LIFENET INSURANCE COMPANY

Question and Answer Summary at Financial Results Briefing for the Fiscal Year Ended March 2024

May 14, 2024

[Answerers]

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Question & Answer

Question: Regarding claim payments of group credit life insurance ("GCL"), there was an increase in the fourth quarter of FY2023 compared to the third quarter of FY2023. Are there any trends in the products or the age groups for which insurance claims were paid?

Kawasaki: The GCL business started in July 2023 and was initially recognized as having little or no impact on profits under IFRS in FY2023, and the second quarter of the current fiscal year went as expected. In the third and fourth quarters, there were more claim payments than expected, but we expected to be resolved by the premium rate revisions scheduled to be made in the future. Basically, our GCL products mainly provide coverage for "death" and "cancer," and we do not see any particular trends in customer demographics.

Mori: The GCL policies currently held by Lifenet include a mix of policies underwritten by the previous life insurance company and transferred to us and policies underwritten by Lifenet since last July. Most of the current claims paid on the GCL policies are from the transferred policies. In general, the selection effect of insurance policies ceases to be effective after a certain period of time. When we set the premiums this time, we priced them based on past payment performance, but we recognize that there were some discrepancies with the theoretical value of the insurance accident rate, resulting in higher-than-expected payments.

It should be noted that the premium rate revision is scheduled to be reflected in July 2024. Since premium rate in the first quarter of FY2024 is expected to be the same as the current level, please be aware that insurance service results from GCL may still be negative in the first quarter of FY2024.

Question: Are there any requests from Lifenet to its partner bank with regard to underwriting of GCL? In light of the impact on profits under IFRS, are there any risk management issues that you would like to take into consideration when expanding the number of new partner banks in the future?

Mori: Basically, given that the expansion of GCL business depends on increasing mortgage loan contracts through the sales efforts of each bank, we are considering reflecting an appropriate and up-to-date accident rate in premiums to secure a mortality margin rather than making our underwriting more rigorous. On the other hand, since the level of GCL premiums is related to the mortgage interest rates set by the banks, which in turn is a source of competitiveness in the mortgage loan business, we would like to hold discussions with the bank based on a balance between the above two points.

In addition, we have learned about the difference between past payment performance and the removal of future selection effects for the future development of other banks.

Question: Regarding the forecast of 8.9 billion yen in insurance service results for FY2024 on page 14 of the presentation material, if only the negative of 666 million yen due to GCL in FY2023 were eliminated, would it be enough to reach the business forecast for FY2024?

Kawasaki: The loss of 666 million yen for GCL on page 13 of the presentation material was before taking reinsurance into account, and the actual impact on insurance service results in FY2023 was approximately 400 million yen. In addition, since the premium rate revision for GCL is scheduled to be reflected from July 2024, we have factored into our business forecasts assuming that results from GCL will not improve until the first quarter of FY2024. In addition, although claim payments of individual life insurance were lower than expected in FY2023, we have not taken this into account in our FY2024 forecast. Therefore, if individual life insurance claim payments in FY2024 are at the same level as the previous year, there is a possibility that our business forecast will be revised upward.

Question: Regarding insurance acquisition cash flow efficiency on page 42 of the presentation material, quarterly trends show a deterioration in the fourth quarter of FY2023 versus the previous quarter. Please explain your recognition of the current business environment and your advertising investment in FY2024.

Kawasaki: There are fluctuations in the amount of investment each quarter and there is not necessarily a link between investment in a short period of time on a quarterly basis and payback through the acquisition of new business. Basically, you see the movement on a fiscal year basis. Although the amount of marketing expenses in FY2023 was reduced and controlled from the previous year, we recognize that efficiency deteriorated due to the prolonged decline in demand for protection-type life insurance products after the convergence of COVID-19.

In addition, we are currently in a phase in which it is consciously allowing a certain level of efficiency deterioration in order to invest to re-grow over the medium- to long-term. We hope to improve the current 120,000 yen level to the 100,000 yen level in the medium- to long-term. However, we expect a certain level of efficiency deterioration in the current fiscal year since we will continue to invest from a medium- to long-term perspective in FY2024.

Question: Please explain the financial target of "annual growth rate of Comprehensive Equity per share: approximately 10%" in the mid-term business plan on page 18 of the presentation material.

Kawasaki: In FY2028, one of the goals is to reach growth rate of Comprehensive Equity per share by about 10% year over year. During the mid-term business plan, we believe that fluctuations in the growth rate may occur from year to year, depending on the progress of our initiatives, for example, the expansion of our partner banks in the GCL business.

Question: What is the forecast level of Comprehensive Equity ("CE"), a management indicator, for FY2024?

Kawasaki: The previous Management Policy did not specify a time frame for achieving management goal. We have decided to disclose the goals by setting a time frame of FY2028 based on dialogue with investors. On the other hand, since Comprehensive Equity is a variable indicator that includes various macroeconomic factors, we do not disclose a short-term target level such as one year.

Question: Given the current environment of rising interest rates, it may be possible to set more competitive premiums. Do you have any plans to strategically address changes in premium levels in the future?

Mori: We recognize that premium level is an issue that we should originally tackle against one of the pain points for customers in life insurance. Specific pricing strategies are not disclosed from the perspective of our competitive strategy. We recognize that, in general terms, one of the expectations of customers for online life insurers like us is that the expansion of our business scale will lower our operating expenses ratio and further reduce the financial burden on our customers.

Although we have been monitoring trends in premium levels at other life insurance companies, we do not intend to directly reflect other companies' levels in our premium levels. We intend to leverage our current leading position in online life insurance to improve our services and strengthen our brand, while receiving appropriate premiums from our policyholders.

Question: I feel that the creative for the new TV commercial has changed from the previous content. What is the background behind the change? In general, customers feel that life insurance products are complicated when purchasing insurance and they need appropriate consulting. The content of this new TV commercial is based on the opposite of the general idea of customers themselves thinking about life insurance. What is your intention of this TV commercial?

Mori: We believe that some people, especially among the younger generation, may have never considered purchasing insurance or may be turned off by a vague perception that insurance is difficult. While it will not be easy to change this perception, we believe that by continuing to communicate over time. there is high growth potential in online life insurance, just as online financial services have expanded.

Question: Regarding the management goal of "achieving Comprehensive Equity of 200 billion yen to 240 billion yen in FY2028," why is there a wide range in the goal?

Mori: As noted on page 25 of the presentation material, Comprehensive Equity (CE) consists of three components: IFRS equity, CSM (after-tax) and GCL contracts value, and the range of the goal depends on changes in each.

As for IFRS equity, the FY2024 forecast discloses net income attributable to owners of the Company, which is expected to continue to increase in line with profit growth in the future. CSM (after-tax) is expected to grow due to the increased performance of individual life insurance business and improved operating expenses efficiency. GCL contracts value is expected to grow as the number of partner banks increases over the next five years, in addition to growth of mortgage loan contracts in the existing partner bank.

Question: What is the background behind setting the lower limit of Comprehensive Equity target at 200 billion yen as a management goal? Also, I believe that the positive impact of the CSM assumption changes has been significant for your company as your business scale is still small. Will the incremental impact of the CSM assumption changes shrink as your scale expands in the future?

Kawasaki: The assumption of 200 billion yen is a level that can be achieved through current initiatives for individual life insurance business and efforts with one partner bank for GCL business.

In the individual life insurance business, the current growth rate of Comprehensive Equity per share is expected to be somewhat restrained, as we are also making investments for medium- and long-term growth. However, we recognize that these investments are necessary for future growth and will positively contribute to the growth rate in the latter phase of the mid-term business plan period.

Given the current scale of our business, we believe that there is significant room for improvement in our CSM assumption changes along with future expansion of our business scale. We recognize that we are still in the stage of continuing to record positive impact on the assumption changes.

Question: What will be the impact on your capital policy and financial strategy if the economic value-based solvency regulation scheduled for FY2025 are introduced?

Kawasaki: We have not disclosed the economic value-based solvency ratio (ESR) yet, but internal calculations confirm that we have sufficient solvency. Therefore, we do not assume that the introduction of this regulation itself will have any impact on our capital policy and financial strategy.

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