



LIFENET INSURANCE COMPANY

Question and Answer Summary at Q2 Financial Results Briefing for the Fiscal Year Ending
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[Answerers]

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Question & Answer

Question: Based on [the monthly disclosure](#) on October, what is the background that the number of new policies decreased to 8,000 compared to August and September? Is it due to decline in demand of life insurance because of getting back to normal from COVID-19, or cut down on advertising expenses as management decision?

Kondo: The reason why the number of new policies declined was external factors. The performance in 3Q of fiscal 2020 was also affected by external factors, such as Go To campaign promoted as national policies that made customers interested in other than insurance. Applications in FY2021 has been slowdown from late of September because of lifting of the state of emergency. Not only application online, but the demand of application offline like insurance shops has been also slowdown. On the other hand, we believe that the demand has been affected by a temporary rebound, and we aim to achieve further growth in the performance of new policies by investing for growth at the proper timing.

Question: On [page 16 of the presentation material](#), what is a factor of the impact from assumption changes of EEV, 3.26 billion. Also, did improvement of surrender and lapse ratio in 2Q of fiscal 2021 have any impact?

Kishimoto: There are 2 factors of the assumption changes. The main factor is that we reviewed the incidence rate other than mortality rate. The second major factor is the revision of the risk factor used in calculating the allowance for non-hedgeable risk. The impact of the surrender and lapse ratio was a little negative because we don't reflect the latest actual results to the assumption, but no significant impact.

Question: According to the revision of forecast FY2021 on [page 28 of the presentation material](#), what is the reason that you expanded utilization of modified co-insurance, while the capital base was strengthened in September?

Kondo: We believe that modified co-insurance is one form of financing. We execute financing considering the scale of future business investment and short-term impact on profit and loss. This time, we increased modified co-insurance with the prospect of acceleration of investment for growth.

Question: Regarding the partnership with Money Forward Inc., what is its contribution to monthly performance?

Kondo: We are afraid that we do not disclose the results of respective channels. However, the impact on monthly performance is limited because we started the partnership in July, and it is still in start-up phase. Now we are collaborating for improvements and measures together with Money Forward.

Question: According to the [latest monthly disclosure](#), the annualized premium per new policy has been decreasing. On the other hand, annualized premium per policy- in-force, on [page 18 of the presentation material](#), has not changed so much. Could you tell us what is the difference?

Kondo: Compared to annualized premium per new policy with the same period of the previous fiscal year, the number of new policies in 2Q of fiscal 2021 increased 4.3% as shown on [page 6 of the presentation material](#) and the annualized premium of new business increased 0.7%. This means that the amount of coverage per customer has become smaller and the ratio of term life insurance, of which premium per policy is relatively low, has become increased.

Question: Regarding the allowance for non-hedgeable risk, what is the ratio of two parts, the part which non-hedgeable risk is not dependent on the volume in the future, and the part which can be reduced with business expansion? Furthermore, how many the number of policies-in-force is needed in order to reduce the allowance for non-hedgeable risk as much as that of major companies?

Kishimoto: We are afraid that we cannot tell you about that in detail. However, the risk tends to be decreased as the number of policies-in-force increases in the future, and we updated the risk factor of non-hedgeable risk in a positive direction on EEV. Generally, although the risk per policy will be relatively decreasing, as the number of policies-in-force increases, it is possible that the decrease in risk can be largely offset depending on how the number of policies-in-force increases. In addition, we cannot tell the comparison of the allowance for non-hedgeable risk compared to major companies due to the difference in product nature.

Question: Are there any changes in the attributes of the applicants? Has the number of applications by young people been increasing after the expansion of COVID-19? Also, how do you assess the growth of online life insurance in Japan based on the survey, on [page 23 of the presentation material](#), conducted by the Japan Institute of Life Insurance?

Mori: We think that the demographics of our applicants are changing in a favorable direction. Since we started our business, our customer base has mainly consisted of young generation. Recently, it is expanding to people in their 40s, 50s and early 60s. We think they are becoming comfortable with applying for insurance online. In addition, the majority of our new customers were people who took out insurance policies for the first time, but the number of customers who switch from other insurers' products to our products has increased in around FY2019 and FY2020. As you know, Japan's life insurance industry is a mature market where the rate of household insured is already close to 90%. For our further growth, it is very important to increase our presence in the life insurance switching market.

Regarding the survey results conducted by Japan Institute of Life Insurance as shown on [page 23 of the presentation material](#), there is still gap between actual application and future intention. We believe that this gap is our potential for growth and strive to meet customers' needs continuously.

Question: What do you think that Life Time Value (LTV) for the first half of FY2021 decreased while Customer Acquisition Cost (CAC) increased compared to those for FY2020 on [page 18 of the presentation material](#)?

Kondo: LTV for the first half of FY2021 decreased because the Life Time (term of contract) calculated based on the surrender and lapse ratio was shorter than that for FY2020. The more the surrender and lapse ratio increased, the shorter Life Time becomes. The increase in the ratio for the first quarter of FY2021 affected the Life Time while the ratio significantly improved for the first half of FY2020 due to the temporal impact by the COVID-19 spread as shown on [page 8 of the presentation material](#). Please note that the ratio has improved again for 2Q of FY2021.

In addition, we think the level of current CAC is acceptable for the Company because the number of new business has been increasing while CAC has maintained at the same level as FY2019, pre-COVID-19. As we showed on [page 10 of the presentation material](#), we were able to keep a good level of CAC throughout the year in FY2020 because the marketing efficiency for 1Q of FY2020 was very good due to the COVID-19 impact.

Question: What is annualized premium per policy of new Long-term Disability Insurance launched in June 2021?

Kondo: We don't disclose the details of each product. There is no large difference among all products we offer. You can recognize the annualized premium per policy of the new product is almost the same level as annualized premiums per policy-in-force, JPY42,000 as shown on [page 18 of the presentation material](#).

Question: According to Money Forward's disclosure, I understand that there are a certain number of people who utilize the insurance policy review function in the *Money Forward Fixed Cost Review*. On the other hand, the service doesn't seem to contribute to acquire new policies. What do you think of the problems and how do you tackle them?

Kondo: We have recognized a certain number of customers had interest in reviewing their insurance policies through the initiatives with Money Forward. We believe that the design of better customer experience is very important factor to acquire new business. We haven't performed well yet and we are still in the early stages of the business. We would like to work with Money Forward to polish up our initiatives.

Question: Regarding policy maintenance service provided through *betterChoice* on [page 26 of the presentation material](#), how many policies are registered so far? How do you improve in User Interface (UI) ?

Kondo: We don't disclose the registered number. We are also currently working on it without promotion. As you pointed out, the design of UI is very important, so we would like to make improvements in this area as well.

Question: Regarding IFRS (International Financial Reporting Standards) on [page 29 of the presentation material](#), how much cost for acquiring new business can be deferred under IFRS17 ? How would you recognize the deferrable acquisition cost out of marketing expenses under IFRS?

Kishimoto: We are currently in the process of studying IFRS, so we are not in a position to give a definitive answer. Advertising expenses occupies the majority of marketing expenses at Lifenet and in general, it may be deferred as acquisition cost if it is recognized that it contributes to acquiring new business.

Question: Regarding the survey of the Japan Institute of Life Insurance on [page 23 of the presentation material](#), the gap between actual application and future intention is still large while there seems to be a growth potential in online channel. How do you view this gap?

Mori: As shown on [page 23 of the presentation material](#), the ratio of actual online purchase is only 4.0%. However, if you look at the ratio by age group, younger generation shows strong preference compared with the average for all age groups. Through this fact, we believe we could surely reach younger generation which is our main target. In addition, considering the frequency of buying life insurance in general, we believe the difference between the share of actual application and its intention will be decreased in several years. We will lead the growth of online insurance market based on increasing intention to purchase online.

Question: What is the estimate of the cost for implementation of IFRS?

Kondo: We are in the midst of preliminary study for IFRS adoption. It will require workload and human resource at certain level, but the cost would not be as large as other life insurance companies considering our business scale.

Mori: We are thinking about the adoption of IFRS very carefully since it will not directly affect our business performance. Through communication with shareholders and investors, we consider if IFRS can show Lifenet's current business status appropriately in terms of financial reporting. If it can be expected to have a positive impact on the approach of our stock valuation, we should consider the adoption thus we would like to examine it continuously.

Question in the text form and Answer

Question: Besides the capital raising and modified co-insurance for new business, are you considering about other methods to ease the initial burden for new business by reinsurance of in-force policies? Please tell us if there are any issues regarding valuation.

Mori: We believe that there is a certain financial meaning in utilizing such reinsurance. On the other hand, it involves transaction costs, thus we would like to consider the merit of reinsurance. The valuation in the capital market for the present value of unrealized future profit would be a point on the judgement of reinsurance utilization. We would like to consider it as an option.

Question: I understand that one of the reasons for recent capital raising is to secure the level of capital, because new business growth caused a bigger deficit based on Japanese current statutory accounting. Please tell us whether net asset on current statutory accounting will be regulated by the Insurance Business Act even after IFRS adoption or IFRS will eliminate this problem.

Mori: Regardless of whether IFRS is applied or not, the capital adequacy will be regulated based on Japanese current statutory accounting. Therefore, even if there is enough level of equity under IFRS, it is possible that we reconsider our capital policy based on the requirements of statutory accounting. On the other hand, we believe that we have raised the sufficient capital until getting into the profit on current statutory accounting.

Question: It seems that the number of employees has been increasing from 159 to 171 in 2Q of fiscal 2021. What positions are you recruiting? Are there any changes in the policy of returning benefits to employees as new business performance grows?

Mori: We increased the number of staff for wide range of departments. Especially we increased in sales and marketing department and system department, which are important for our growth. In addition, the number of staff in corporate department is also increasing as we assume the adoption of IFRS. As for the policy of returning benefits to employees, we are considering a compensation system in association with the business performance growth by offering better products and services.

Question: Recently, it is said that young generation, which is the main target for Lifenet, tend not to watch TV. How do you think of the risk of continuing TV commercials in the future?

Kondo: While we recognize the fact that our main target generation tends not to watch TV, we believe that TV commercials is still a powerful medium in our business at this point. Under such situation, we are trying not to depend heavily on TV commercials and to increase the proportion of online advertisement. In addition, there are opportunities in approaching existing customers, thus we would like to increase the touch point with various customers that will not be limited to promotion.

[END]

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