LIFENET INSURANCE COMPANY

Question and Answer Summary at Q3 Financial Results Briefing for the Fiscal Year Ending March 2022

February 10, 2022

[Answerers]

Ryosuke Mori	Representative Director and President
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Question & Answer

Question: In light of the revision of the business forecasts on page 22 of the presentation material, can we assume the annualized premiums of new business to reach roughly JPY1 billion and roughly 8,000 new policies per month for Q4? Also, looking ahead to next fiscal year, do you expect to see non-linear contributions to performance from any initiatives such as white label channel?

Mori: When taking in consideration unit price of the policy, our forecast for new business for the current fiscal year is not significantly different from your assumption. Currently, our performance is on a recovery trend from November of last year, when performance was at its lowest as customer concerns were largely focused on matters other than insurance. At the same time, we do not feel this recovery reflects a rapid return of customer interest in insurance. As such, we revised business forecasts based on current environment and work towards achieving the forecasts at the end of the fiscal year. As for white label channel, this year we started collaborating with a new partner and have seen gradual improvement in performance. We believe it will be a powerful partner in addition to our existing alliance partners.

Question: Page 7 of the presentation material indicated you injected roughly JPY1.8 billion in Q3 for marketing expenses compared to the roughly JPY2.0 billion in marketing expenses on a quarterly basis during the first half. Did you purposely control costs? While it is difficult to assess the business environment during COVID-19, what direction will you take towards marketing expenses next fiscal year and beyond?

Mori: While we will carefully analyze timing, we want to increase advertising for Internet direct channel in order to increase our brand awareness. In Q3 of FY2021, not only insurance industry but other various businesses strengthened advertising as economic activities resumed following the lift of the state of emergency. This JPY1.8 billion was the result of a focus on efficient marketing investments while carefully analyzing the appropriate unit price levels for advertising expenses. Next fiscal year, while we will assess the unit price levels of advertising, we need to return new business performance to levels near 9,000 policies per month.

Question: Looking at the surrender and lapse ratio indicated on page 6 of the presentation material, what factors led to improvement between October and December when new case of COVID-19 infection has decreased? Also, how will this improvement effect on the assumption changes of European Embedded Value (EEV) at the end of March 2022?

Kishimoto: Although the surrender and lapse ratio improved significantly heading into FY2020 due to the impact of COVID-19, this actually deteriorated between Q4 of FY2020 and Q1 of FY2021. Looking at the most recent Q3, this ratio has returned to the 6% range, which is an improvement compared to FY2019. We view this as a reflection of internal initiatives to improve surrender and lapse ratio.

To a certain extent, we have already incorporated this into the impact on the EEV. As such, we forecast its impact on assumption changes at the end of March 2022 would be limited.

Question: After two years since the spread of the COVID-19 pandemic, how do you analyze the factors of new business growth which is attribute to marketing efforts versus changes in consumer behavior and other external factors?

Mori: As you indicate, new business growth factors include both internal efforts and external environment. The impact of external factors was most extreme in the first half of FY2020 while there has been no extreme impact since the second half. At the same time, the overall demand for life insurance fluctuates with trend in society, which has an impact on our performance to some extent.

The proliferation of COVID-19 Omicron variant is driving increased demand for COVID-19 micro-insurance, which captured the people's concerns related to the spread of infection. COVID-19 micro-insurance is highly susceptible to temporary surges in demand. Over time, as the pandemic subsides and economic activities resume, we will continue to evaluate online application needs within overall demand for life insurance and focus on structural growth. At the very least, new business performance for January 2022 does not reflect our marketing efforts, so we will work towards representing what we believe to be the actual potential.

Question: What factors resulting from assumption changes will lead to future growth towards achieving your goal of EEV of JPY200 billion? Do you foresee improvement in operating expenses ratio with business expansion or release of non-hedgeable risks?

Mori: Moving forward, the main EEV growth drivers will be the adjusted incremental EV and the assumption changes. You can interpret the adjusted incremental EV like RoEV. Growing this value over time will be important. Also, we view assumption changes can reflect positive reevaluations since growth in in-force business performance is projected to reduce our unit costs.

As indicated on page 8 of the presentation material, the operating expenses ratio excluding marketing expenses is currently at approximately 19%. However, moving forward, with a significant business expansion, we can improve this down to the 10% range. As such, we think the EEV increase achieved through unit cost reductions will be significant.

As for incidence rates, we believe our assumptions are conservative to some extent due to the fact that there is only data for a decade or so years since our business commencement. As we accumulate more data, we think the review of incidence rates will come to have a positive impact. However, to a certain extent, incidence rates include necessary elements so we will continue to carefully evaluate performance and consider whether this continues to be a factor of our EEV growth.

Question in the text form and Answer

Question: We are seeing a trend in the life insurance industry of receiving BaaS (Banking as a Service) provision from online bank to provide banking services to customers. Amid such a trend, how do you think the significance of offering banking services to life insurance policyholders? Also, please let us know if Lifenet is currently considering offering IaaS (Insurance as a Service) to partner companies.

Mori: We are aware that there is a major trend of both online and offline life insurance companies with strong customer contact channels expanding their product lines including financial products. As for Lifenet, our subsidiary Lifenet MIRAI has begun offering the life and nonlife insurance products of other companies through its brand *better Choice*. In the future, we want to further expand to offering other financial products as well. We also want to take advantage of our young customer base by offering financial products linked to various life events. We will proactively evaluate the possibilities for using such services.

As for IaaS, we view our white label business as a framework that resembles IaaS. This enables companies without a life insurance business license to offer insurance services. We will continue working to grow our white label business by taking advantage of the growth of the online life insurance market.

Question: As for the white label business, what are some current issues and your growth strategies?

Koba: As indicated on page 19 of the presentation material, we are currently working with Money Forward and KDDI for med- and long-term growth. Our engagement with Money Forward includes unique initiatives that take advantage of their services. For example, it connects with their budgeting service to provide notices of a reduction in the insurance coverage amount when the users' assets are increased. In addition, the introduction of our new entry page is generating an increase in user traffic. With KDDI, we are discussing potential engagements, including collaborating with subsidiary of au Financial Holdings. We will continuously consider ways to leverage KDDI Group assets.

Question: The Lifenet's stock price seems to fluctuate with changes in new business performance. How will you address the situation of the market not focusing on your strong growth of EEV and in-force business performance?

Mori: Our company is a typical stock business and, as indicated on page 24 of the presentation material, our value of in-force business is growing steadily. At the same time, it is a major issue that the pace of net growth for in-force business has slowed down due to the temporal decrease of new business performance in Q3 of FY2021. We believe continued new business growth is necessary to increase expectations for our future growth.

In addition to steady growth for in-force business performance, which contributes to ARR (Annual Recurring Revenue), as shown on page 10 of the presentation material, we also disclosed the periodic earnings from in-force business as adjusted profit, which grew steadily over the previous fiscal year.

We will continue to engage with stakeholders to convey these two points: the characteristics of a firm stock business which is unique to the life insurance industry, and our position as a life insurance company that is recording steady growth.

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