



Securities Code: 7157

TSE Mothers



**LIFENET**

LIFENET INSURANCE COMPANY

# Reference Data for Third Quarter Fiscal 2019

LIFENET INSURANCE COMPANY

February 12, 2020

# LIFENET is...



**Comprehensible  
Cost-Competitive  
Convenient**

- **Remembering the original purpose** of life insurance – mutual support
- **Helping our customers embrace life more fully**

# Table of Contents



**1. Results for 3Q of Fiscal 2019**

**2. Future Initiatives**

# Overview of Cumulative 3Q for FY2019



Annualized premium<sup>1</sup> of policies-in-force

**14,783** million yen  
(113.0% vs end of FY2018)

Annualized premium<sup>1</sup> of new business

**2,435** million yen  
(Y-on-Y 124.8%)

Adjusted profit<sup>2</sup>

**2,864** million yen  
(includes 1,096 million yen impact of modified co-insurance)

EEV<sup>3</sup> (European Embedded Value)

**67,455** million yen  
(Adjusted incremental EV<sup>4</sup> 2,303 million yen)

## Main Initiatives

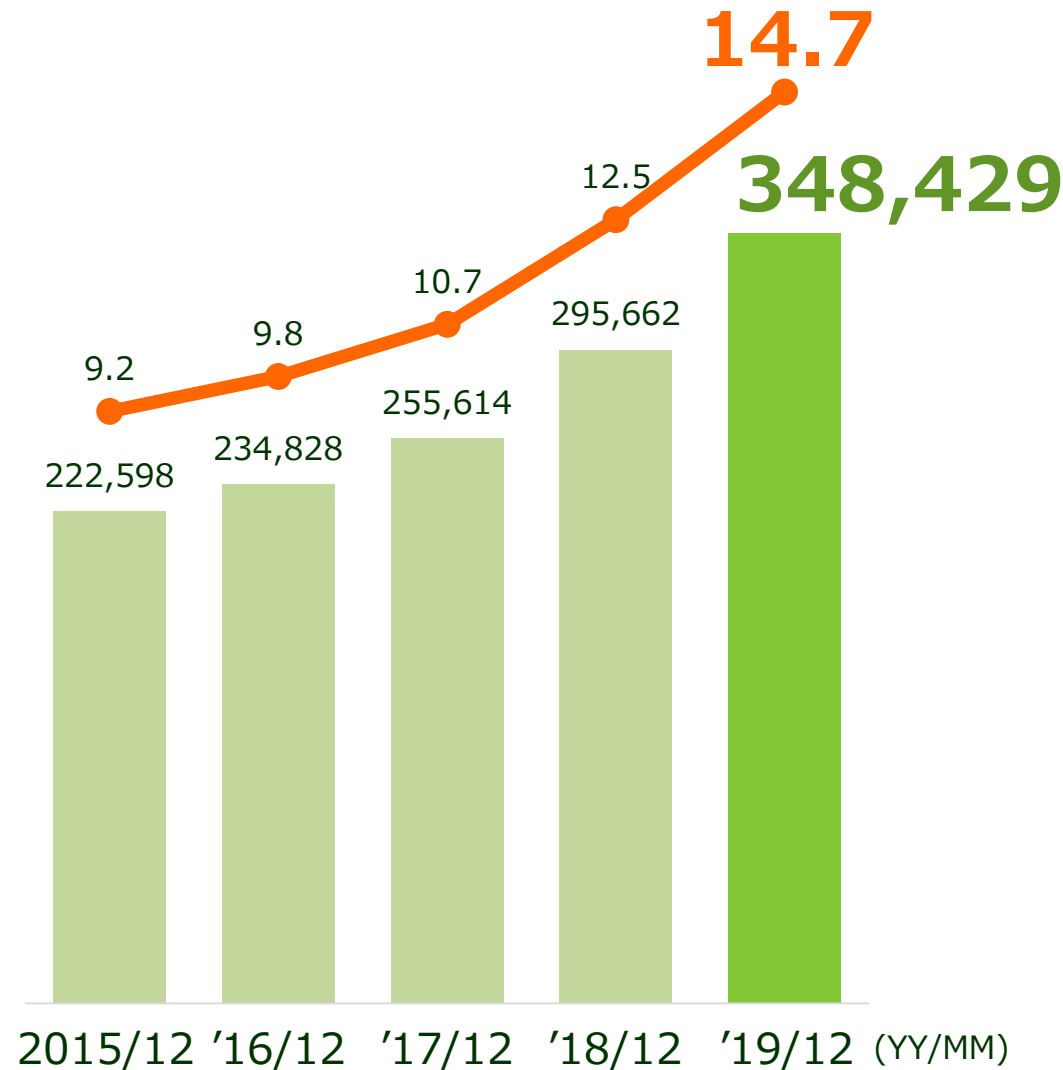
- Launch of new whole-life medical products
- Contact Center and Website receive top ratings<sup>5</sup>
- LGBT initiatives win Gold Rating<sup>6</sup> for 4th consecutive year



1. The amount of money equivalent to what is to be paid to have the insurance coverage for one year. All payments are monthly installments, thus the annualized premium is calculated as multiplying the monthly premium by 12 months.
2. Ordinary profit excluding marketing expenses, see page 11 and 32 for details.
3. EEV as of December 31, 2019 is calculated applying the same operating assumptions as those used for September 30, 2019, and has not been reviewed by third-party specialists.
4. Adjusted incremental EV consisted of components accurately reflecting our business growth for fiscal 2019. See page 33 for details.
5. 2019 HDI Benchmarking (Life Insurance Industry) hosted by HDI-Japan.
6. PRIDE Index 2019 for LGBT initiatives hosted by work with Pride.

# Annualized Premium / Number of Policies-in-Force

■ : Annualized premium of policies-in-force (JPY bn)  
■ : Number of policies-in-force



■ **Maintaining a strong growth trend**

■ **Year-on-year annualized premium **118.2%**, number of policies-in-force **117.8%****

# Breakdown of Policies-in-Force

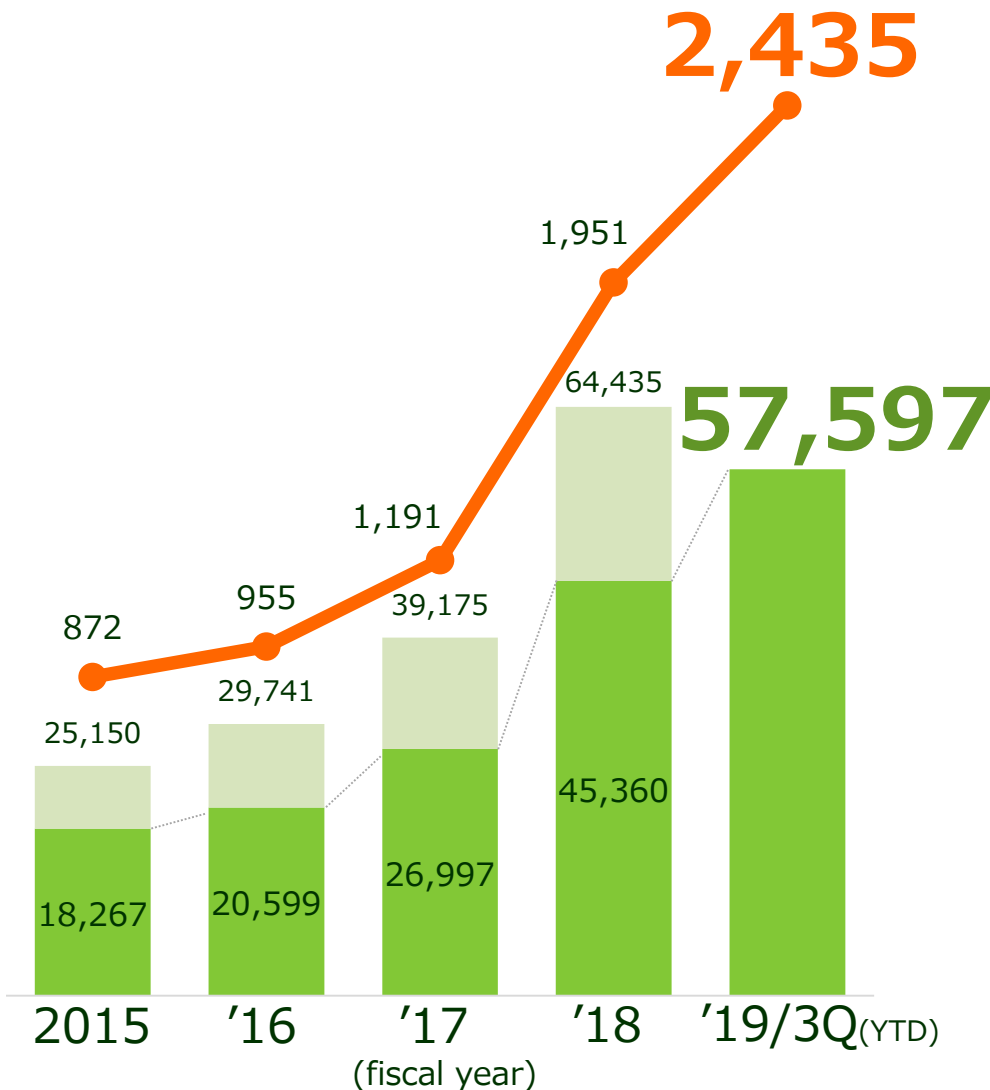
	'19/03	'19/12	Component ratio
<b>Number of policies-in-force</b>	308,854	<b>348,429</b>	<b>100%</b>
- Term Life	150,808	<b>168,076</b>	<b>48%</b>
- Whole-life Medical	85,968	<b>95,798</b>	<b>27%</b>
- Term Medical Care	9,493	<b>9,200</b>	<b>3%</b>
- Long-term Disability	49,214	<b>53,239</b>	<b>15%</b>
- Cancer	13,371	<b>22,116</b>	<b>6%</b>
<b>Sum insured of policies-in-force<sup>1</sup></b> (JPY mn)	2,289,567	<b>2,478,919</b>	
<b>Number of policyholders</b>	197,669	<b>222,173</b>	
	'18/3Q	'19/3Q	
<b>(Reference) Surrender and lapse ratio<sup>2</sup></b>	6.3%	<b>7.0%</b>	

1. Sum insured of policies-in-force are the sum of death coverage, and do not include third-sector insurance.

2. The surrender and lapse ratio is the annual equivalent of the monthly number of policies surrendered and/or lapsed divided by the monthly average number of policies-in-force.

# Annualized Premium / Number of New Business

- : Annualized premium of new business (First 9 months of fiscal year, JPY mn)
- : Number of new business (Fiscal year)
- : Number of new business (First 9 months of fiscal year)



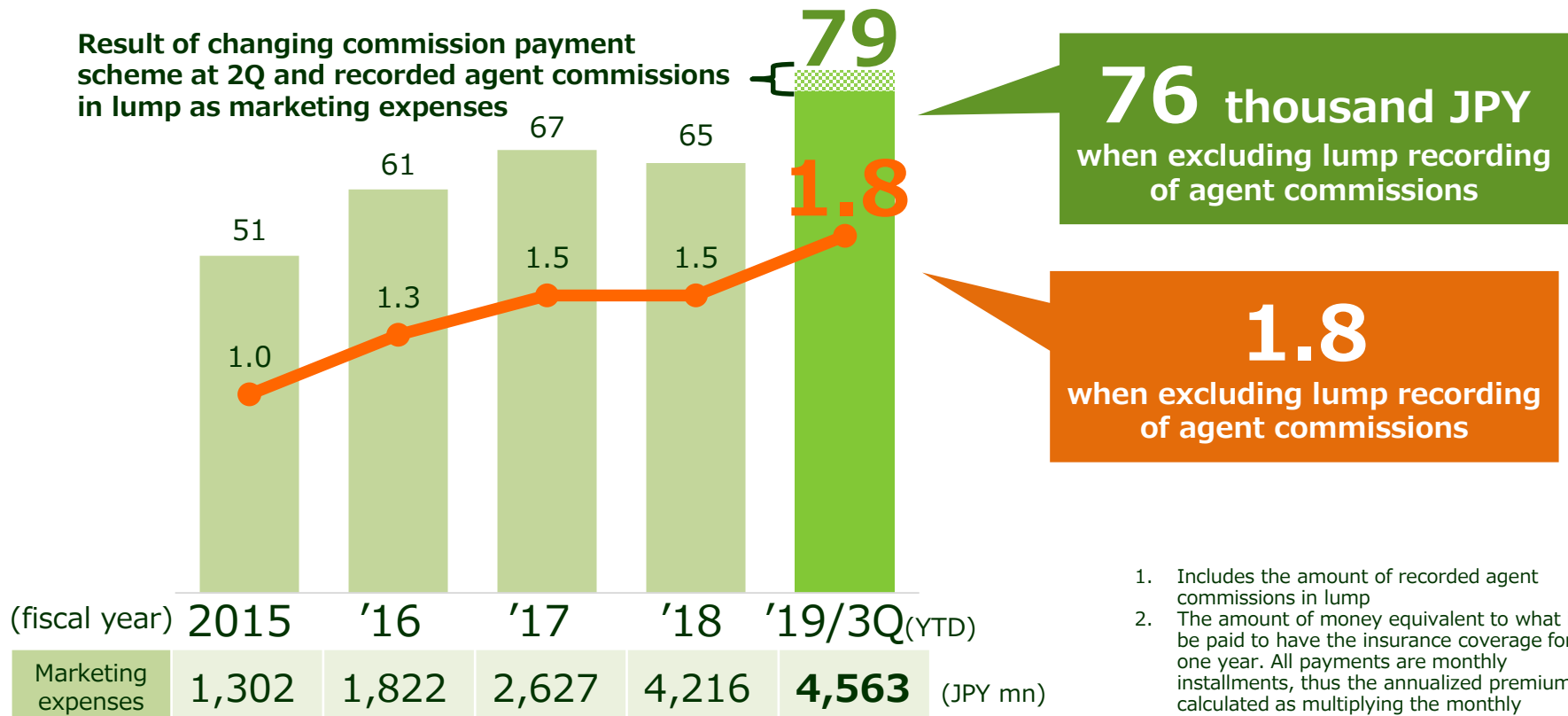
■ Achieved **new record high** for first nine months of fiscal year

■ Year-on-year annualized premium **124.8%**, number of new business **127.0%**

# Marketing Efficiency

■ Forecasted marketing efficiency for FY2019 to be **under 80,000 yen**, improving from **84,000 yen** at end of 2Q

■: Marketing expenses per new business (JPY thousand)  
 ■: Marketing expenses / Annualized premium of new business<sup>2</sup>



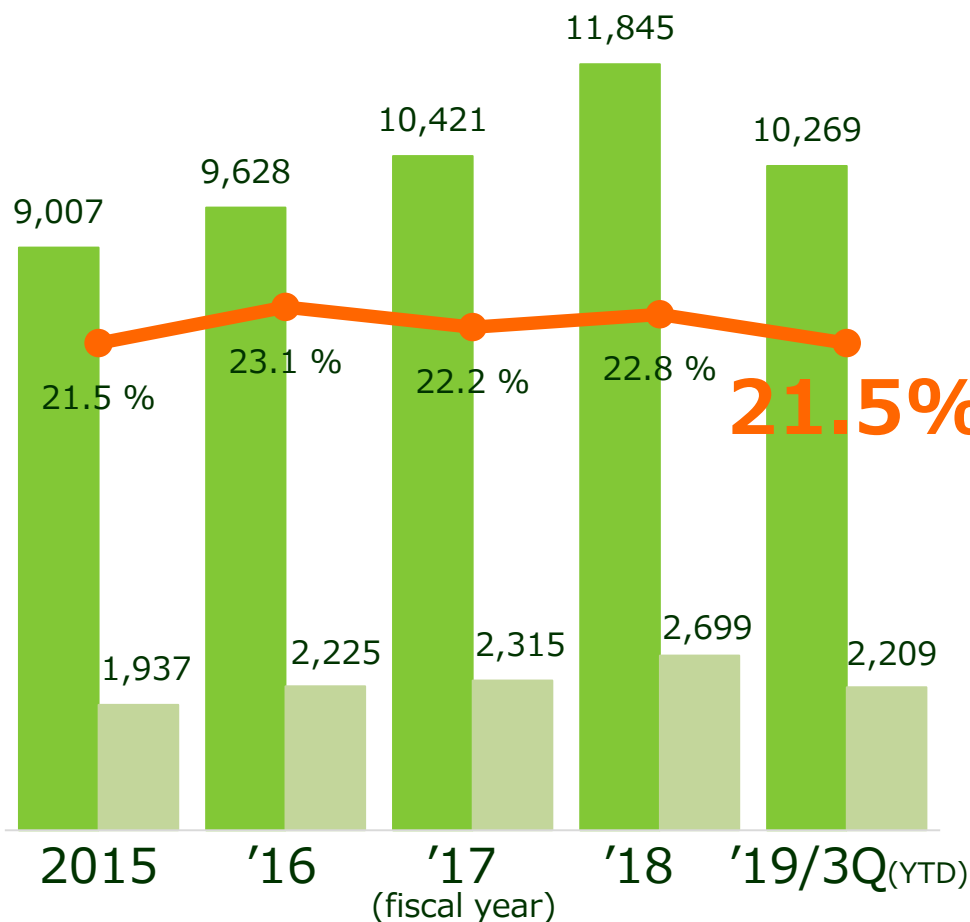
1. Includes the amount of recorded agent commissions in lump
2. The amount of money equivalent to what is to be paid to have the insurance coverage for one year. All payments are monthly installments, thus the annualized premium is calculated as multiplying the monthly premium by 12 months.



# Operating Expenses Ratio



- : Insurance premiums (JPY mn)
- : Operating expenses excl. marketing expenses (JPY mn)
- : Operating expenses ratio<sup>1</sup> (%)



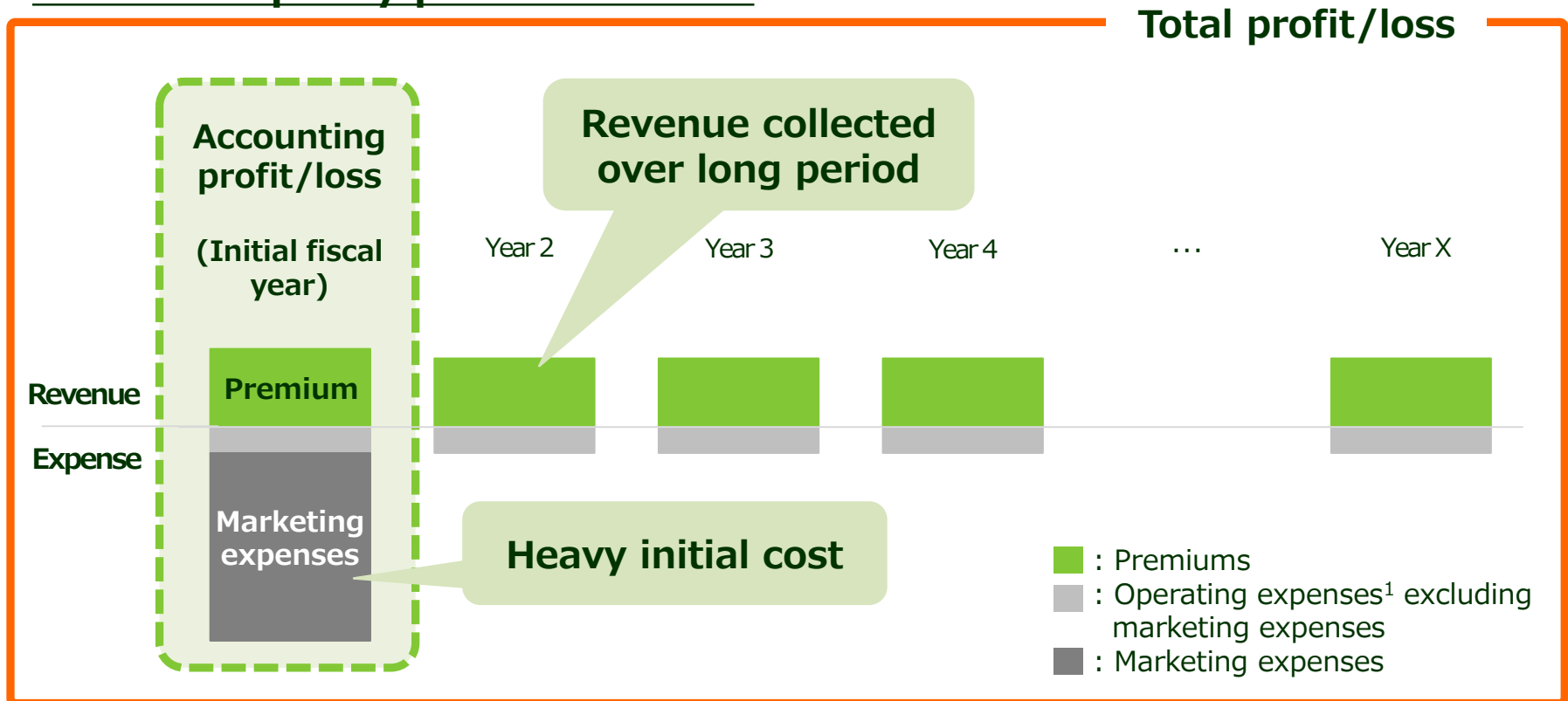
- **Progress as planned, forecasting to be roughly 22% range for FY2019**
- **Strive for further business expansion and operational efficiency in mid- to long- term**

1. Operating expenses ratio is calculated by dividing operating expenses excluding marketing expenses by insurance premium.

# Profit Structure under Current Statutory Accounting

- **Time lag is caused between the recognition of costs and revenue** as marketing expenses is recognized at the time of acquisition, and revenue is collected gradually over a long period.

## Insurance policy profit structure



1. Costs for policy management, payment of insurance claims and benefit claims, etc.

# Key Business Indicators of Corporate Value



- Disclosure of two key management indicators **during current period of growth**

## Adjusted profit

(Ordinary profit excluding marketing expenses)

Indicator of profit level excluding marketing expenses as there is a time lag between the recognition of revenue and marketing expenses as acquisition cost

## EEV

(European Embedded Value<sup>1</sup>)

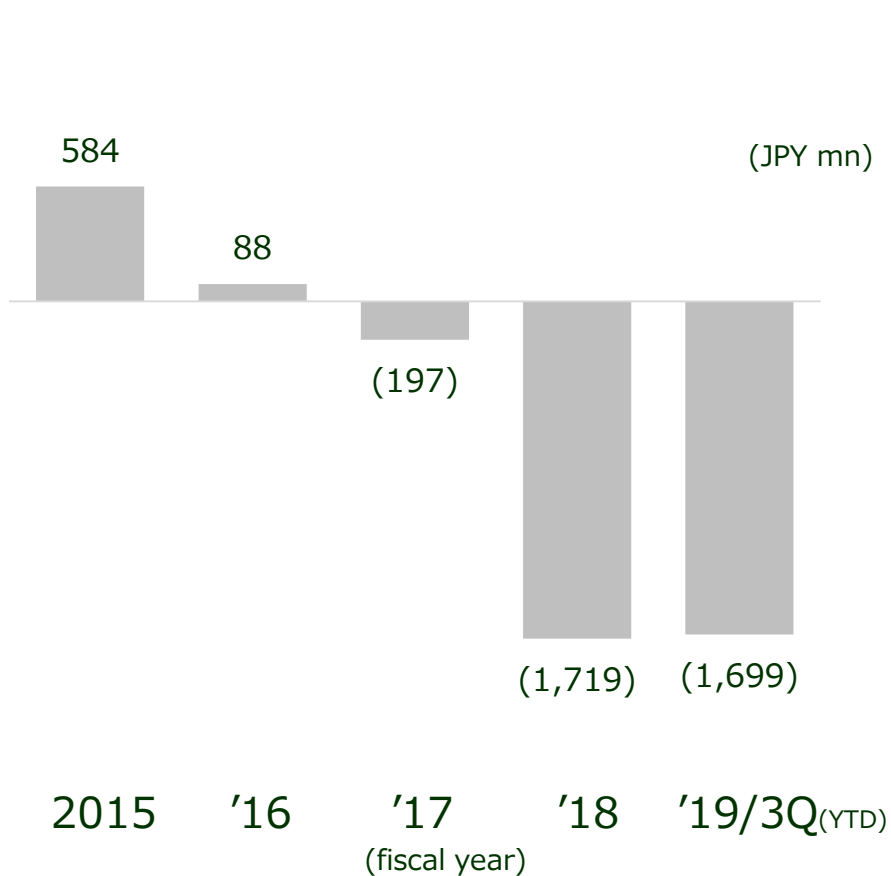
Indicator of long-term profitability of insurance companies

1. EEV is one calculation methodologies of EV. The EEV Principles and related guidance were published in May 2004 by the CFO Forum, an organization comprising the chief financial officers of Europe's leading life insurers, in order to improve consistency and transparency in EV reporting.

# Adjusted Profit

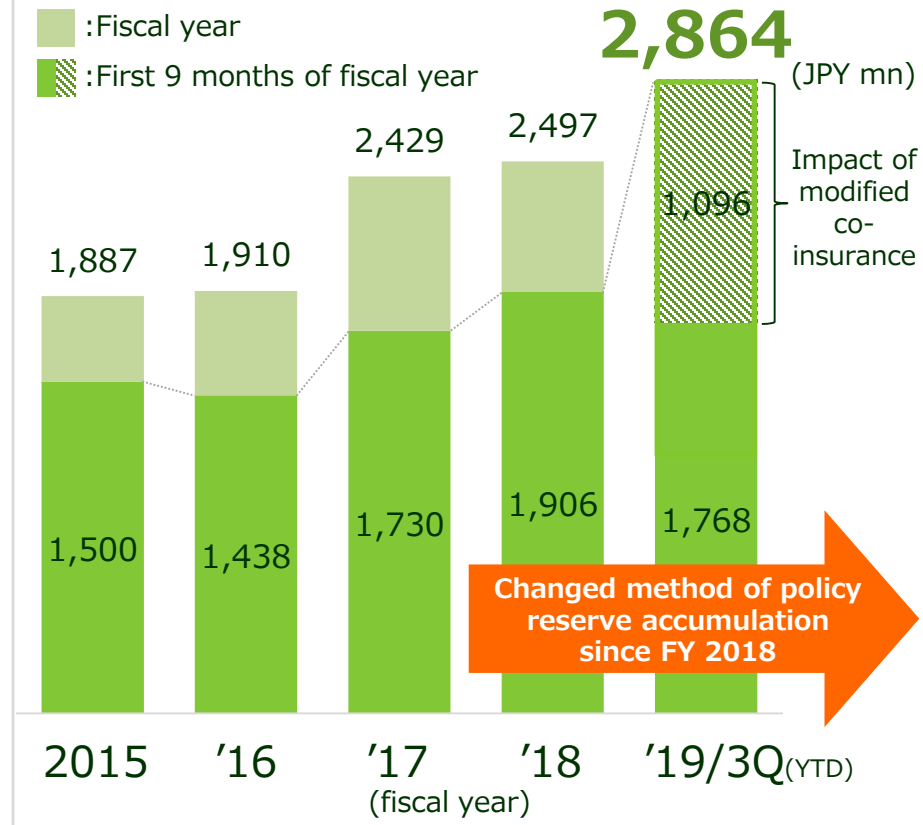
## ■ Stable growth despite of change in policy reserves accumulation methodology

### Ordinary profit/loss<sup>1</sup>



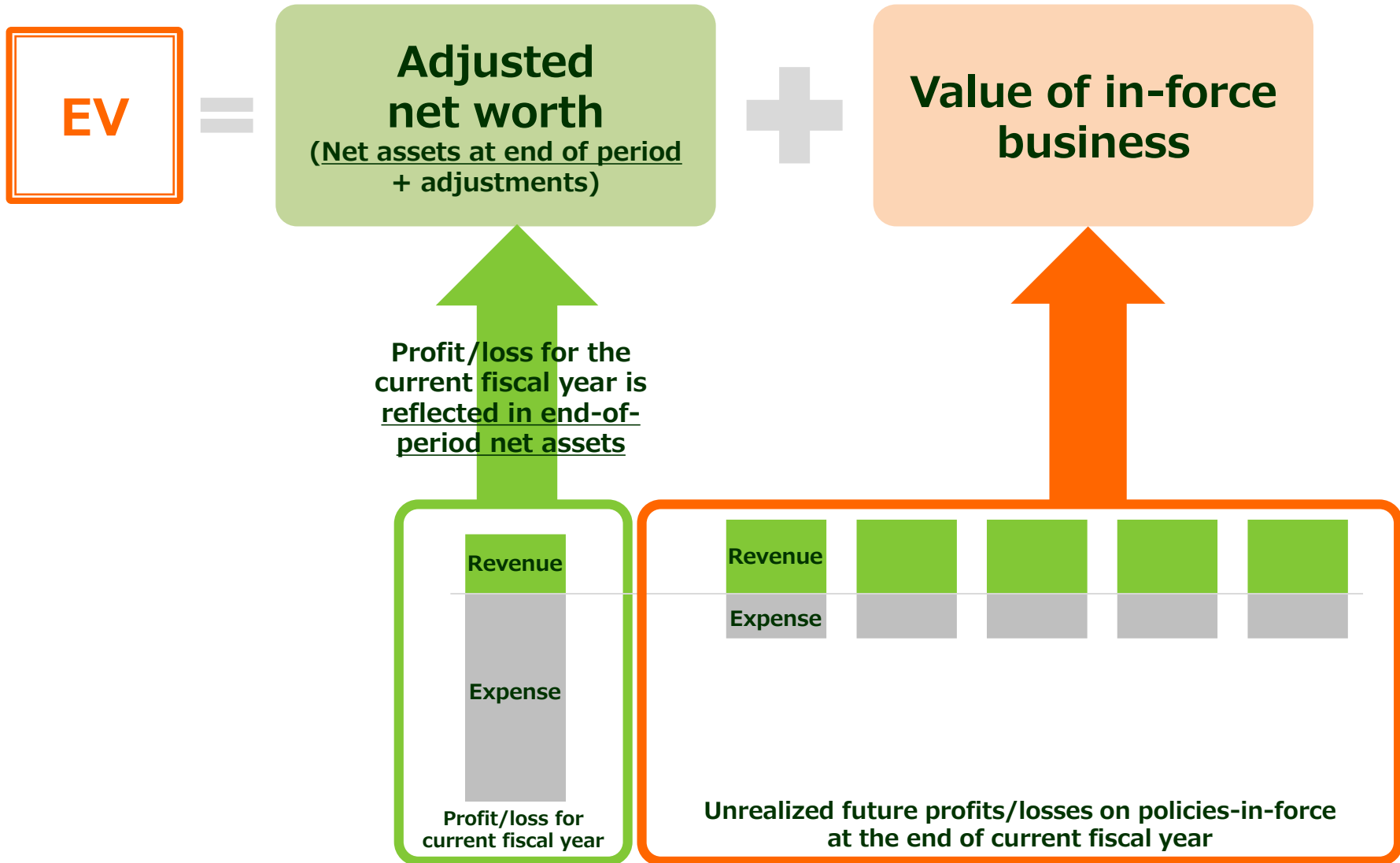
### Adjusted profit

(Ordinary profit<sup>1</sup> excluding marketing expenses)



1. The ordinary profit (loss) before amortization of deferred assets under Article 113 of the Insurance Business Act in fiscal 2015 and fiscal 2016.

# Structure of Embedded Value



- **Characteristics of Lifenet's EEV** are as follows:

## Strong growth

- **Maintaining increase** in EEV since company became public in March 2012
- **Steadily growing** even in a low interest rate environment

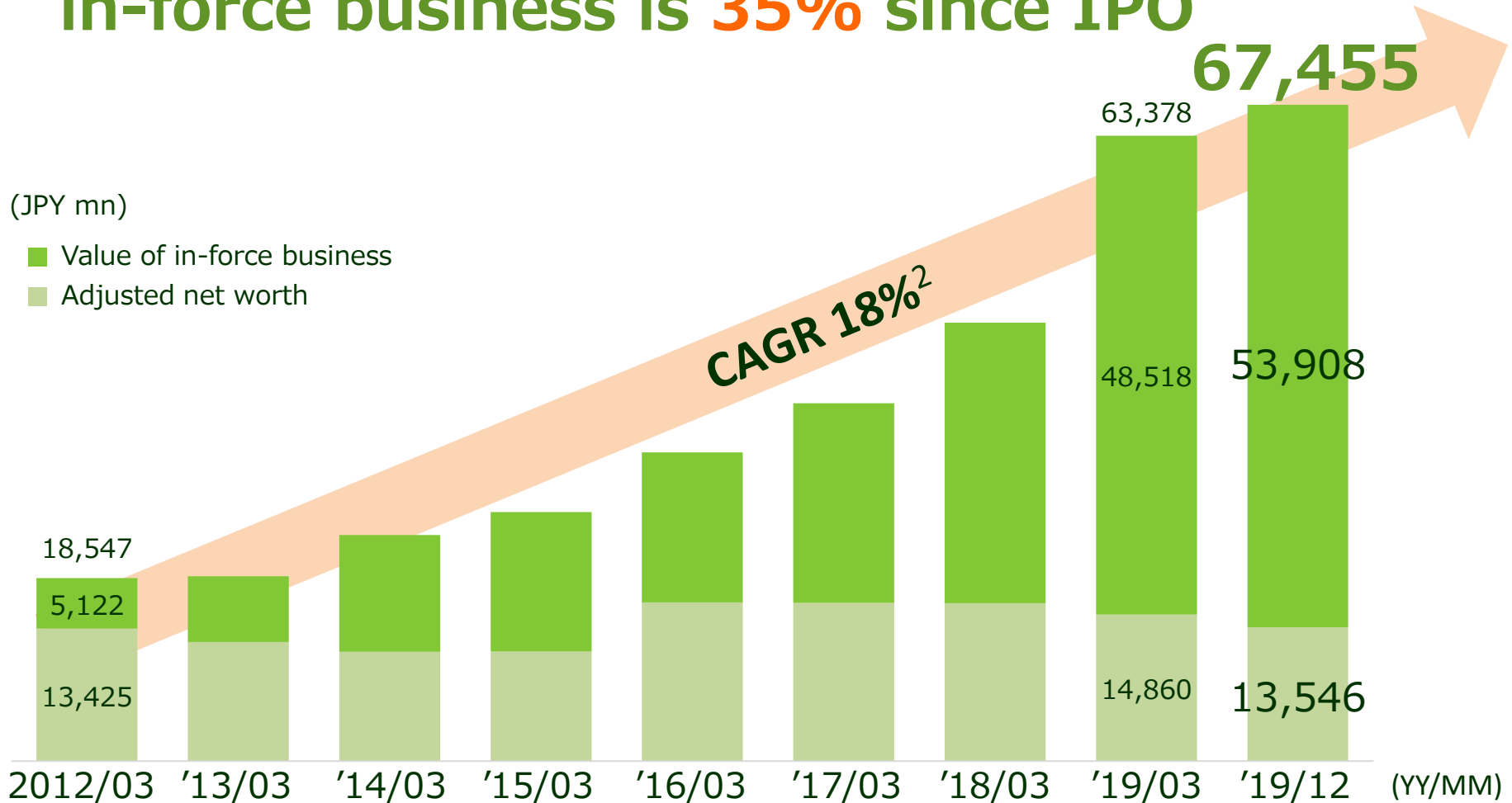
## Resilience to interest rate changes

- **Limited sensitivity** to interest rate and stock fluctuations

# Strong EEV<sup>1</sup> Growth



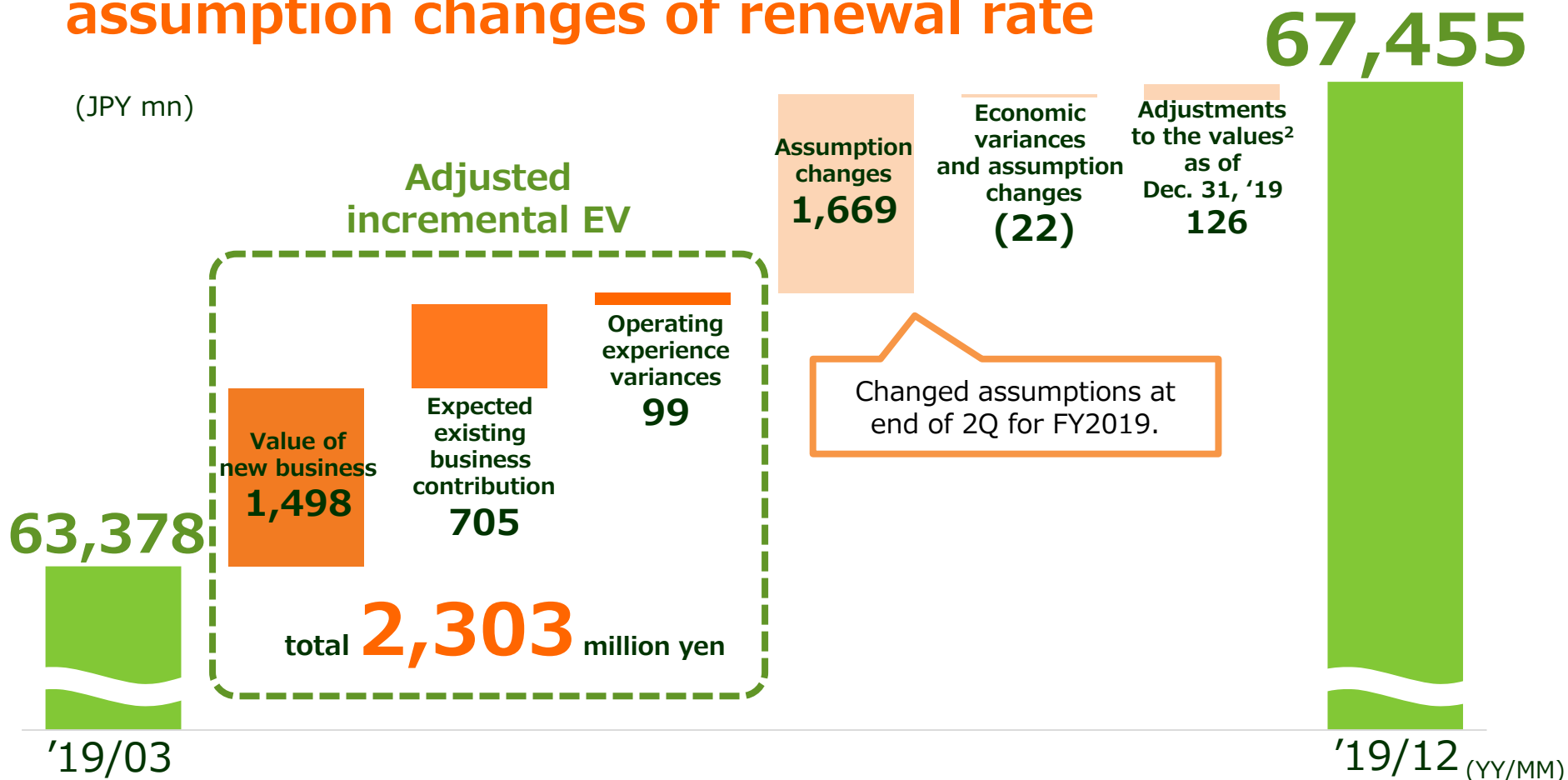
■ CAGR of EEV is **18%**<sup>2</sup> and value of in-force business is **35%** since IPO



1. Lifenet's EEV is calculated following the EEV Principles and Guidance and in terms of allowance for risk, MCEV Principles (The European Insurance CFO Forum Market Consistent Embedded Value Principles©) is referred. From fiscal 2016 onward, a predetermined ultimate forward rate has been used to extrapolate the level of ultra-long-term interest rates past the last liquid data point. This method of extrapolation has also been used to restate EEV as of March 31, 2016. EEV as of December 31, 2019 is calculated applying the same operating assumptions as those used for September 30, 2019, and has not been reviewed by third-party specialists.
2. The calculation includes 3,040 million yen in proceeds from a third-party allotment in May 2015.

# Structure Breakdown of EEV<sup>1</sup>

- Increase due to **growth of new business, improvement in operating expense ratio and assumption changes of renewal rate**



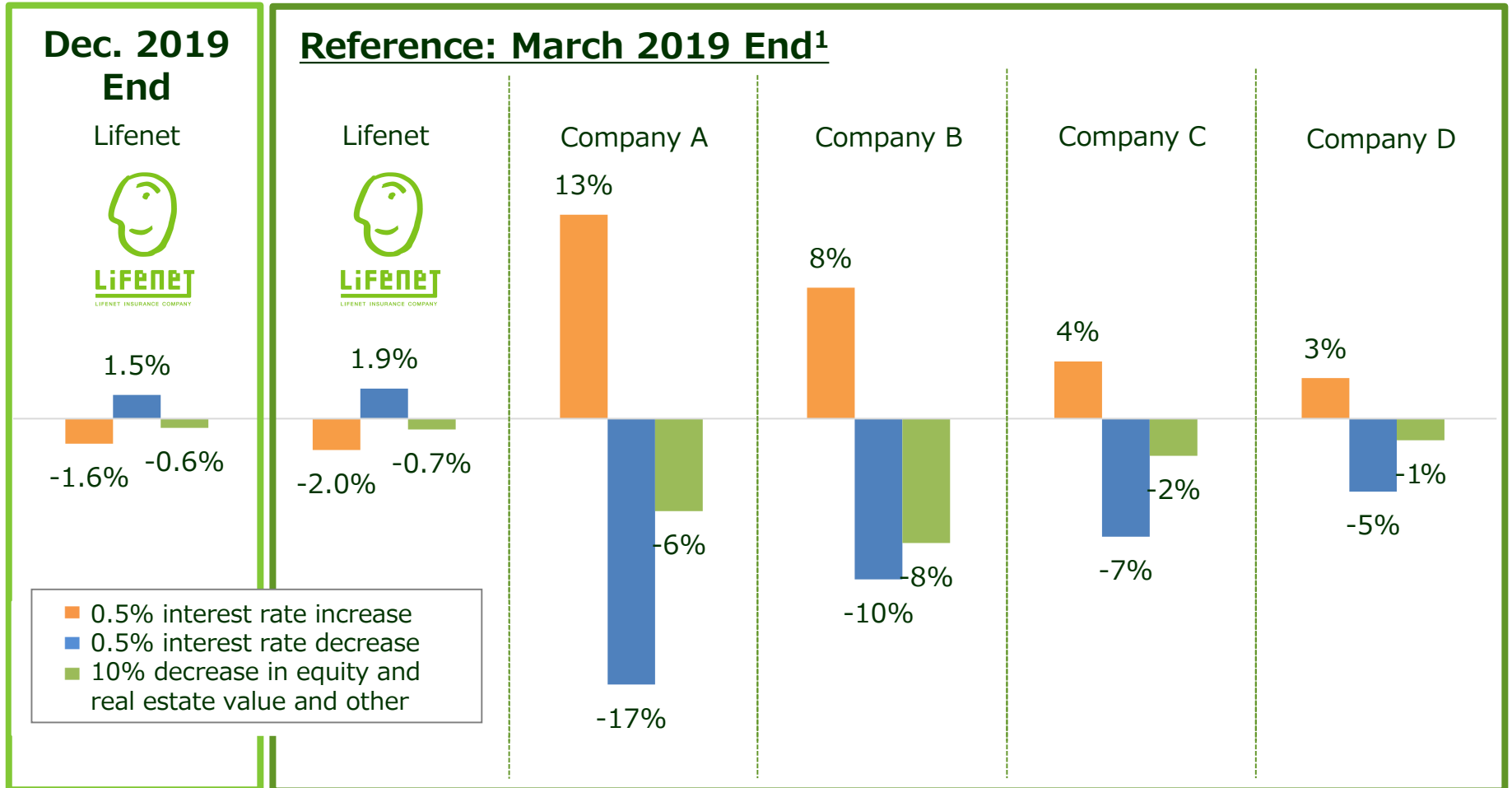
1. Lifenet's EEV is calculated following the EEV Principles and Guidance and in terms of allowance for risk, MCEV Principles (The European Insurance CFO Forum Market Consistent Embedded Value Principles©) is referred. EEV as of December 31, 2019 is calculated applying the same operating assumptions as those used for September 30, 2019, and has not been reviewed by third-party specialists.

2. Item for change in capital



# EV Resilience to Financial Changes

## ■ Limited sensitivity to interest rates and stock prices



1. Prepared by Lifenet based on disclosed information of domestic public life insurance companies.

# Financial Condition

(JPY mn)	(YY/MM)	'19/03	'19/12
<b>Total assets</b>		<b>38,247</b>	<b>40,607</b>
Cash and deposits		1,192	1,312
Monetary claims bought		999	499
Money held in trust		3,114	3,698
Securities		30,989	31,771
Government bonds		8,071	8,083
Municipal bonds		1,394	1,398
Corporate bonds		16,763	18,037
Stocks		363	372
Foreign securities		45	29
Other securities <sup>2</sup>		4,352	3,849
<b>Total liabilities</b>		<b>26,474</b>	<b>30,235</b>
Policy reserves and other		25,256	28,861
<b>Total net assets</b>		<b>11,773</b>	<b>10,371</b>
<b>Solvency margin ratio</b>		<b>2,085%</b>	<b>2,163%</b>
<b>Modified duration (year)</b>		<b>12.0</b>	<b>11.6</b>

- Maintained sufficient financial stability as indicated by solvency margin ratio<sup>1</sup>

1. The solvency margin ratio is a key benchmark for industry regulators. It measures a life insurance company's ability to pay out claims when unforeseen events occur.  
 2. Investment trust including foreign bonds and others.

# Main Initiatives

## ■ Launched new whole-life medical products in December 2019

Expanded scope of benefits based on customer needs and advances in medical technology.

New



Whole-life Medical  
*Jibun 3*

New



Whole-life Medical  
*Jibun 3 for Women*

## ■ Contact Center and Website awarded top ratings

Contact Center and Website awarded top rankings of three stars in HDI Benchmarking for 7th time, the highest number of times for a company to receive three-star ratings in the life insurance industry<sup>1</sup>.



Phone Support  
(Contact Center)



Web Support  
(Website)

## ■ LGBT initiatives win Gold Rating for 4th consecutive year in PRIDE Index 2019

1. Awarded in the 2019 HDI Benchmarking (Life Insurance Industry) hosted by HDI-Japan

# Table of Contents

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**1. Results for 3Q of Fiscal 2019**

**2. Future Initiatives**

# Starting Insurance Agency Scheme

- **Offering P2P insurance** provided by justInCase, small-amount and short-term insurer via our website



P2P insurance is an insurance product that divides risk and determines the premiums among the members of a group that share the same risk.

# Business Alliance Agreement with Seven Financial Service



- Utilize **Seven & I Group's** brand and customer base



2nd White Label Business Initiative

**Launching** product with brand of  
Seven Financial Service **this spring**

# Business Forecast FY2019



- No changes in business forecast from Nov. 12 disclosure. Aim for continuous growth

(JPY mn)

	FY2019 Forecast		(Reference) FY2018 Results
		Including impact of modified co-insurance	
Ordinary income	<b>16,500</b>	2,000	<b>12,560</b>
Ordinary profit (loss)	<b>(2,500)</b>	1,400	<b>(1,719)</b>
Net income (loss)	<b>(2,500)</b>	1,400	<b>(1,735)</b>
(Reference) Annualized premium of new business <sup>1</sup>	<b>3,300</b>		<b>2,773</b>

1. Annualized premium is the amount of money equivalent to what is to be paid to have the insurance coverage for one year. All payments for Lifenet products are in monthly installments; we calculate annualized premium as multiplying the monthly premium by 12 months.

# Management Policy



## Mission

Help our customers embrace life more fully by offering comprehensible, cost-competitive and convenient products and services

## Vision

Be the leading company driving the growth of the online life insurance market

## Priority areas

- **Innovation of customer experience**  
Enhancing and evolving the quality of all services with digital technology
- **Enhancement of promotion capabilities**  
Generating massive customer traffic by active promotion and expansion of agent sales and white label business

## Management goal

Aim to achieve EEV (European Embedded Value) of 100 billion yen by business growth in a mid-term



# LIFENET Manifesto



## Comprehensible, Cost-Competitive, Convenient

### I. Our Guiding Principles

- (1) Creating the life insurance of the future without losing sight of its original premise: “an ounce of prevention is worth more than a pound of cure.”
- (2) Listening to what our customers are saying. Recognizing their needs and acting accordingly. Allowing our actions to be borne out of their voices and needs.
- (3) Delivering the caliber of products and services that we would feel confident recommending to our own friends and families.
- (4) Being a “straight-shooter”. Committing to transparency. Communicating openly about our management team, our products, and our employees.
- (5) Embracing diversity and dialogue to keep us abreast of changing needs and preferences. Delivering peace of mind that we’ll be around in 100 years.
- (6) Acting in good faith means always taking the high road when it comes to compliance and ethics.

### III. Making Life Insurance Accessible Again - Affordable

- (1) Giving the customer what he/she needs. No more, no less at a fair price.
- (2) Staying vigilant as to how we can provide our products more cost-efficiently.
- (3) Always putting ourselves in our customers’ shoes in thinking about how to minimize their premiums.

### II. Making Life Insurance Accessible Again - Headache-free

- (1) Helping the customers help themselves. By making our materials easy to understand, customers can determine which coverage is truly the best fit.
- (2) Turning “clauses” in the insurance contract into succinct points that your grandmother could grasp.
- (3) Making all touch points headache-free. Beyond the application process, ensuring the claims and billing processes are also easy to understand.

### IV. Making Life Insurance Accessible Again - Convenient

- (1) Thinking about our customers’ convenience from every angle and every touch point along the way.
- (2) Forming alliances with like-minded partners who can add value above and beyond our products and services to our customers.
- (3) Providing health and wellness tips beyond the framework of life insurance to create value in our policyholders’ lives.
- (4) Creating a precedent for future generations as to what life insurance is (and should be) all about.

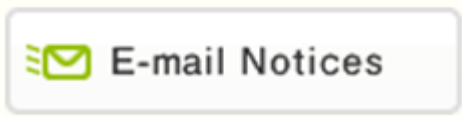
**We wish to be a company that helps our customers embrace life more fully.  
In order to live out that vision, we continue to challenge ourselves.**



All information on this document that is not historical fact constitutes forward-looking information and is based on assumptions and forecasts available to the company at the time of preparation. The company cannot guarantee the accuracy of these assumptions and forecasts. Earnings projections and other information on this may differ materially from actual performance due to various risks and uncertainties. This is a translation of the original Japanese document, prepared and provided solely for readers' convenience. In case of any discrepancy or dispute, the Japanese document prevails.

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# Appendix



**LIFENET**

LIFENET INSURANCE COMPANY

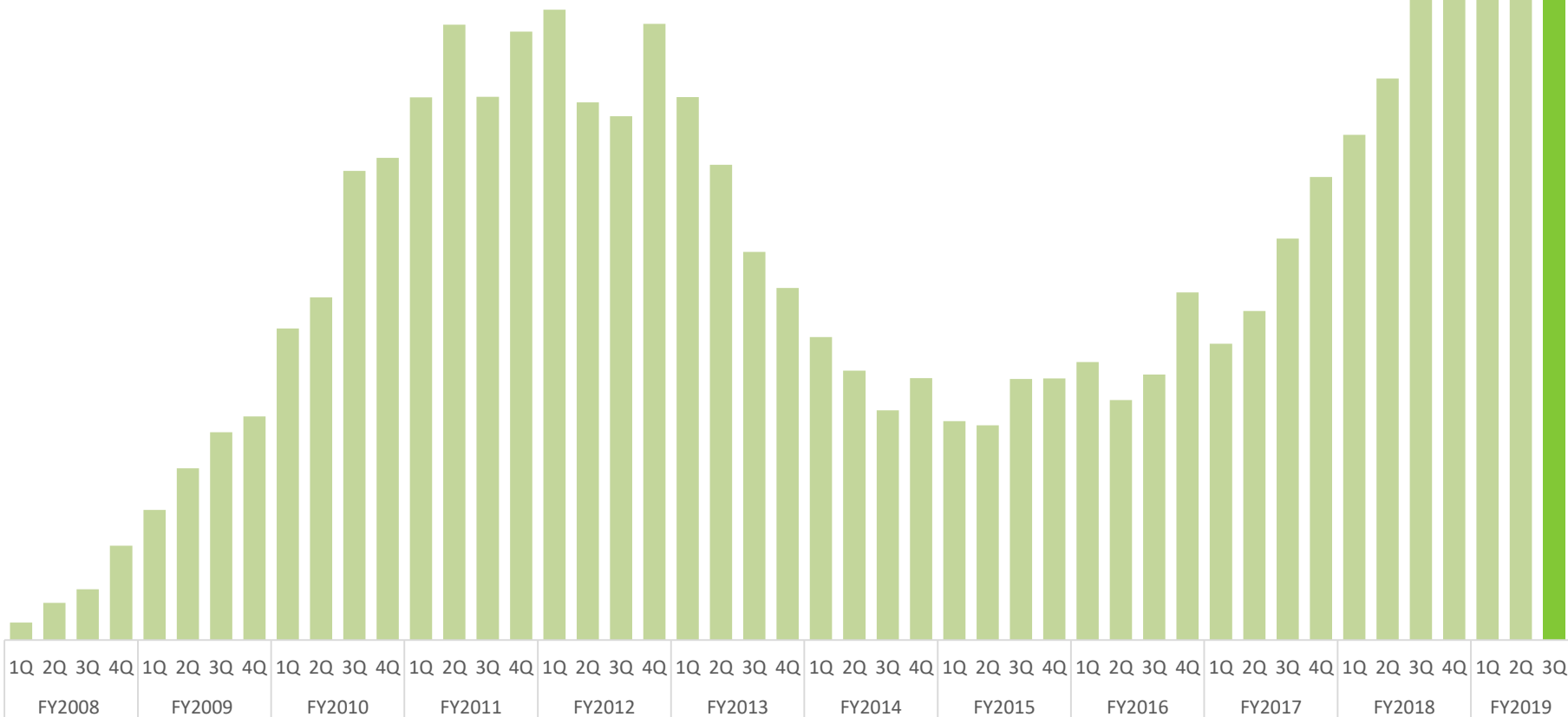
# Number of New Business (Quarter)



■ **Recorded historical high** and maintained at high level continuously

  
**19,685**

 :Number of new business



# Condensed Statements of Operation / Fundamental Profit (Cumulative 3Q)



		(JPY mn)	2018/3Q	2019/3Q	Change	Note
Condensed statements of operation	Insurance premiums and other		8,949	<b>11,945</b>	2,995	Increased due to growth in in-force policies business and utilization of modified co-insurance
	Other		409	<b>297</b>	(112)	
	Ordinary income		9,359	<b>12,242</b>	2,883	Includes 1,367M increase for utilization of modified co-insurance
	Insurance claims and other		1,950	<b>2,743</b>	792	Increased due to growth in in-force policies. Percentage of insurance claims and benefit claims to insurance premiums is 19.7%.
	Insurance claims		1,105	<b>1,316</b>	211	Increased from 71 cases in 3Q of FY18 to 96 in 3Q of FY19.
	Benefit claims		498	<b>704</b>	206	Increased from 5,136 cases in 3Q of FY18 to 6,274 in 3Q of FY19.
	Provision for policy reserves and other		2,962	<b>3,604</b>	642	Increased by transferring to standard policy reserves. Percentage of provision for policy reserves (3,590 million yen) to insurance premiums is 35.0%.
	Operating expenses		4,850	<b>6,772</b>	1,922	Increase in marketing expenses, mainly advertising expenses
	Marketing expenses		2,850	<b>4,563</b>	1,712	
	Customer service		578	<b>667</b>	89	
	System and other		1,421	<b>1,542</b>	120	
	Other		540	<b>820</b>	280	
	Ordinary expenses		10,303	<b>13,941</b>	3,637	
	Ordinary profit (loss)		(944)	<b>(1,699)</b>	(754)	Includes profit of 1,096M for utilization of modified co-insurance.
Extraordinary losses and income taxes		12	<b>12</b>	(0)		
Net income (loss)		(957)	<b>(1,711)</b>	(754)	Includes profit of 1,096M for utilization of modified co-insurance.	
Fundamental profit	Mortality margin		2,075	<b>2,077</b>	1	
	Expense margin (loss)		(2,998)	<b>(3,771)</b>	(772)	Increase in marketing expenses, mainly advertising expenses. Includes 1,158M expense margin for utilization of modified co-insurance.
	Interest margin (loss)		(13)	<b>17</b>	31	
	Fundamental profit		(936)	<b>(1,675)</b>	(739)	

# EV Sensitivity Analysis<sup>1</sup>

## Impacts of changes in assumptions (sensitivities)

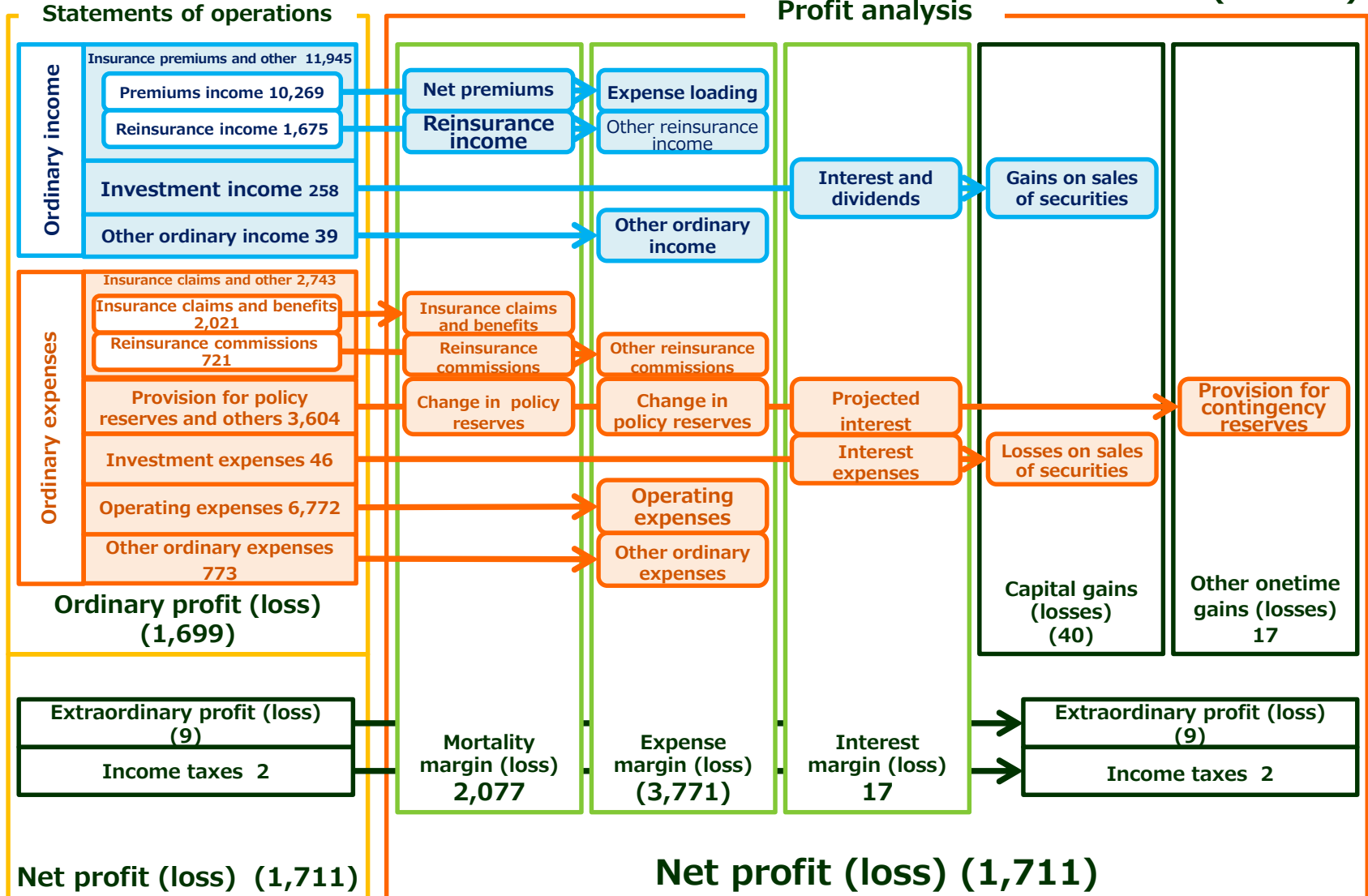
(JPY mn)	Change in EEV	Change in VoNB
<b>EEV and new business value as of December 31, 2019</b>	67,455	1,498
<b>Sensitivity 1a: 1.0% increase in risk-free rate</b>	(2,298)	110
<b>Sensitivity 1b: 1.0% decrease in risk-free rate</b>	1,784	(291)
<b>Sensitivity 1c: 0.5% increase in risk-free rate</b>	(1,107)	73
<b>Sensitivity 1d: 0.5% decrease in risk-free rate</b>	981	(117)
<b>Sensitivity 1e: Interest rates based on JGB yields</b>	345	45
<b>Sensitivity 2: 10% decrease in equity and real estate value and other</b>	(406)	—
<b>Sensitivity 3: 10% decrease in operating expenses</b>	2,937	448
<b>Sensitivity 4: 10% decrease in lapse rate</b>	10	(14)
<b>Sensitivity 5: 5% decrease in claim incidence rates for life business</b>	3,946	377
<b>Sensitivity 6: Change the required capital to the statutory minimum</b>	58	7

1. For each sensitivity, only one specific assumption is changed and other assumptions remain unchanged. It should be noted that the effect of the change of more than one assumption at a time is likely to be different from the sum of sensitivities carried out separately. As Japanese policy reserves are calculated in accordance with the IBR, the sensitivities carried out do not affect the reserves at the valuation date. The sensitivity on the value of new business excludes the impact on the adjusted net worth. EEV as of December 31, 2019 is calculated applying the same operating assumptions as those used for September 30, 2019, and has not been reviewed by third-party specialists.

# Three Surplus Factors of Fundamental Profit

3Q of FY2019

(JPY mn)



1. Some items with minimal amounts have been omitted.

# Solvency Margin Ratio Calculation



LIFENET

As of Dec. 31, 2019

$$\text{Solvency margin ratio } 2,163.6\% = \frac{\text{Total amount of solvency margin <numerator> } 19,727}{\text{Total amount of risk/2 <the denominator> } 1,823/2} \div \sqrt{(R_1 + R_8)^2 + (R_2 + R_3 + R_7)^2 + R_4/2} \quad (\text{JPY mn})$$

Cash and deposits 1,312	Other liabilities 1,016
Monetary claims bought 499	Reserves for outstanding claims 484
Money held in trust 3,698	<b>Policy reserves</b> 28,376
<b>Securities</b> 31,771	Contingency reserves 1,663
	Excess over the full-Zillmerized reserve 7,442
	Price fluctuation reserves 52
	Deferred tax liabilities on available-for-sale securities 274 <sup>1</sup>
	Valuation difference on securities available-for-sale 706 <sup>1</sup>
Tangible fixed assets 98	<b>Capital stock and other assets</b> 9,587
Intangible fixed assets 716	<b>Net assets</b> 10,371
Other assets 2,511	

Add liabilities with strong capital characteristics such as price fluctuation reserves and contingency reserves

**Insurance risk R<sub>1</sub> 1,153**

Risk of change in mortality rate (calculated based on value of policies in force)

**Medical insurance risk R<sub>8</sub> 320**

Risk of change in medical incidence rate (hospital admission rate, etc.)

**Assumed interest rate risk R<sub>2</sub> 3**

Risk that the actual investment return will fall below the expected return used as a basis for calculating policy reserves

**[Minimum guarantee risk] R<sub>7</sub> -**

Risk related to products, such as variable annuities with minimum guarantees

**Asset management risk R<sub>3</sub> 942**

[Credit risk] Risk that asset values decline due to deterioration in financial condition of critees

[Price fluctuation risk] Risk of incurring losses due to decline in market value of stocks and bonds, etc.

**Business management risk R<sub>4</sub> 72**

3% of the total of the amounts of the other 5 risks (in the Company's case)

1. 90% of the valuation difference on available-for-sale securities and deferred gains or losses on hedges (pre-tax) (if negative, 100%)  
2. Items that do not apply to the Company or for which the amount is minimal have been omitted, except for certain bracketed items.



# Adjusted Profit

## Significance of Adjusted Profit disclosure

- As accrual timing of cost and revenue do not match, statutory accounting does not necessarily provide an accurate picture of profitability of our business
- We, therefore, disclose the indicator of profit level excluding marketing expenses as there is a time lag between the recognition of revenue and marketing expenses as acquisition cost

Ordinary profit excluding marketing expenses

**Adjusted profit**

# Adjusted Incremental EV



- Adjusted Incremental EV accurately indicates **our business growth during a certain period** within increase in EEV

## Adjusted incremental EV

Defined as constitution of components below:

- New business value in the fiscal year
- Expected existing business contribution
- Operating experience variances

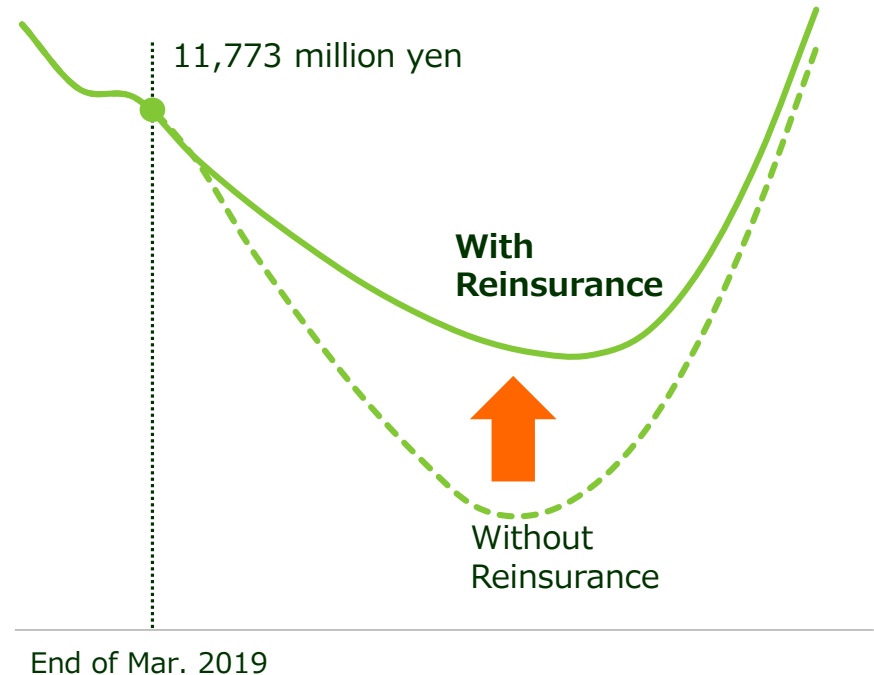
# Modified Co-Insurance

- **Ease pressure** of new business costs on P&L
- **Alleviate decrease in capital** during growth

Illustration image of change in profit/loss structure by reinsurance

Illustration image of impact of reinsurance on net assets

■ : Revenue ■ : Costs ■ : Effects of reinsurance



Note: Illustration of P&L structure of reinsuring new business of single fiscal year, where illustration of impact on net assets of reinsuring new business for multiple years.