility that the insurance claims payments could be an upward factor for the profit. Since FY2023 is the first year of voluntary adoption of IFRS, we stand on the bases to be responsible for the achievable level in our business forecasts.

Regarding the group credit life insurance, the contribution to profits is expected to be limited in FY2023 as we will start this business in July 2023 and there will be initial investment for the first year of business. We expect this service to contribute to our profits in FY2024 and after.

Question: Regarding financial results and other results under IFRS on page 45 of the presentation material, what factors led to a loss of 440 million for the financial results and a loss of 820 million yen for other results for FY2022? Please also tell us the prediction of each result for FY2023.

Matsubara: Financial results include the impact of unrealized gains and losses on investment trusts, etc., in addition to interests and dividends income. For FY2022, the results led to a loss because it was impacted significantly from the changes in the economic environment. Other results are recorded each year as part of expenses not directly related to insurance services, mainly “non-fulfilment cash flows”. For example, they include product development costs, etc.

Kawasaki: Businee forecasts for financial results and other results for FY2023 are not to be disclosed, but we expect other results to have almost the same level as FY2022.

Mori: As for the financial results, our interest and dividend income are relatively stable, and we can expect this income to be positive. On the other hand, the impact of unrealized gains and losses is influenced by the trends of the financial market.

Question: Regarding the assumption of operating expenses for the European Embedded Value (EEV), please tell us the impact on EEV and IFRS after you raised the assumption of inflation rate from 0.1% (end of March 2022) to 0.7% (end of March 2023).

Kawasaki: Although the amount of impact is not to be disclosed, a rise in the inflation rate will negatively impact EEV as operating expenses increases. Basically, we will apply the same assumptions for IFRS, and the direction of impact will be the same as EEV.

Question: Please tell us the breakdown of insurance revenue and insurance service expenses for FY2022 described on page 45 of the presentation material.

Kawasaki: Although the breakdown is not disclosed at this point, it will be the same level as described on page 8 of the seminar material for the third IFRS study session.

Mori: CSM amortization is an important factor for insurance revenue under IFRS. For the CSM amortization amount, please refer to the IFRS balance sheet on page 45 of the presentation material.

Question: Regarding surrender and lapse ratio on page 35 of the presentation material, please tell us the factors that led to increase in 4Q. One of the factors behind the recent failure of banks in the United States is the assumption that solvency risk would increase due to an increase in unrealized losses on bonds, including held-to-maturity bonds. Will this factor affect the evaluation and management of risks related to the surrender of policies for Lifenet or on investment policy in long-term bonds?

Mori: Our surrender and lapse ratio has improved since FY2021. While we will continue to monitor the trends, we do not see customers surrendering their policies due to economic reasons despite a rise in living costs.

As for the failure of banks in the United States, the fact that Lifenet has long-term insurance liabilities with a high continuity rate is a major difference compared with such banks in the United States. Also, as described on page 40 of the presentation material for reference purposes, the securities held by Lifenet are categorized based on the regulatory classification; (1) available-for-sale which is marked to market valuation and (2) held-to-maturity which is not marked to market valuation. As you can see, the duration of securities marked to market valuation is very short. On the other hand, as you mentioned, when considering economic value base, it is necessary to consider held-to-maturity bonds marked at market, but as described on page 14 of the presentation material, our EEV's uniqueness is limited sensitivity to interest rates and stock prices.

Overall, as of now, surrender and lapse ratio is not increasing, and we are taking measures to ensure the appropriate management of securities.

Question: Regarding financial results on page 45 of the presentation material, were the financial results negative for FY2022 because of the impact of currency-hedged foreign currency bonds? Please explain the necessity of holding these bonds under IFRS.

Mori: We recognize that the increase in hedge costs has reduced the valuation of currency-hedged foreign currency bonds, a factor in the decrease in valuation difference on available-for-sale securities on the balance sheets. On the other hand, since Lifenet holds currency-hedged foreign currency bonds to reduce the risk of concentration on Japanese yen interest rates, holding these securities is meaningful to some extent. However, given the current situation of hedge costs, we believe that we are not in an environment to increase the balance of currency-hedged foreign currency bonds aggressively and rapidly. Therefore, we aim to keep balance to achieve risk diversification while paying close attention to such costs.

Question: Regarding the historical movement in amortization of CSM on page 45 of the presentation material, the ratio compared to CSM at the beginning of the year is gradually declining. What is your prospect for future?

Matsubara: Amortization of CSM is calculated by adding CSM at the beginning of the year, and the sum of new business CSM to Assumption change, etc., described in the table, then multiplying by a certain rate corresponding to the amount of coverage provided for the current period. Therefore, when the factors other than the CSM at the beginning of the year are large, you can see that the ratio of CSM amortization compared to the CSM at the beginning of the year changes greatly. To check the changes in the amortization of CSM, you can calculate the ratio of the CSM at the beginning of the year to the sum of New business CSM to Assumption change, etc., and as you can see the ratio is stable each year.

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