



## **LIFENET INSURANCE COMPANY**

Question and Answer Summary at Q2 Financial Results Briefing for the Fiscal Year Ending March 2021

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### **[Answerers]**

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Iwao Kishimoto	Executive Officer
Ryosuke Kondo	Executive Officer

## Question & Answer

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**Questioner 1:** I would like to ask about three main points.

First, with regard to the number of new business, I think it has been trending at 7,000 units level per month since August, what are your thoughts for the second half of the fiscal year and beyond?

Also, on [page six of the material](#), you explained that further investment of marketing expenses in the second half would be judged based on the business environment. What kind of business environment would make you decide to accelerate marketing expenses?

The second point is regarding insurance assumptions in EV on [page 13 of the material](#). You mentioned improvement in the operating expenses ratio and surrender and lapse ratio as the reasons behind the revision of insurance assumptions. Can we assume that this is reflected to the level in 2Q at the end of September? In addition, if you can expect the upside potential in the future, what elements can be expected?

Third, with regard to accounting profit and loss, the extent of the ordinary loss decreased in 2Q. I think that one of the reasons is low benefit claims. From the perspective of operating expenses and modified co-insurance, I think there has been a change in management's approach to achieving profitability. Could you tell us about your approach around this?

**Kondo:** Thank you for your question. As you asked three questions, I, Kondo, will answer the first and third ones. Kishimoto will answer the second one.

First of all, regarding the number of new business, as we have disclosed monthly information, the number has remained at the level of 7,000 units since the last August.

You have refer to a prospect for the second half onward, and although we have not actually disclosed the number as a business performance forecast on [page 23 of the material](#), we have disclosed the prospect that the level of annualized premiums for new business will reach a record high of JPY4 billion this fiscal year hopefully.

In the first half of the fiscal year, the level reached around JPY2.1 billion, so I think the impact of the tailwind of the novel coronavirus (COVID-19) in the first quarter was extremely large in April and May. In the second half of the fiscal year, we anticipate building up new business in the second half toward this JPY4 billion.

Regarding the investment in marketing, I think it will be difficult to determine what kind of business environment we should face in the future. From September and October in particular, some national policies such as Go To campaigns have been launched. I think that the trend in the number of new business may reflect the fact that most recently customers tend to go out somewhat because they were staying at home during the emergency period.

Rather than investing in this situation, we intend to allocate capital to growth investments when an environment in which customers can purchase life insurance more firmly online is created.

**Kishimoto:** I, Kishimoto, would like to answer your second question about EV.

Regarding the revision of insurance assumption, we reflect the improved operating expenses ratio in the assumptions. These expenses include costs related to the maintenance and administration of policies-in-force, which are separate from marketing expenses, but are included in items like fixed costs. As the number of policies-in-force increases, the operating expenses per policy decreases. This is reflected this time.

If the number of policies-in-force continues to increase steadily, that portion will also be reflected. It is difficult to say clearly how much impact it will have, but I believe we can continue to make improvements.

**Kondo:** Regarding the third point, I understood that your question was about whether the loss in the first half of the fiscal year was a little restrained, or our intention was to achieve profitability.

For the first half of the fiscal year, there are two factors with respect to the loss which was slightly limited. One was the payment of insurance claims and benefits, as you pointed out, and the other was operating expenses that settled at the same level as the previous year.

With regard to insurance claims, I think monthly fluctuations in insurance claims are factors to some extent in the condition where the number of policies-in-force is not yet sufficiently large. We are still unable to determine how the impact of COVID-19 on the insurance claims has appeared, so we will continue to closely monitor this issue.

Regarding operating expenses, marketing expenses among the operating expenses have been kept down a little from the previous year. In the first quarter and the second quarter, as the unit price of advertising and promotions was declining, we believe that we were able to make more efficient investments without spending a large amount to that extent.

We disclosed that the timing of profitability will be in the mid-2020s, and we have not changed it. At the present time, we are prioritizing investment in growth opportunities even if there is a deficit.

**Questioner 1:** Thank you very much. For the second question, please let me confirm additionally.

In addition to the current revision of insurance assumptions and operating expenses, I think that you have also mentioned an improvement in the surrender and lapse ratio. How is the impact by the improvement?

I believe that surrender and lapse ration for the cumulative second quarter in this fiscal year has been too good. So, I would like to confirm this point since I don't want it to swing back in the future if we reflect the current conditions of the ratio in revision of insurance assumptions.

**Kishimoto:** We believe that the surrender and lapse ratio may be affected by COVID-19 at present, but on the other hand, we have been continuously implementing measures to improve the surrender and lapse ratio. We have judged that the effects of the latter part have also appeared, and to a certain extent, it has been incorporated into the assumption changes.

Of course, as you mentioned, there is still a possibility that a swing back will occur in the future, so it is difficult to say the improvement will maintain.

**Questioner 1:** Do you incorporate the surrender and lapse ratio of 5.5% into assumption changes?

**Kishimoto:** No, I haven't incorporated it that far.

**Questioner 2:** First, in the surrender and lapse ratio in the EV report at the end of March, the impacts of sensitivity (changes in assumption) of 10% decrease in surrender and lapse ratio on the EV is not so large. Is the impact of revision of assumption related to surrender and lapse ratio very limited at the end of September?

In addition, regarding of assumption changes of JPY3,663 million, the operating expenses per policy improves in line with the increase in volume of policies-in-force. At the previous fiscal year, there was the impact from assumptions changes of JPY6,707 million. I would like to make a comparison, including how positive it was for the increase in policies-in-force last year.

**Kishimoto:** First of all, regarding the surrender and lapse ratio, only one number is disclosed as the surrender and lapse ratio. The ratios used in the EV assumption are product-specific et cetera, and the assumptions are set according to duration of years from the policy issue.

The most significant change we made this time is, in particular, the assumption of the first year of the policy.

What is indicated by the sensitivity is the figure when the surrender and lapse ratio is changed across the board over the long term, so the effects are different. This is the result this time.

**Questioner 2:** Do you mean that there can be an impact around 1 billion even with the surrender and lapse ratio alone?

**Kishimoto:** Depending on which part of the elapsed years is changed, the sensitivity, how it changes is different. This time, the fact that we change the portion where the number of elapsed years for policies is small has been quite effective.

Also, regarding the impact of the increase in policies-in-force, we have not disclosed the specific figures. It will largely change in accordance with the way of the growth of policies-in-force, so I think that the growth in the current fiscal year has been effective to a considerable extent.

**Questioner 2:** I remember that the main factor of assumption changes of JPY6,707 million at the previous year was mortality assumption changes. That said, the positive effect of the change in assumptions related to the increase in policies-in-force did not appear last year.

**Kishimoto:** I wouldn't say not at all, but the impact of changing the mortality rate was relatively large in the last fiscal year.

**Questioner 2:** Okay. The second point briefly. I think it was great that the new business increased. However, it grew the most YoY in April, and after that, the rate of growth slightly subsided.

More people started working at home and young people are aware of the crisis due to COVID-19, so it should have increased tremendously, such as that the number of new policies doubles or triples, as if how Internet brokers are at the establishment stage. However, it was not the case. Fewer people would decide to buy life insurance at their own discretion when it comes to life insurance sales.

So, you need to push from the outside, especially in Japan, while you can't get out of this situation. Your company will surely grow by taking advantage of this wave. Could you tell us what your thoughts are regarding the various initiatives for the growth?

**Mori:** Thank you for your questions. This is Mori.

I believe that there are some differences between the online channel and the face-to-face sales channel, push-type business as you just questioned about.

On the other hand, we don't think the difference is the reason why April and May are so high for the moment and have been leveling off moderately since then.

As one of consumers, I really feel the rapid change in the environment. There is a large amount of expenditure for leisure, where suppression has been released after they have been refrained from going out under state of emergency. Because of the impact of Go To campaigns by the government, I feel that in the breakdown of consumption, the expenditure for leisure is more increasing than we used to consume.

The business environment was unusual especially in April and May, and I think the current business environment is also a little unusual. I think it may not necessarily be sustained.

We are not heavily constrained by very detailed monthly fluctuations, and without losing sight of the megatrends, we are still committed to making the necessary marketing investments and system investments to expand the online life insurance market.

So, we are not worried about this major trend of growth in our Company today.

**Questioner 3:** I would like to know three points.

The first point is the meaning of "careful" referred to by the President on [page six of the material](#). I think that basically the management policy has not changed. Was the word "careful" used in the sense that you think that you will carefully consider spending marketing expenses because there is a possibility of dropping marketing efficiency?

Second, I would like to know about [page 15 of the material](#). Do you use discounted value of time when calculating LTV (lifetime value)? In addition, the improvement in the surrender and lapse ratio has led to a long-term average policy term thus short-term movements by the ratio are having a huge impact on the results. I think it would be better to calculate with average figures. How are you sorting out that point?

Lastly, you said you would use data to strengthen the interface with customers. Will you use the data you have, or will you broadly collect data from an external platformer or a company?

**Mori:** Thank you for your questions.

As you say, the management policy has not changed significantly in the medium term. In the short term, amidst the current high level of leisure consumption, we believed that if we increased the amount of promotions as we had in the past, there would be a possibility that our marketing efficiency would deteriorate.

Under these circumstances, we have made a management decision not to make unreasonable investments. We intend to carefully assess the timing of the increase and acceleration, while keeping the timing of the increase in mind. There is no change from a large perspective.

**Kondo:** I, Kondo, will answer the second and third points.

We recognize that the second point is based on LTV (lifetime value) and CAC (customer acquisition cost) on [page 15 of the material](#). In this case, the discount rate is not used because our LTV is calculated in a simple manner only as reference information.

In the course of communicating with various investors, they sometimes pointed out that the characteristics of the Company may be very similar to those of SaaS companies in recent years because the life insurance business is a recurring revenue business and long-lived business, and the initial investment would be extremely large.

We are, of course, a life insurer and not a SaaS company, but we have just indicated that when we apply our KPIs to the business indicators of a SaaS company.

Regarding the third point, on [page 21 of the material](#), we mentioned how to visualize the data by investment in the customer experience.

This is not limited to the policyholders' data that we have. We also have data obtained in the course of the business. Of course, we do not exclude an option to collaborate with other companies. We want to use data in a way that will enable us to innovate the customer experience.

**Questioner 3:** Okay. I would like to ask you to follow up on just one thing regarding the first point.

Currently, some existing life insurance companies are focusing on DX. Utilizing technology, they have set up systems that allow them to meet customers online and allow customers to apply for policies online.

Do you have any thoughts or feelings about the current competitive environment as a risk or opportunity, after looking at the following six months to one year?

**Mori:** This is Mori. Thank you for your question.

There have been two distinctly different sale channels in the industry: face-to-face vs. non-face-to-face or online. Most recently, I think that the two pillars have come into play: whether we meet or not, whether face-to-face or not, whether we are going to do it through sales representatives or not.

Today, many insurers have handled this COVID-19 situation very quickly by devising and responding to it. We understand that while they have established a sales method in which they do not meet directly or physically, they are investing in the utilization of sales representatives in the midst of the corona crisis.

On the other hand, the use of our technology has become a pull-type business model that empowers consumers. We do not believe that the recent actions of the current major life insurance companies have had a material impact on the competitive environment for our business directly.

However, there is a possibility that they will enter our field such as non-face-to-face field in the future. We intend to take full advantage of the past 13 years to create a position and make investments that will expand further.

**Questioner 4:** I would like to ask you some questions about the white label strategy.

The first point is that you explained that the current number of policies had stabilized, and did the ratio change in the own brand and the white label? In other words, if you can tell us, to the extent possible, whether the white label portion of the growth contributes to the overall growth or not.

The second point is about white label promotions. Are they based on the marketing strategies of partner companies or do you give any advice or consultation?

The third point is about [page 15 of the material](#). How do you calculate CAC in the case of the white label?

**Kondo:** Thank you for your questions. I, Kondo, will answer the first and second points of the three points.

Regarding white label, we are basically not disclosing through what channels we are acquiring new business. But, in recent years, white label has been on a declining trend or leveled off while direct Internet sales, our own brand have continued to be extremely vigorous.

Second, white label promotions are based on the sales strategies of partner companies, but they are specializing in the sale of life insurance online. We believe that we possess the expertise in online sales, so we conduct advice and consulting for it as appropriate.

**Mori:** This is Mori. There is some overlap with the first and second points. Under COVID-19 pandemic, our business partners have been giving considerable priority to their own responses to COVID-19, and the amount invested in the life insurance business has been decreasing slightly compared to the previous fiscal year. Considering the current situation, it can't be helped. Looking ahead, we intend to rebuild white label business firmly over the medium term and return to a high-growth channel alongside the Internet channel.

Although we have not disclosed the breakdown in the figure, the majority is the internet channels, the LIFENET brand. We feel that it is steadily growing at double-digit percentages, which is a positive response.

Lastly, the third point regarding the price. This is about how to allocate fixed costs and other expenses. The white label acquisition costs are commissions paid to our business partners.

We disclose the commission on our website. Basically, they are around 40% of the annualized premium of averaged JPY45,000 which is below 100% level. Simply applying the commission, we also evaluate it as being at a lower level than the current Company-wide average CAC of JPY59,000.

If the percentage of white label increases in the future, it can be expected to have the effect of pushing down the Company-wide CAC. Therefore, we would like to contribute to raising the Company-wide policy performance by firmly growing the white label channel, as well as the Internet channel.

**Questioner 5:** These two are qualitative points.

Firstly, is there already a move that consumers switch insurance to the cheaper ones that you offer due to the anxiety about future income? I am not sure how to grasp the trend, but do you grasp such a sign of the move in some way? Or do you expect that consumers switch to you in the future?

The second point. Apart from the view of being non-face-to-face, some life insurers have been investing very strongly in DX for some time. While they are going to further accelerate it due to COVID-19 impact, how will you compete against large insurance companies with capital strength? We hope you will tell us in what kind of competitive axis. Will your Company focus on DX investment?

**Kondo:** Thank you for your question. I will answer the first of the two questions, and the second one will be answered by Mori.

In our case, there have been so many customers who newly apply for policies for the first time. We recognize that the movement to switch from the current insurance to ours with lower premiums due to the uncertainty of future income is relatively limited.

Even under COVID-19 impact, the major trend has not changed dramatically on the basis of the questionnaire which customers answered.

On the other hand, we have recently emphasized how to save money or the fact that the benefits of switching to ours are large through TV commercials. I think appealing our benefits with various technologies is the area that has not yet been done. I think that it is worth taking on challenges to the area in the future.

**Mori:** The second point is how to differentiate ourselves in a competitive environment that is accelerating DX. You may think insurance products typically conjure up image of product development in a narrow sense like insurance policy provisions.

For a pull-type business like ours, the products we develop are not only insurance policy provisions, but also the promotions that will stimulate reasonable needs. In addition, we believe that the entire customer experience, including a smooth and frictionless website and smooth and prompt payment of insurance claims, is our product.

I believe that making investments to improve and enhance the overall experience in this way of thinking is a different from other insurance companies.

We believe that refining our customer experience by specializing in online activities is our competitive strategy and a differentiating factor.

## Question in the text form and Answer

**Question:** What efforts are you making to further improve the operating expenses ratio excluding marketing expenses, other than the growth of policies-in-force? In addition, please tell us if you have a benchmark for the operating expenses ratio.

**Kondo:** Kondo will answer your question. In order to improve the operating expenses ratio other than the growth of policies-in-force, we have established a company-wide project and are discussing initiatives while focusing on improving productivity.

This improvement in productivity does not mean simple cost reductions, but rather means that productivity will be improved if an increase in costs are contained regardless of growth of in policies-in-force. I think that there is still room to improve productivity, including administration like customer service, system, and indirect costs.

Our goal of the operating expenses ratio is to improve below the 20% level over the medium to long term. In the first half of the fiscal year, we have successfully reduced it by 19.5%. However, there are still uncertainties as to whether improvements are going to be made at this pace. Therefore, the level of 20% in the medium-to long-term is our goal today.

**Question:** What measures were seen as effective in improving the user interface in the second quarter?

**Kondo:** The improvement of the user interface is not limited to the second quarter, and we are making fine-tuned improvements on a daily basis.

I think there are three major areas that we are conducting most recently. The first is improving the flow of applications, the second is preventing cancellations, and the third is diversifying insurance premium payment methods. Each of them is a small improvement rather than a very large effect, but I think that the effect is becoming effective.

In a broad sense of the user interface, we are taking initiatives like increasing the percentage of text communications and chats at the contact center, which is the call center, and posting updated measures for COVID-19 on our website as soon as possible. There is also the user interface in a broad sense. We are carrying out these activities, while focusing on two major keywords: stress-free for customers; and enhancing their engagement.

**Question:** Please tell us the current measures to be taken with regard to the transfer of the listing market to the First Section of the Tokyo Stock Exchange in the next stage.

**Kondo:** We have been continuously studying the responses to the market, including this change in the listing market, since we were listed.

I think there are the advantages and disadvantages of the listing of the First Section. Advantages are the broadening of the number of investors and easier to include in the index. I think the disadvantage is that there is a business burden in the process of the change of the listing section, so I would like to consider the situation while taking this into account.

Since we have been in the red for a long time now, we believe that a certain amount of market capitalization is necessary in order to change the listing section. Although we recognize that market capitalization has reached a level that can be cleared by the most recent stock price, the TSE will change its market classification in 2022. There are still some unclear trends, so we will continue to examine them in the future, while carefully monitoring them.

**Question:** The marketing efficiency deteriorated slightly in Q2 compared to Q1. Did you improve marketing efficiency in Q2, except for external factors such as tailwinds due to COVID-19 impact? In addition, how far can you afford to increase new business from next year onwards while maintaining this efficiency?

**Kondo:** Basically, it is difficult to draw a line between tailwind and impact unrelated to coronavirus in the second quarter. We believe that we have built a good manner for our advertising investment well from around the second half of last year, and we recognize that we are continuing to improve our marketing efficiency by improving it successfully.

Generally speaking, however, what the Company increases its scale while improving the efficiency of marketing expenses are extremely difficult. I think that our sales efficiency will deteriorate as we increase our business scale. So I recognize that we will not be able to continue to improve the marketing efficiency for a long time, but I think it will be possible to improve it by focusing on the balance between the growth and the efficiency, and implementing new measures.

**Question:** Regarding further increases in marketing expenses in the second half of the year. By keeping ordinary profit at the first half of the fiscal year at minus JPY1.1 billion, can you make additional marketing expenses of JPY1 billion in the second half of the fiscal year on top of JPY3 billion in the first half of the fiscal year?

**Kondo:** In the first half of the year, ordinary loss has been restrained more than expected. As a reason, as I mentioned earlier, benefit claims have been restrained. Also, the lower operating expenses other than marketing expenses contributed to it. I think that we can aggressively invest in the second half of the fiscal year.

**Question:** What kind of discussion did you have in the process of creating the new TV commercials?

**Kondo:** I think there are two major points. The first is a new lifestyle under COVID-19 pandemic. We are discussing how to communicate with customers while leveraging our strengths like online-oriented measures. Another point of view is how to foster a sense of trust and security as a brand. We are creating a new TV commercial that includes these two elements. In addition, we also have to raise our brand awareness as we are not known well enough compared to other major life insurance companies.

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