

**Securities Code: 7157**



**LIFENET**

LIFENET INSURANCE COMPANY

**IFRS 17  
Insurance Contract  
Study Meeting  
Session 2**

**LIFENET INSURANCE COMPANY**

**October 14, 2022**

# Disclaimer

- The information in this document is based on our current interpretations and views of statutory accounting and International Financial Reporting Standards (IFRS).
- Other companies in the industry and other related parties may have different interpretations and views.
- For ease of understanding, some of the expressions used in this document are different from the actual accounting standards.

# Overview



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# 1. About the Study Meeting

## ■ Purpose

Explain **the key points of IFRS** prior to our voluntary adoption from FY2023

➔ Facilitate a smooth transition to our new financial statements and financial analysis

**Note:** This study meeting is not intended to explain specific performance forecasts at Lifenet

## ■ Schedule (planned)

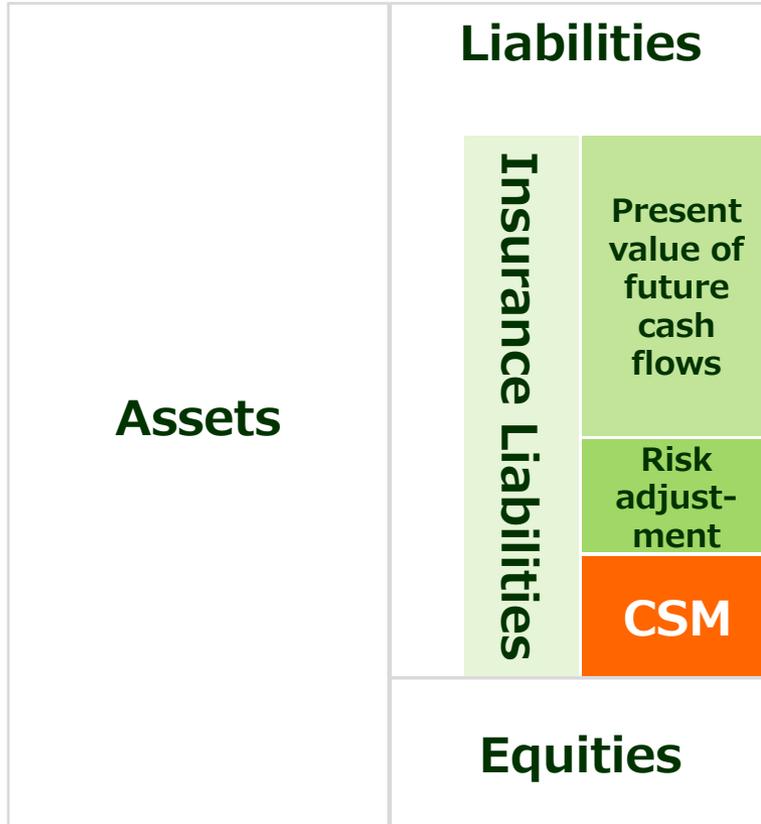
Session	Theme	Date
1st	Basic information of IFRS 17 <ul style="list-style-type: none"><li>• Background and significance of the introduction of IFRS</li><li>• Key points of profit and loss under IFRS 17</li><li>• Importance of CSM (Contractual Service Margin)</li></ul>	July 5, 2022
2nd	<b>Financial analysis of IFRS 17</b> <ul style="list-style-type: none"><li>• Analysis of profit, financial indicators and changes in CSM</li></ul>	<b>October 14, 2022</b>
3rd	Update information of IFRS 17 <ul style="list-style-type: none"><li>• IFRS 17 movement and QA session</li></ul>	around January 2023

## 2. Key Messages for Session 1

- The adoption of IFRS will **better present** our periodic performance and profitability
- Increase in CSM\* will **lead to future profit growth**  
\* Contractual Service Margin
- Capital regulations and dividends will **continue to conform to the J-GAAP** even after IFRS adoption

# 3. Insurance Liability under IFRS

## IFRS Balance Sheet



\*The figure above is an illustration of IFRS 17 for the general model.

### Three components of insurance liabilities

- **Present value of future cash flows:**  
Calculated as present value of future expenses (insurance claims, etc.) deducted by present value of future income (premiums)
- **Risk adjustment:**  
Prepared for uncertainty of future cash flows
- **CSM:**  
A liability representing future profit and amortized to profit over the insurance period

On transition to IFRS 17 (or on adoption of IFRS 17), in principle, insurance liabilities are calculated for in-force business retrospectively from the time of contract issue

# 4. Structure of Income Statement under IFRS

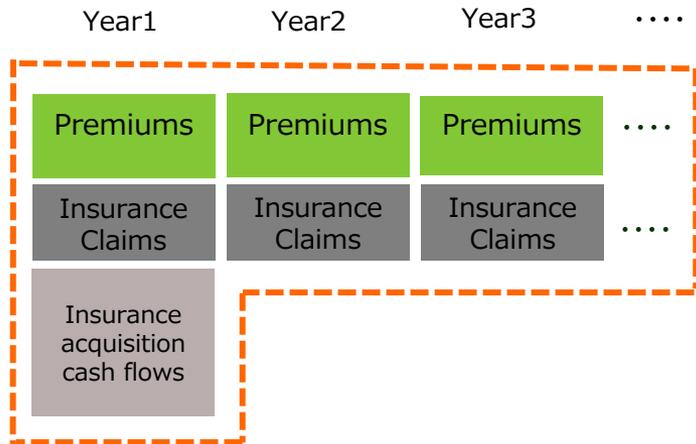
- Insurance revenue is not recorded directly from actual premium, but is released from insurance liability
- Insurance service results can be divided into difference between expected and actual claims, risk adjustment release and amortization of CSM
- Insurance service results and financial results corresponds to the sources of profits and IFRS P&L is structured to facilitate profit analysis

IFRS P&L		Major items																									
Insurance revenue	1	Expected claims																									
Insurance service expenses		Expected insurance claims and operating expenses (Deduct the savings component)																									
<b>Insurance service results</b>		<tr> <td></td> <td rowspan="2">2</td> <td>Risk Adjustment release</td> </tr> <tr> <td></td> <td>Decrease or release of risk adjustment during the period</td> </tr> <tr> <td></td> <td rowspan="2">3</td> <td>Amortization of CSM</td> </tr> <tr> <td></td> <td>Amortization of CSM during the period</td> </tr> <tr> <td>Investment income</td> <td rowspan="2">4</td> <td>Actual claims</td> </tr> <tr> <td>Insurance finance expenses</td> <td>Actual insurance claims and operating expenses (Deduct the savings component)</td> </tr> <tr> <td><b>Financial results</b></td> <td rowspan="2">5</td> <td>Investment income (loss)</td> </tr> <tr> <td>Other result</td> <td>Net Income and expenses from asset investment</td> </tr> <tr> <td><b>Profit before tax</b></td> <td>6</td> <td>Insurance finance expenses</td> </tr> <tr> <td></td> <td></td> <td>Interest on insurance liabilities</td> </tr>		2	Risk Adjustment release		Decrease or release of risk adjustment during the period		3	Amortization of CSM		Amortization of CSM during the period	Investment income	4	Actual claims	Insurance finance expenses	Actual insurance claims and operating expenses (Deduct the savings component)	<b>Financial results</b>	5	Investment income (loss)	Other result	Net Income and expenses from asset investment	<b>Profit before tax</b>	6	Insurance finance expenses		
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# 5. Revenue Recognition by CSM

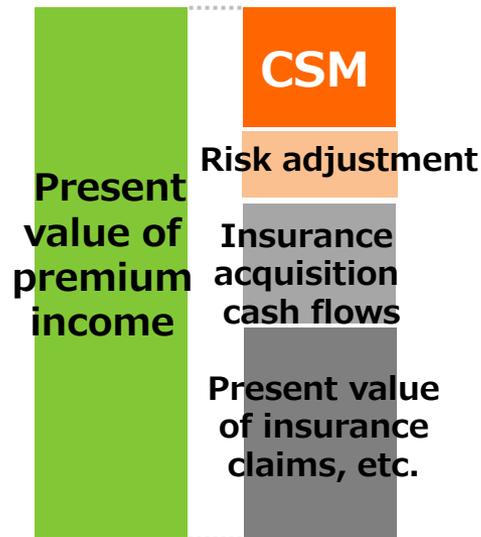
## New business expected future cashflows

Calculated by the latest best estimate assumptions based on experience



## CSM

Present Value



CSM is allocated as revenue over the policy period



\*If CSM is negative, it is recognized as a loss immediately

## Key matters for the increase of CSM (Future profit growth)

- Acquiring profitable new business
- Updating assumptions of insurance claims and operating expenses based on its favorable experience

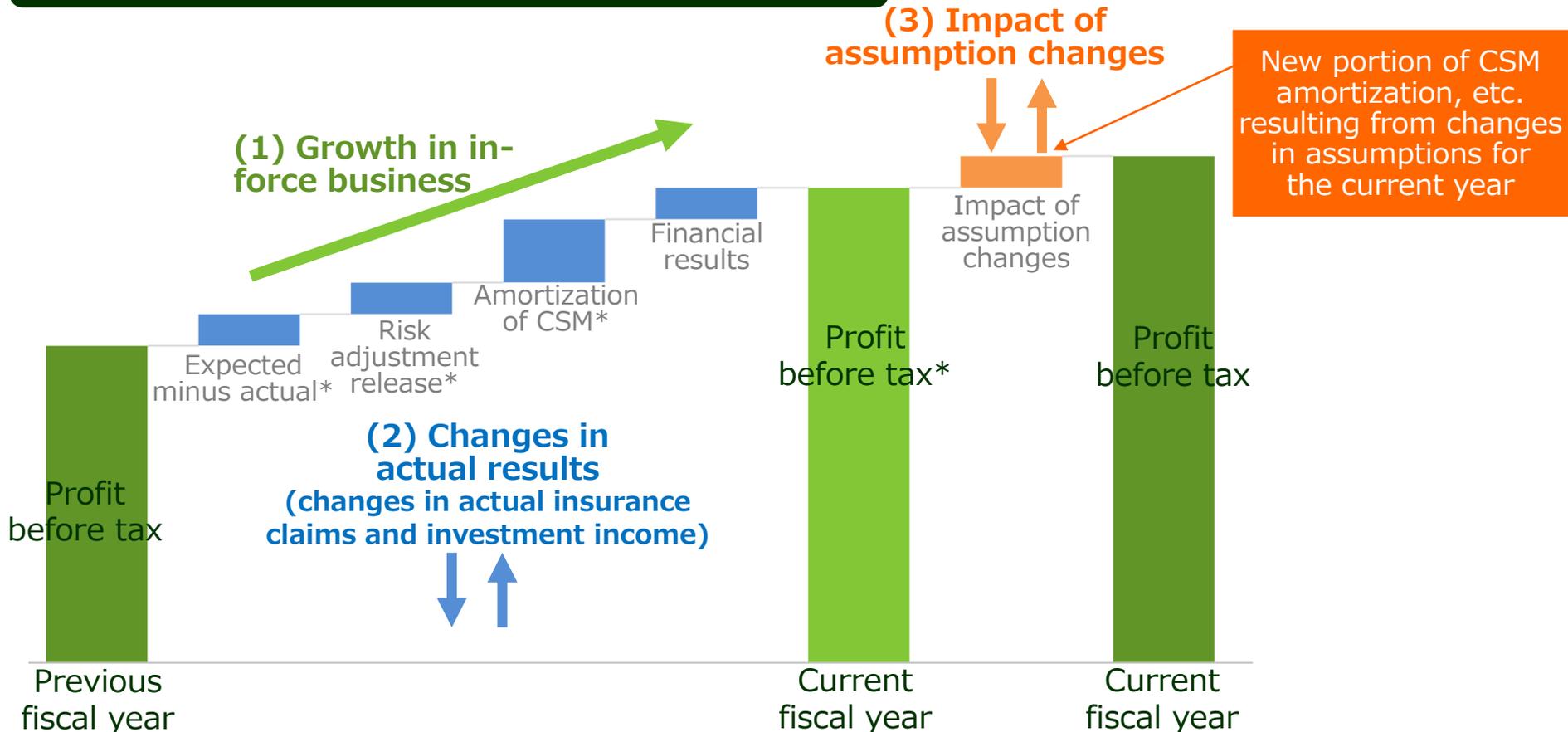
# 6. Today's Key Messages

- **3 major factors in the analysis of profit under IFRS:**
  - (1) Growth in in-force business**
  - (2) Changes in actual results**
  - (3) Impact of assumption changes**
- **Obtaining profitable new business is important for the profit growth**
- **IFRS profit and EV should be viewed from multiple perspectives**

# 7. Analysis of Increase/Decrease in IFRS Profit

- The change in profit from the previous year can be broken down into 3 major categories: (1) growth in in-force business, (2) changes in actual results, and (3) the impact of assumption changes.

## Increase/Decrease in profit before tax



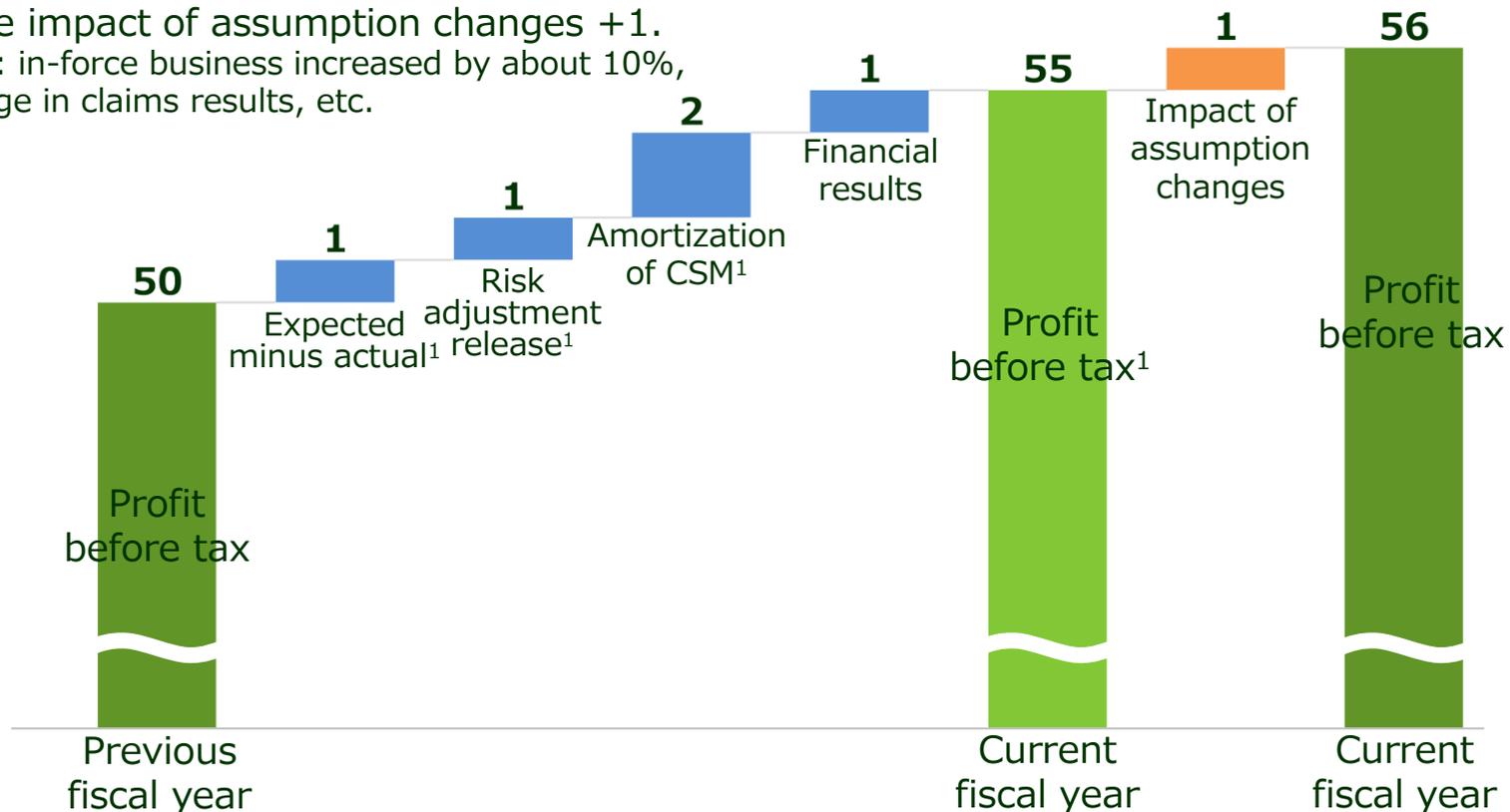
\*excluding impact of assumption changes

# 8. Analysis of Increase/Decrease in IFRS Profit (Example)

- Profits excluding the impact of assumption changes will increase in line with the growth of in-force business, and any change in actual claims or investment income will also be reflected in profits.

## Increase/Decrease in profit before tax

(Ex.) Profit before tax increased from 50 to 56 incl. the impact of assumption changes +1.  
Premise: in-force business increased by about 10%, no change in claims results, etc.



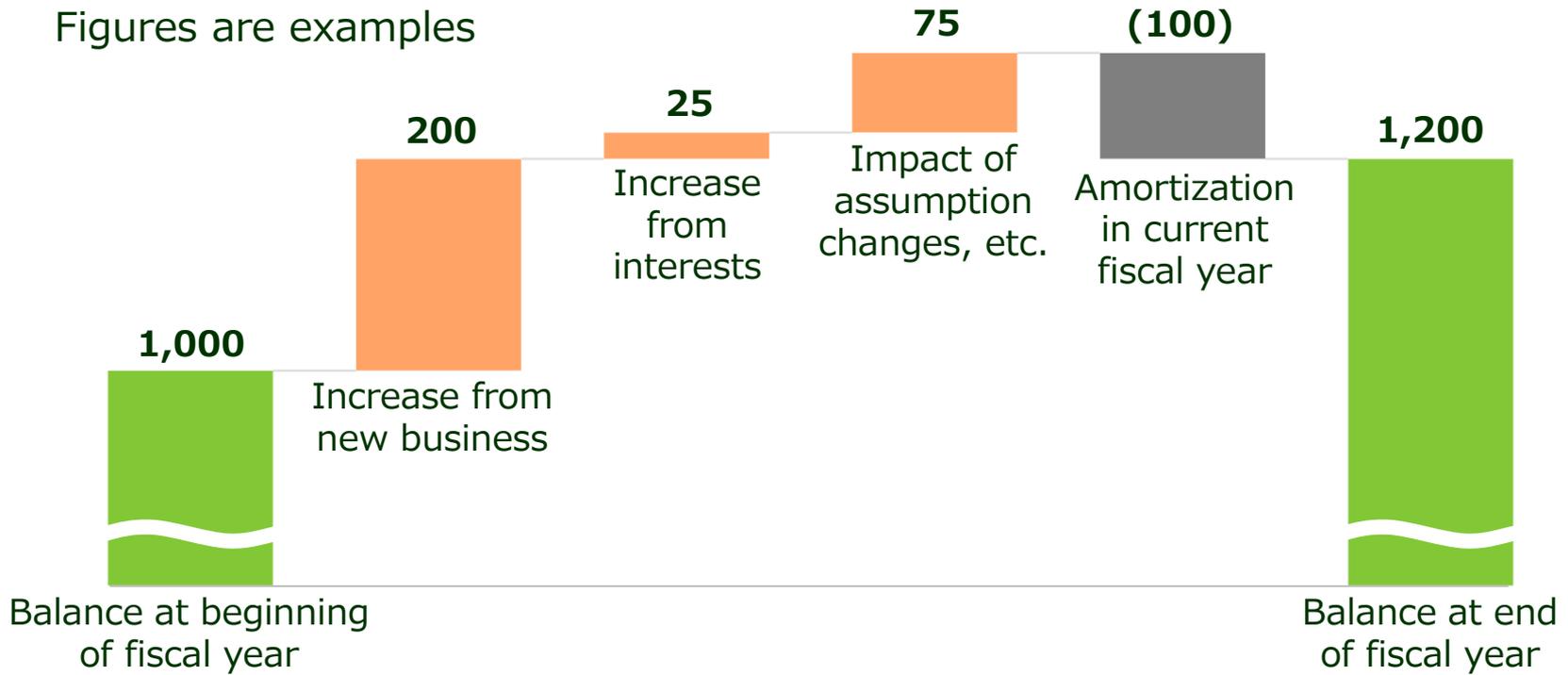
1. excluding impact of assumption changes

# 9. CSM Movements

- CSM increases due to 2 major factors: (1) increase from new business and (2) assumption changes along with improved experience
- In CSM after the assumption changes, the current amortization is allocated as revenue and the future portion is allocated as balance at end of fiscal year

## CSM movements from beginning to end of period

Figures are examples



# 10. Allocation of Future CSM

- The timing of revenue realization from the CSM held at the end of the current period can be projected (Notes disclosure information)

✓ Allocation pattern by typical continuation rate

Item		Amount	Expected time of recognition to PL					
			X+1	X+2	X+3	X+4	X+5	X+6 -
CSM held (actual)	End of FY X	1,000	87	80	74	68	62	629

- By adding the expected CSM of future new business and its allocation pattern, the future allocation of CSM for the entire company can be projected

✓ Profit will be realized through future allocation of CSM held at the end of the current fiscal year and new business form the following fiscal year onward

CSM from new business (expected)	FY X+1	200	17	16	15	14	12	126
	FY X+2	200		17	16	15	14	138
	FY X+3	200			17	16	15	152
	FY X+4	200				17	16	167
	FY X+5	200					17	183
CSM allocation from in-force and new business (expected)		2,000	105	114	122	130	137	1,393

# 11. Profitability of New Business



- Non-onerous new business generates initial CSM and CSM balances increase
- Initial loss from onerous new business would be recorded as a P&L expenses

(Ex.) Calculation of new business CSM and initial loss (the notes disclose information)

	Items	Non-onerous new business	Onerous new business	Total
1	Present value of premium	1,000	100	1,100
2	Present value of claims	600	90	690
3	Insurance acquisition cashflows	100	15	115
4	Initial risk adjustment	100	15	115
5	Initial CSM	200	-	200
6	Initial loss	-	(20)	(20)

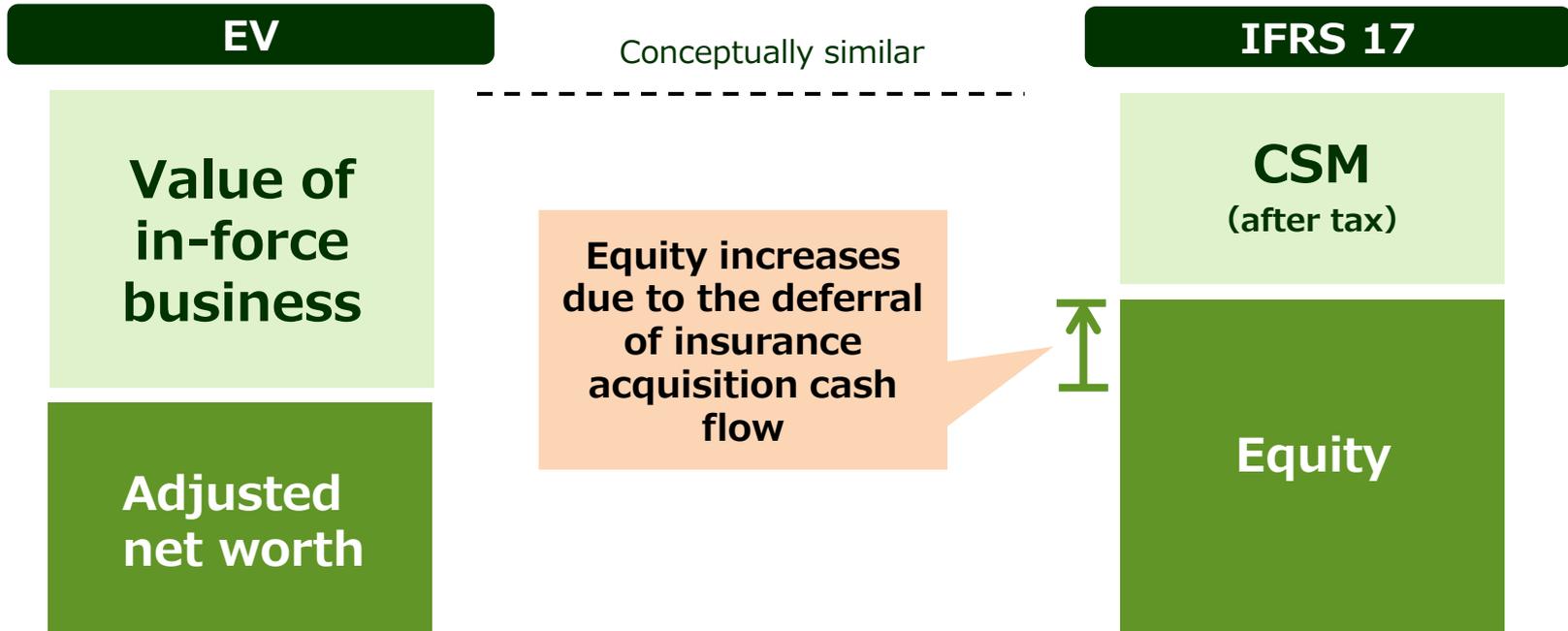
**Profitability of new business is important**

\*"Onerous" means the status where the loss would be generated

# 12. Comparison of EV and IFRS Equity



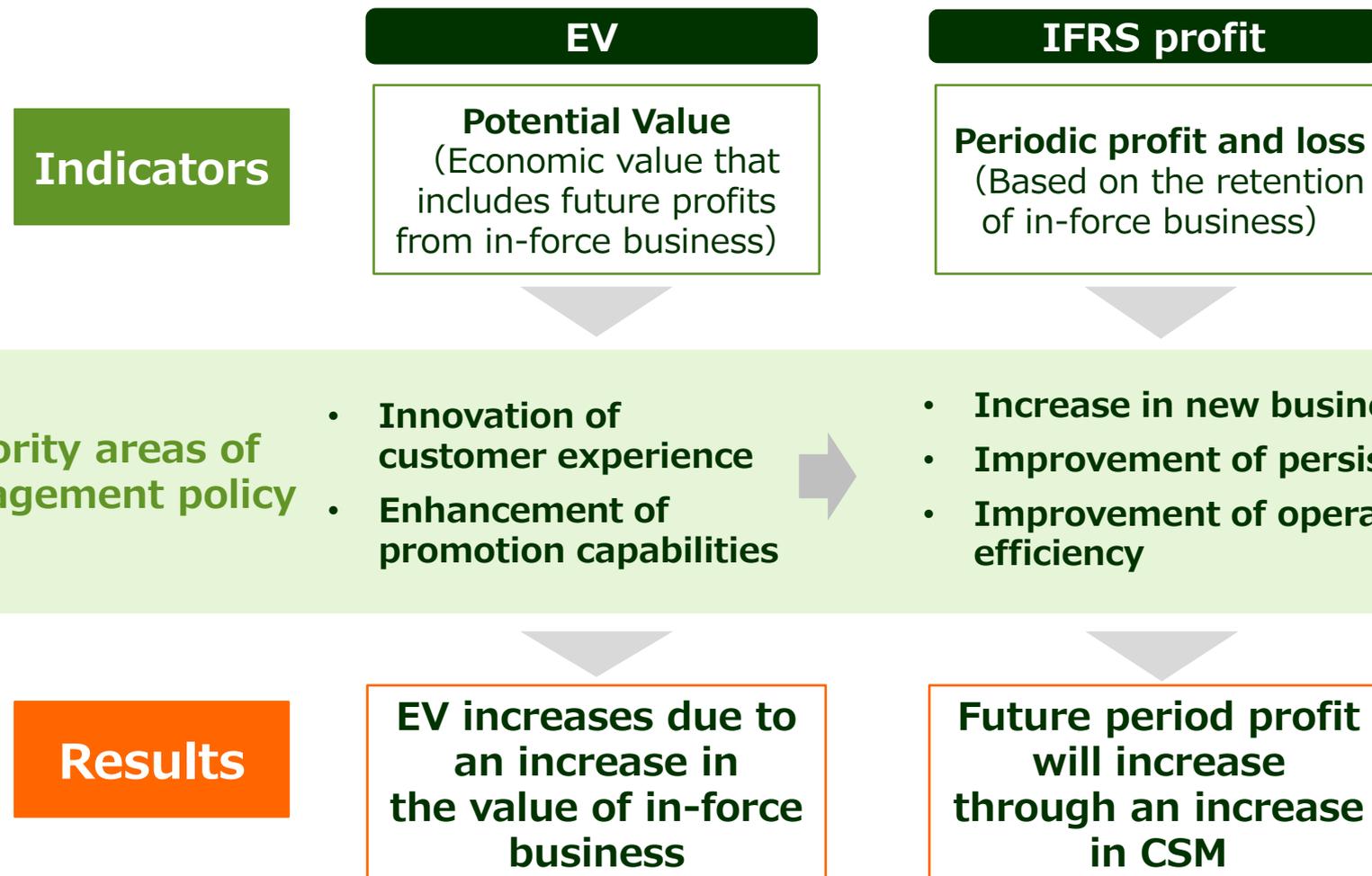
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- As the policy term elapses,
  - In EV, **value of in-force** is realized and transferred to **adjusted net worth**
  - In IFRS, **CSM** is recognized as revenue and transferred to **equity**

# 13. Further Important Indicators : EV and IFRS profit

- EV and IFRS are positioned as important indicators that should be viewed from multiple perspectives, both reflect management efforts



# 14. Major KPIs for Growth and Profitability

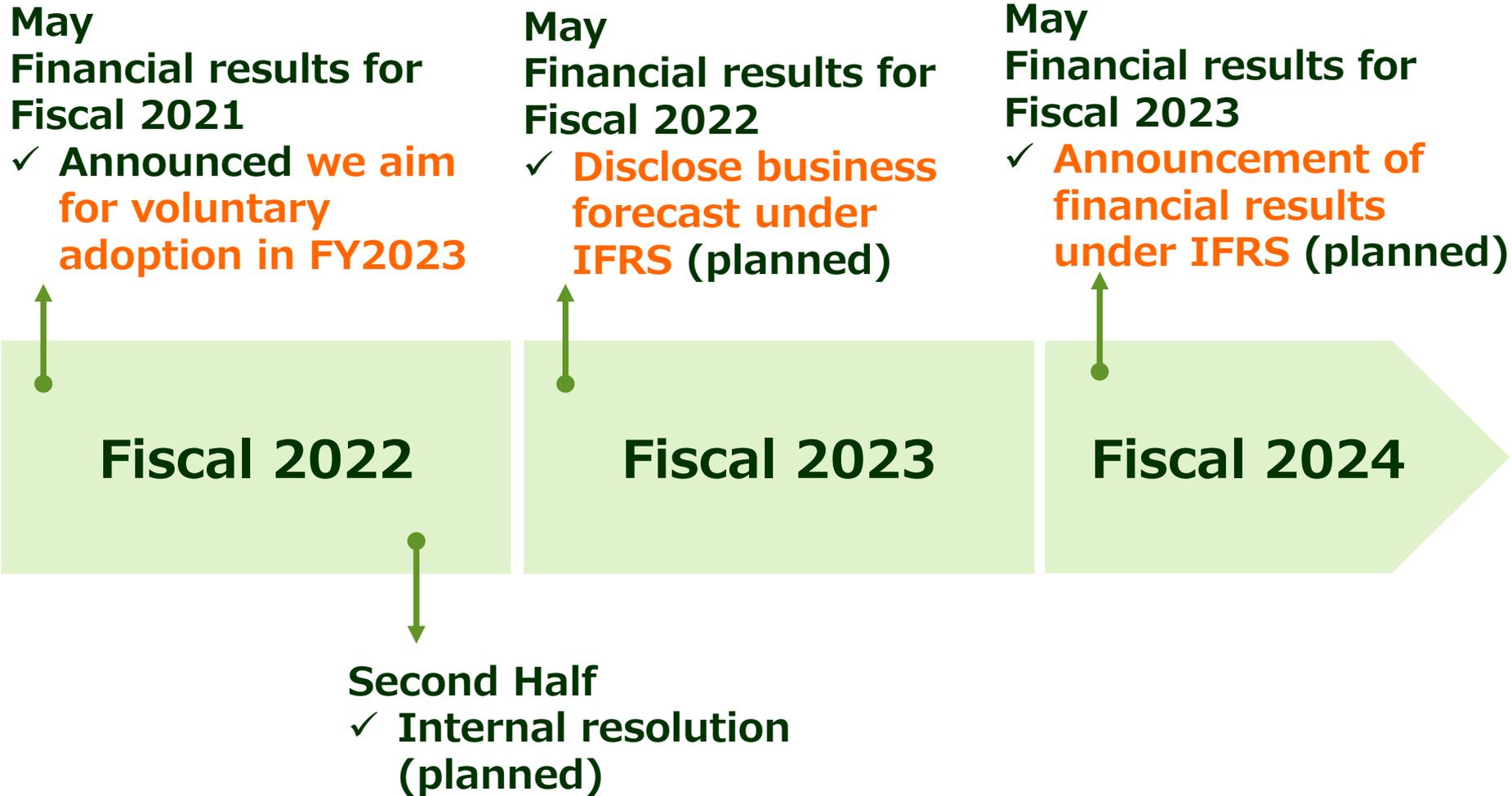


## ■ Major KPIs for EV and IFRS profit (examples)

	KPIs	What it means
<b>Growth</b>	Increased amount of in-force business (Numbers· Annualized premiums)	• Increase in in-force business that generates profit
	Increased amount of CSM	• Growth of “future IFRS profit”
	Increased amount of EV	• Growth of economic value
<b>Profitability</b>	New business margin (Value of new business/Present value of insurance premium)	• Profitability of products
	ROE (IFRS profit/IFRS equity)	• Capital efficiency in financial accounting
	ROEV (Increased amount of EV/EV balance)	• Capital efficiency in economic value

For each of the above KPIs, it is also effective to manage business on an “adjusted basis,” which excludes temporary factors such as the impact of assumption changes, etc.

# 15. Schedule for IFRS Adoption



\*The third IFRS study session will be held in January 2023 (Japanese Only)

# Appendix



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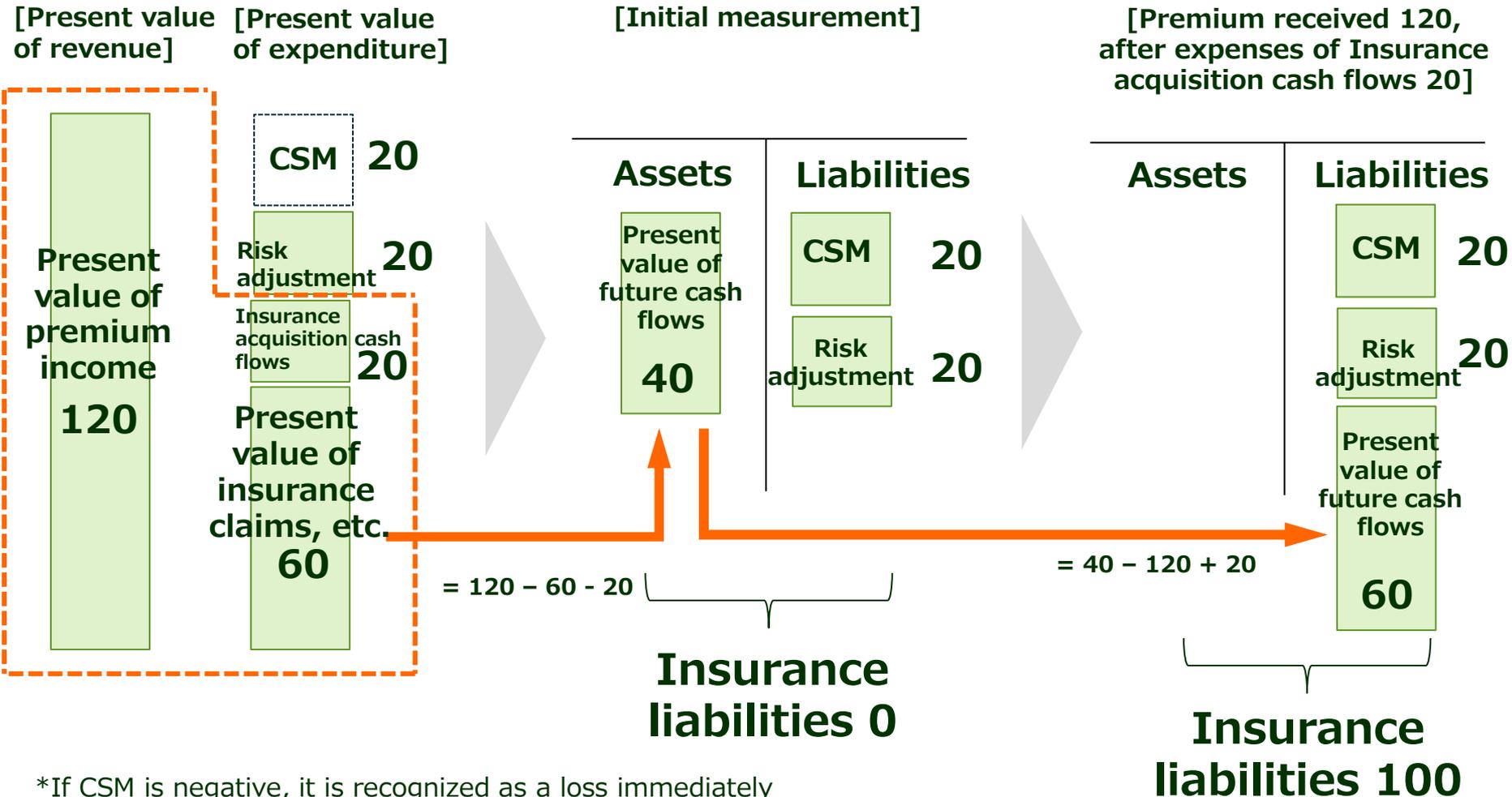
# IFRS 17 Insurance Liabilities

## (Initial recognition)

### Initial recognition

Figures are examples

Ex. Single premium life insurance (premium 120)



# IFRS 17 Insurance Liabilities

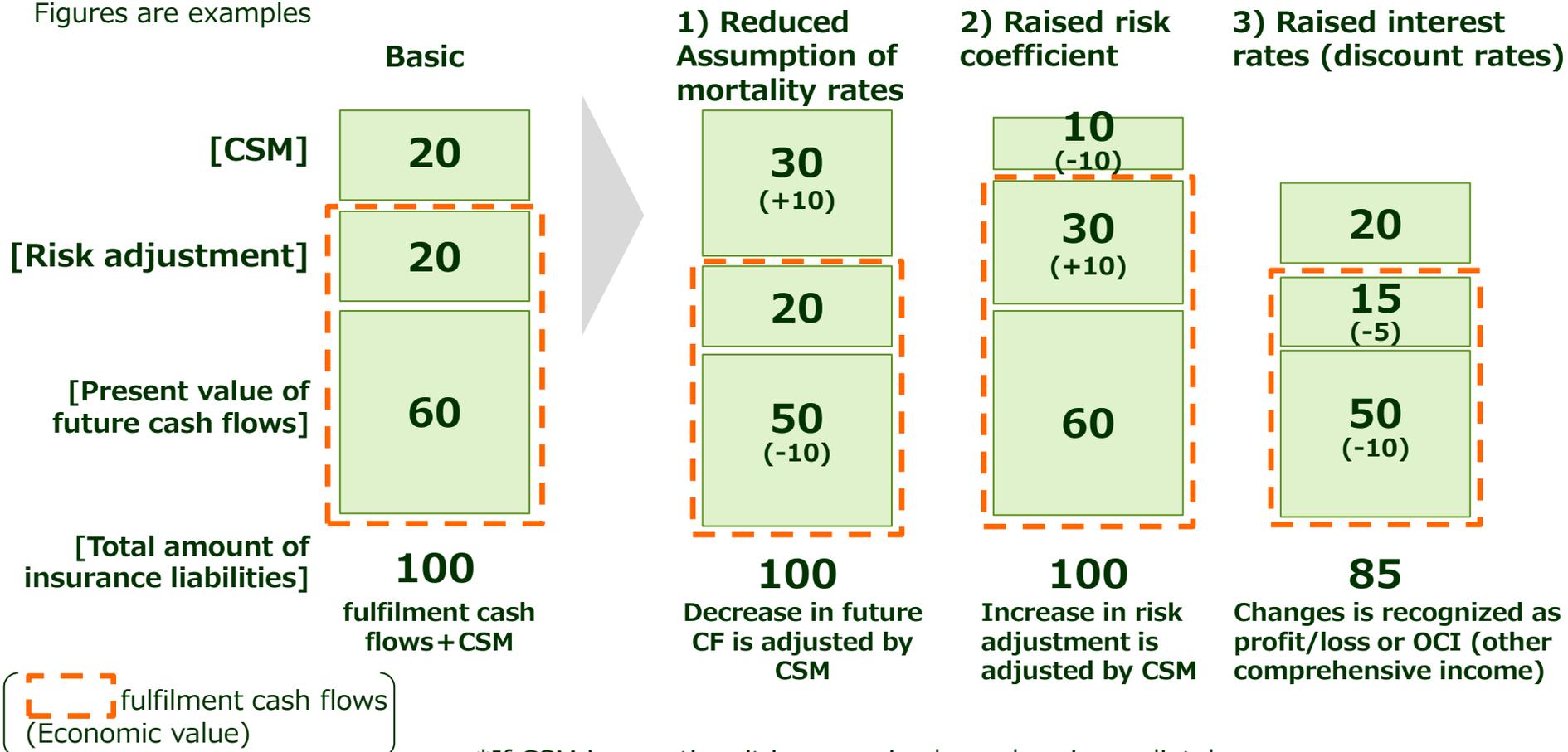
## (Subsequent measurement)

- Changes of assumptions and risk coefficient are adjusted by CSM
- Changes of discount rates are NOT adjusted by CSM



**Future insurance service results will be leveled**

Figures are examples



\*If CSM is negative, it is recognized as a loss immediately

# Comparison of IFRS 17 with EV

Item	IFRS 17	Embedded Value
Purpose	<ul style="list-style-type: none"> <li>Measurement of insurance liabilities and revenue allocation</li> </ul>	<ul style="list-style-type: none"> <li>Evaluation of potential value</li> </ul>
Characteristic	<ul style="list-style-type: none"> <li>Profit expected in the policy period is recorded in the CSM and allocated to future periods</li> </ul>	<ul style="list-style-type: none"> <li>Profit expected in the policy period is recorded as the value of new business</li> </ul>
Assumption change (except for discount rates)	<ul style="list-style-type: none"> <li>The impact of the assumption change is not immediately recognized in P/L, but is allocated to future periods through an adjustment to the CSM.</li> </ul>	<ul style="list-style-type: none"> <li>The impact of the assumption change is reflected as changes in the value of in-force business</li> </ul>
Change in discount rates	<ul style="list-style-type: none"> <li>Reflected in the valuation of insurance liabilities, and recorded the impact in P/L or OCI</li> </ul>	<ul style="list-style-type: none"> <li>Reflected in the discounting of future profits, with the impact reflected as an increase or decrease in the PV of future profits.</li> </ul>
Difference between assumptions and actual results	<ul style="list-style-type: none"> <li>Realized in P/L in the current period</li> </ul>	<ul style="list-style-type: none"> <li>Reflected as change in adjusted net worth for the current period</li> </ul>
Risk release	<ul style="list-style-type: none"> <li>Decrease in risk adjustment over time is recognized as revenue</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in non-hedgeable risk over time is an increase in adjusted net worth as a release of the PV of future profits</li> </ul>