

**Securities Code: 7157**

**TSE Mothers**



**LIFENET**

LIFENET INSURANCE COMPANY

**Presentation  
Material for Investors  
for 2Q  
of Fiscal 2019**

**LIFENET INSURANCE COMPANY**

**November 12, 2019**

# 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

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**1. Results for 2Q of Fiscal 2019**

**2. Future Initiatives**

# Overview of 2Q for FY2019



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

**14,200** million yen  
(108.5% vs end of FY2018)

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

**1,616** million yen  
(Y-on-Y 133.7%)

Adjusted profit<sup>2</sup>

**1,972** million yen  
(includes 743 million yen impact of modified co-insurance)

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

**66,426** million yen  
(Adjusted incremental EV<sup>4</sup> 1,365 million yen)

## Main Initiatives

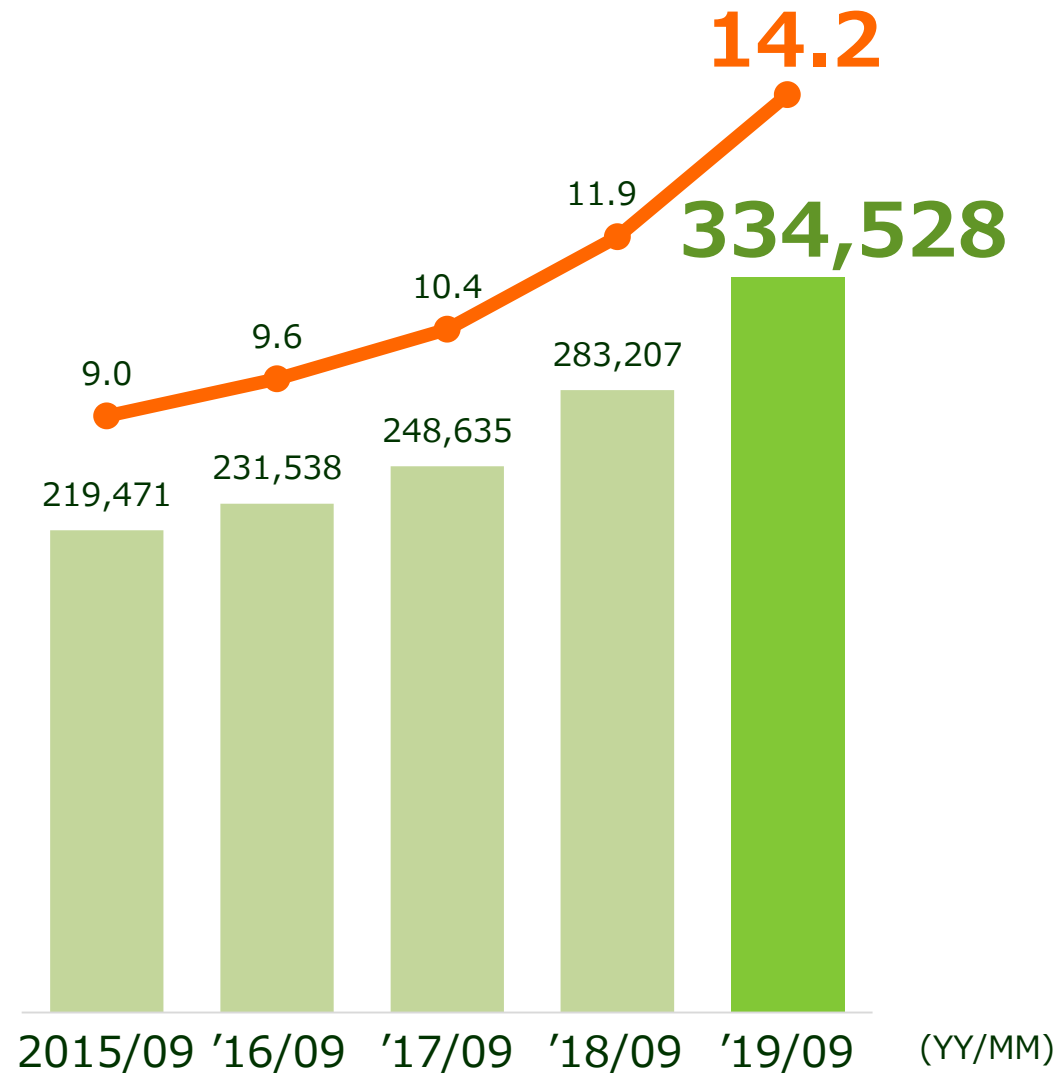
- Contact Center and Website receive top ratings<sup>5</sup>
- LGBT initiatives win Gold Rating<sup>6</sup>
- Expanded Lifenet Insurance app to Androids



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 12 and 34 for details.
3. EEV as of September 30, 2019 is calculated by updating the operating assumptions used for June 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 35 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



- Accelerated growth trend
- Year-on-year annualized premium **118.5%**, number of policies-in-force **118.1%**

# Breakdown of Policies-in-Force

	'19/03	'19/09	Component ratio
<b>Number of policies-in-force</b>	308,854	<b>334,528</b>	<b>100%</b>
- Term Life <sup>1</sup>	150,808	<b>161,943</b>	<b>48%</b>
- Whole-life Medical <sup>1</sup>	85,968	<b>92,299</b>	<b>28%</b>
- Term Medical Care <sup>1</sup>	9,493	<b>9,269</b>	<b>3%</b>
- Long-term Disability <sup>1</sup>	49,214	<b>51,785</b>	<b>15%</b>
- Cancer <sup>1</sup>	13,371	<b>19,232</b>	<b>6%</b>
<b>Sum insured of policies-in-force<sup>2</sup></b> (JPY mn)	2,289,567	<b>2,410,624</b>	
<b>Number of policyholders</b>	197,669	<b>213,675</b>	
	'18/1H	'19/1H	
<b>(Reference) Surrender and lapse ratio<sup>3</sup></b>	6.2%	<b>7.3%</b>	

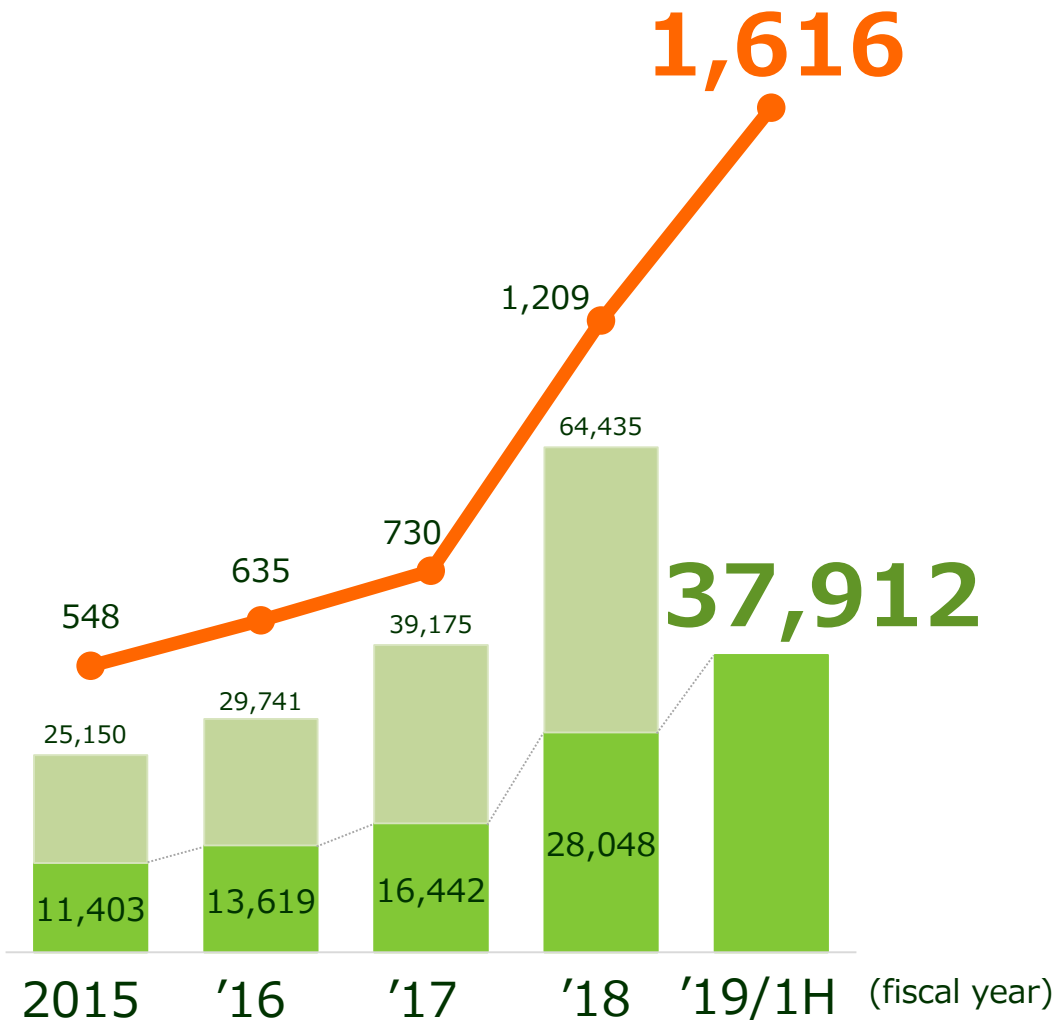
1. Term Life insurance: *Kazoku* and *au Term Insurance*, Whole-life Medical insurance: *Jibun*, *New Jibun*, *New Jibun for Women*, *au Medical Insurance* and *au Medical Insurance for Women*, Term Medical Care insurance: *Jibun Plus*, Long-term Disability insurance: *Hataraku-Hito*, *Hataraku-Hito 2* and *au Long-term Disability Insurance*, Cancer insurance: *Double Yell* and *au Cancer insurance*

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

3. 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 (1H of fiscal year, JPY mn)
- : Number of new business (Fiscal year)
- : Number of new business (1H of fiscal year)



■ **Steady growth continues, heading towards historical high**

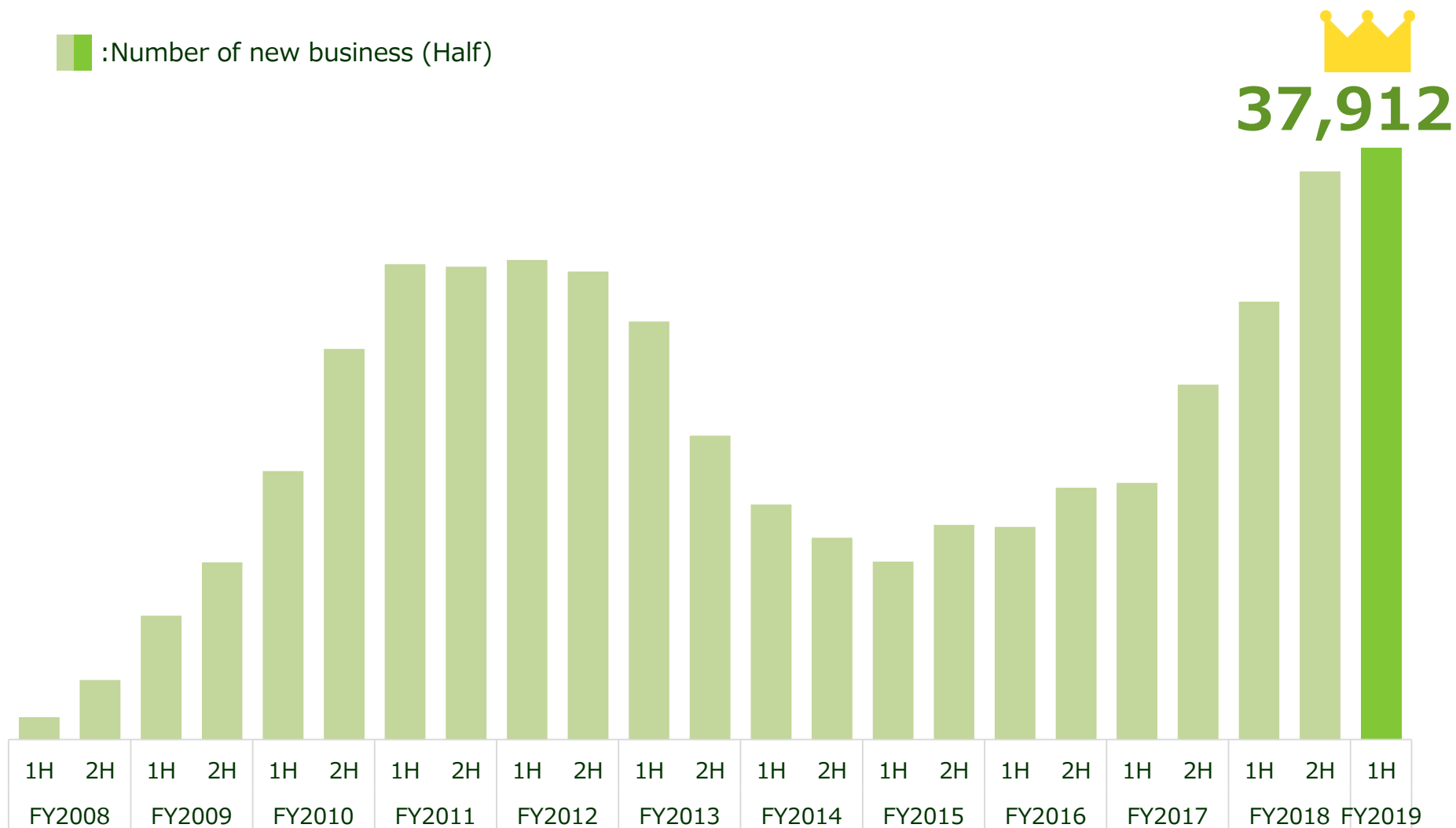
■ **Year-on-year annualized premium 133.7%, number of new business 135.2%**

# Number of New Business (Half)



■ Achieved new half-year **record high**

■ :Number of new business (Half)



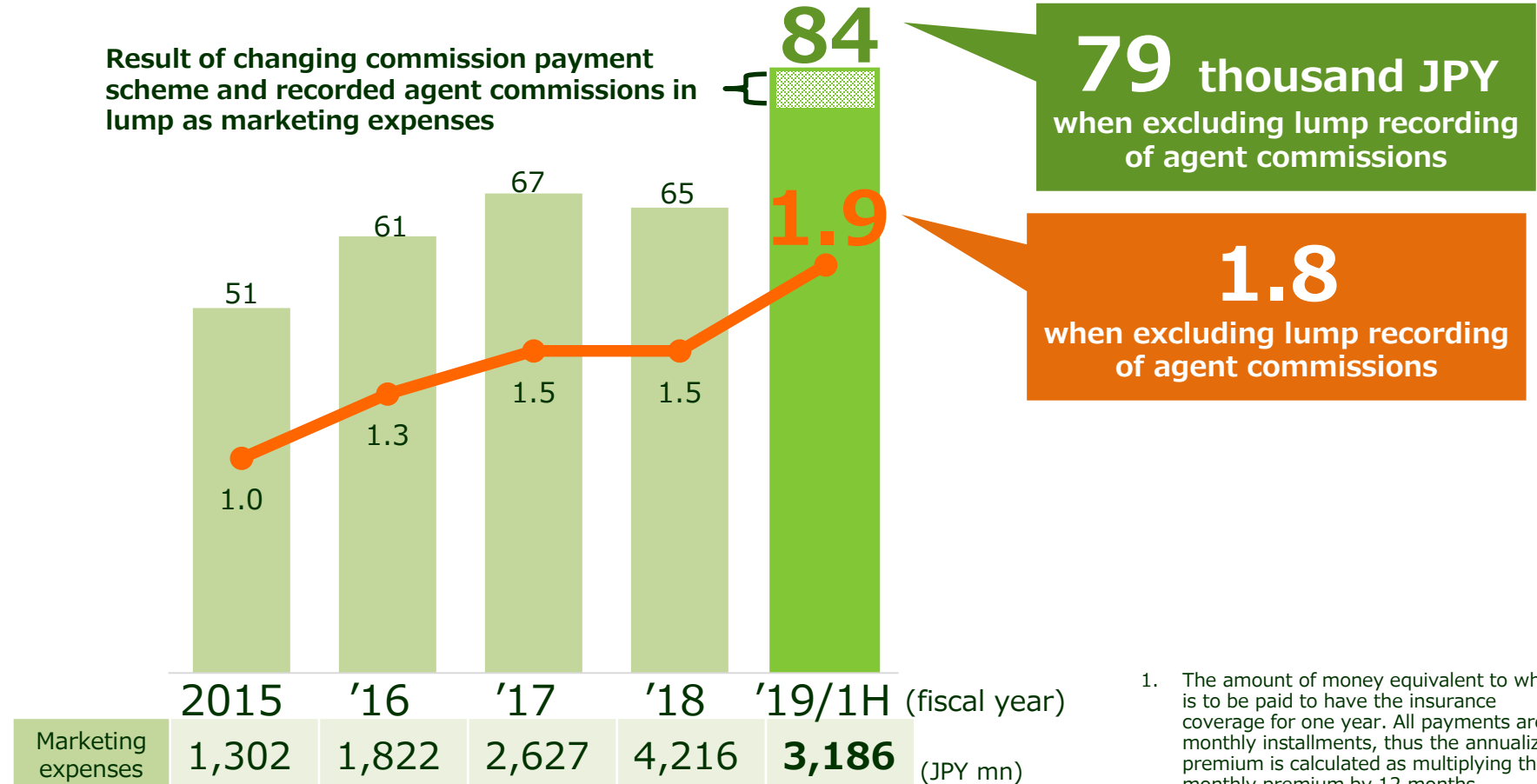


# Marketing Efficiency

## ■ Expecting around 70 thousand yen level for fiscal 2019

■: Marketing expenses per new business (JPY thousand)  
 ■: Marketing expenses / Annualized premium of new business<sup>1</sup>

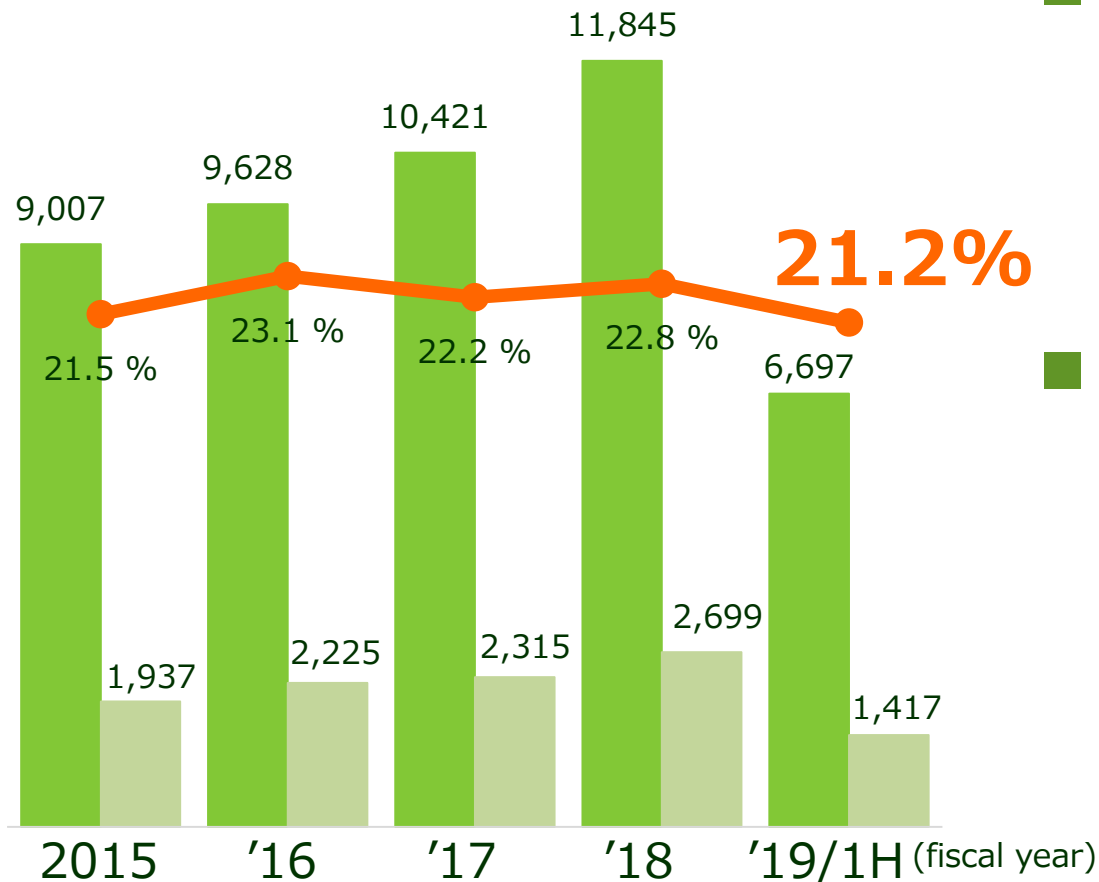
Result of changing commission payment scheme and recorded agent commissions in lump as marketing expenses



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.

# Operating Expenses Ratio

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



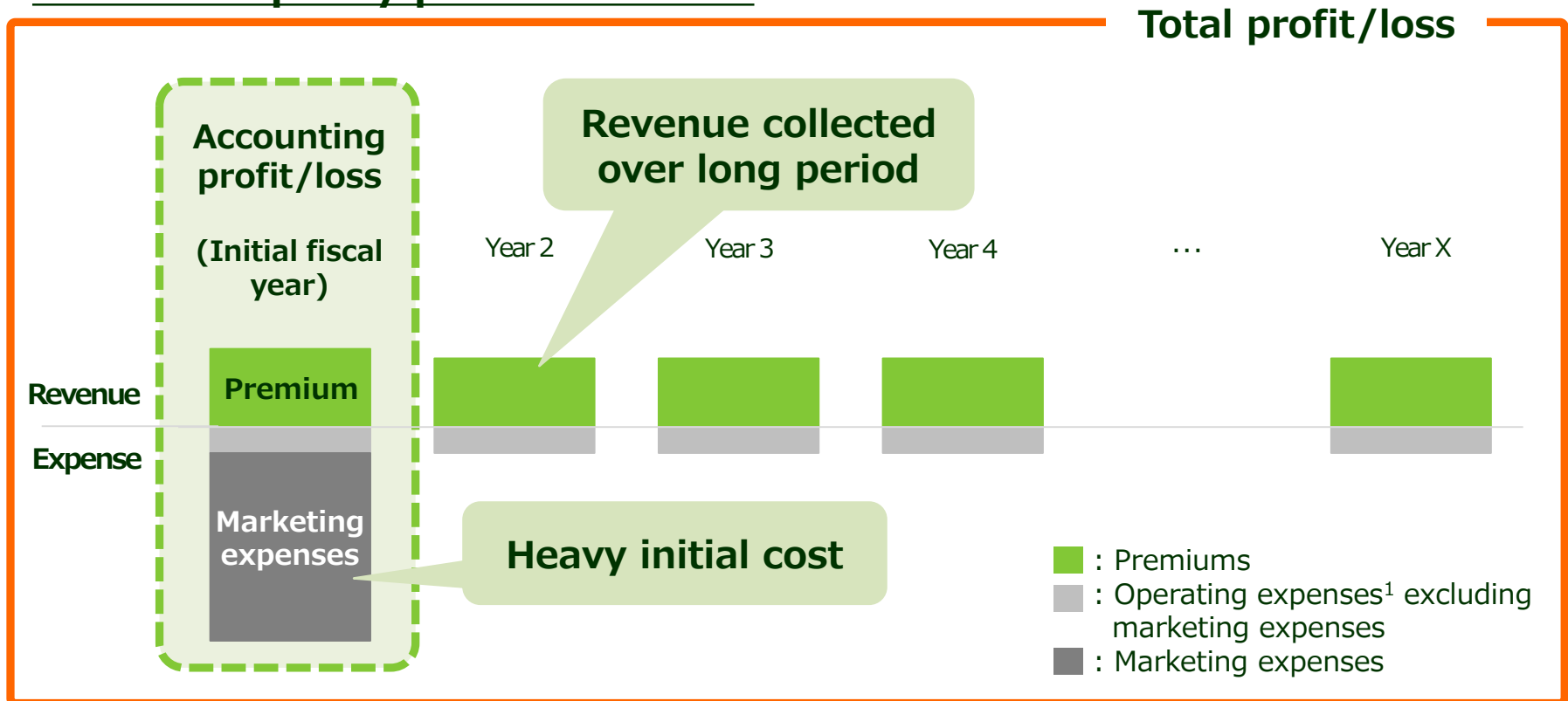
- Improving, forecasting to be roughly 22% range for FY19
- Strive for further business expansion and operational efficiency in mid- to long- term

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>)

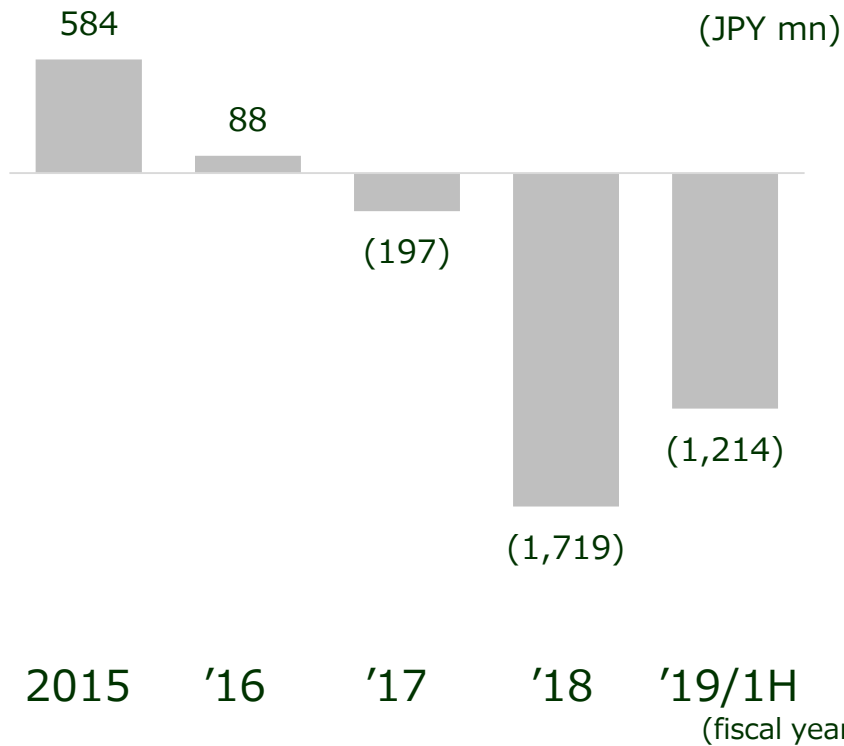
Indicator of long-term profitability of insurance companies

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

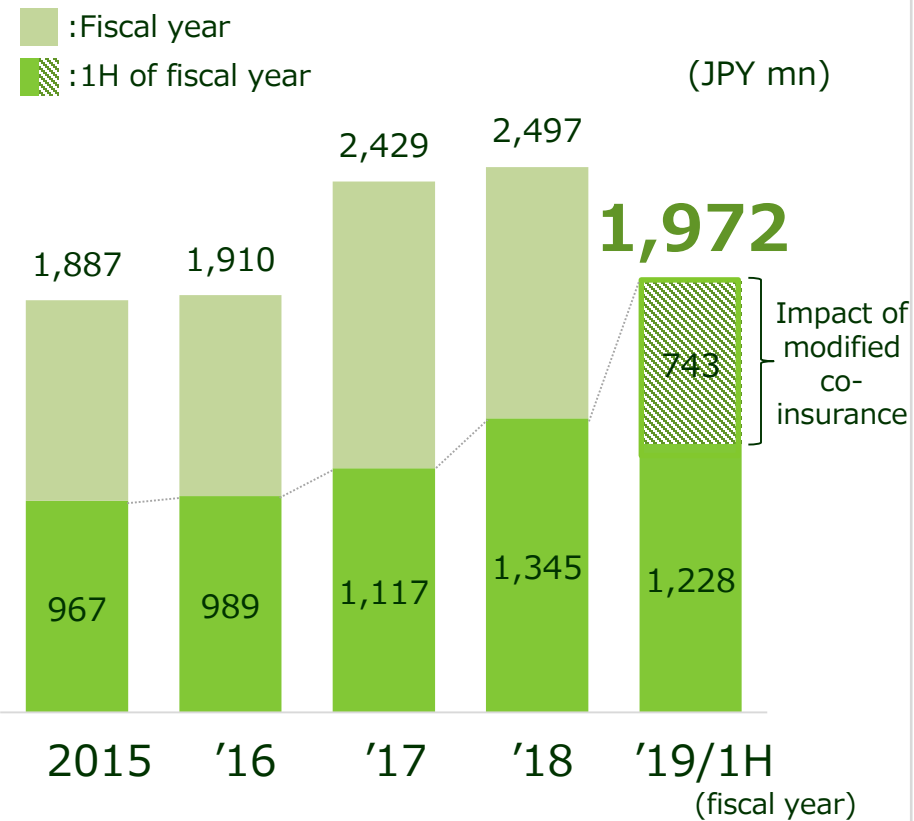
## ■ Increase in adjusted profit due to impact of modified co-insurance

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



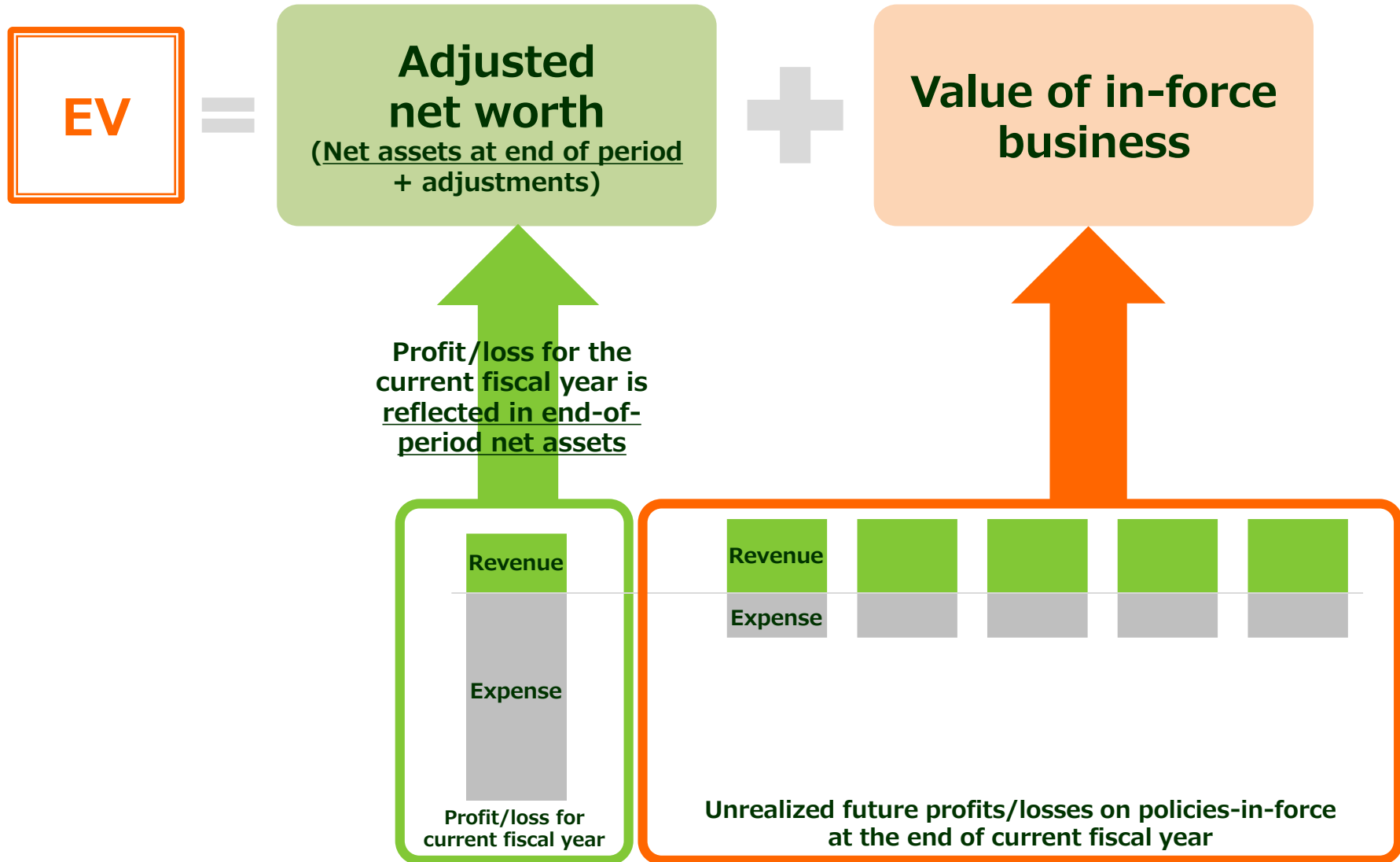
### Adjusted profit

(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

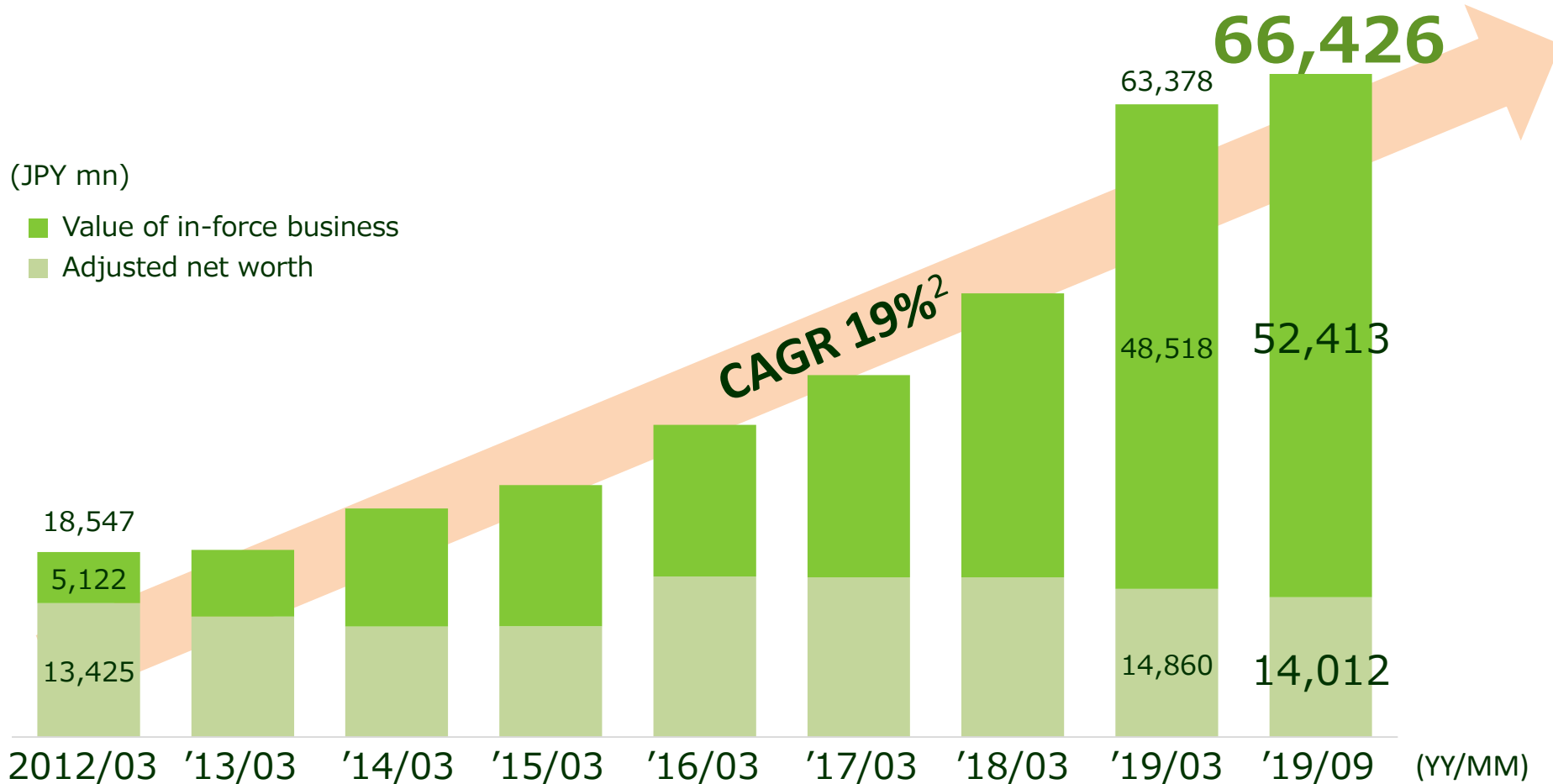
- **Maintaining increase** in EEV since company became public in March 2012
- **Steadily growing** even in a low interest rate environment

## Resilience to interest rate changes

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

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

■ CAGR of EEV is **19%**<sup>2</sup> and value of in-force business is **36%** since IPO

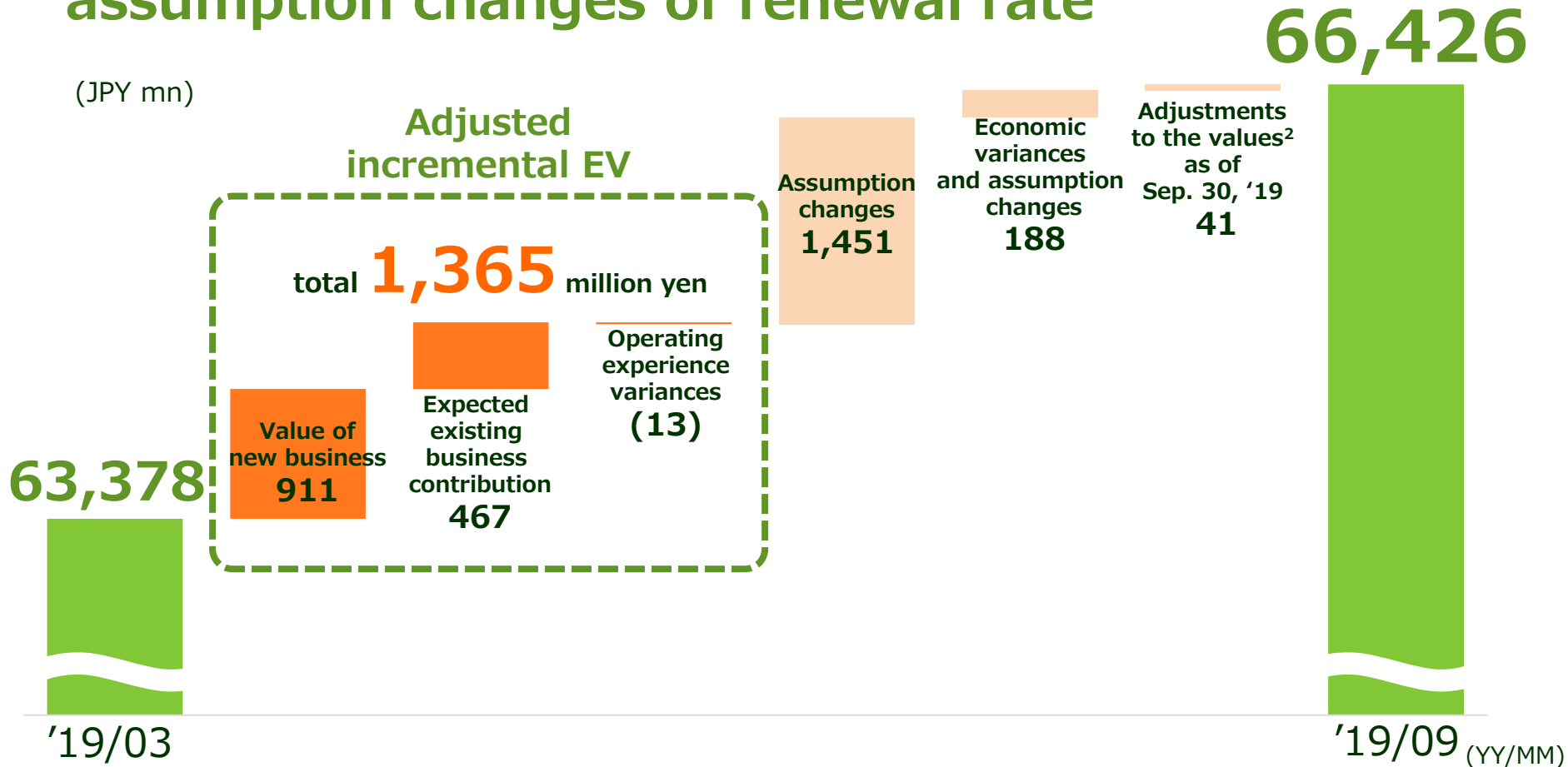


1. Lifenet's EEV is calculated following the EEV Principles and Guidance and in terms of allowance for risk, MCEV Principles (The European Insurance CFO Forum Market Consistent Embedded Value Principles©) is referred. From fiscal 2016 onward, a predetermined ultimate forward rate has been used to extrapolate 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 September 30, 2019 is calculated by updating the operating assumptions used for June 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

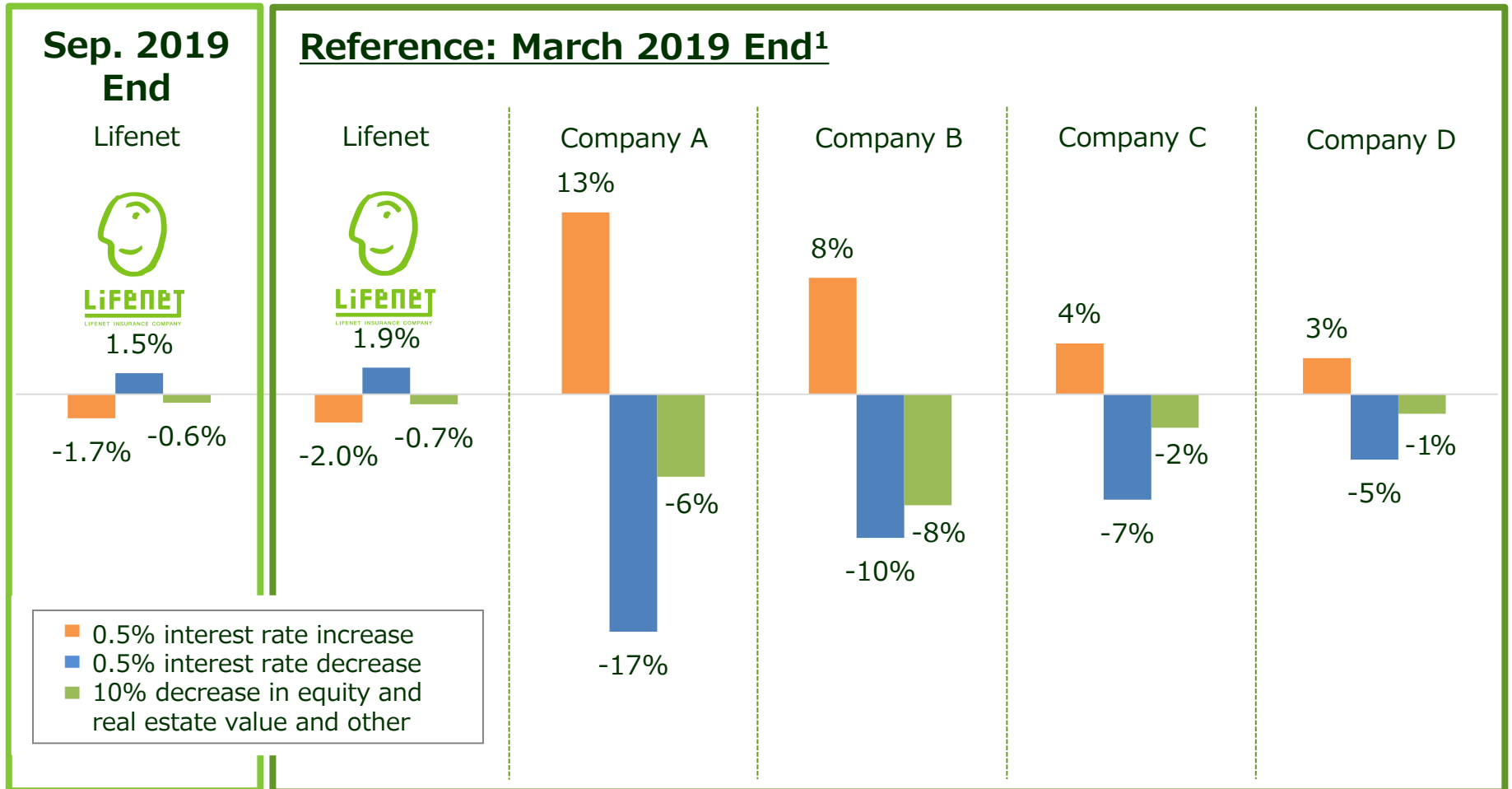


1. Lifenet's EEV is calculated following the EEV Principles and Guidance and in terms of allowance for risk, MCEV Principles (The European Insurance CFO Forum Market Consistent Embedded Value Principles©) is referred. EEV as of September 30, 2019 is calculated by updating the operating assumptions used for June 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	'19/09
<b>Total assets</b>		<b>38,247</b>	<b>39,707</b>
Cash and deposits		1,192	1,074
Monetary claims bought		999	799
Money held in trust		3,114	3,336
Securities		30,989	31,618
Government bonds		8,071	8,104
Municipal bonds		1,394	1,405
Corporate bonds		16,763	17,632
Stocks		363	359
Foreign securities		45	26
Other securities <sup>2</sup>		4,352	4,088
<b>Total liabilities</b>		<b>26,474</b>	<b>28,939</b>
Policy reserves and other		25,256	27,593
<b>Total net assets</b>		<b>11,773</b>	<b>10,768</b>
<b>Solvency margin ratio</b>		<b>2,085%</b>	<b>2,132%</b>
<b>Modified duration (year)</b>		<b>12.0</b>	<b>11.9</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

## ■ 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

LGBT initiatives receive Gold Ratings for 4th consecutive year in PRIDE Index 2019.

## ■ Expanded Lifenet app to Androids

Enabled more customers to use biometric authentication to login Lifenet app and experience various procedures possible via smartphones for convenience.

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

# Table of Contents

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**1. Results for 2Q of Fiscal 2019**

**2. Future Initiatives**

# New Whole-life Medical Product



- **Expanded lifetime coverage based on customer needs**

New



**Whole-life Medical**  
*Jibun 3*

New



**Whole-life Medical**  
*Jibun 3 for Women*

- **Expanded hospitalization benefit for women that pays 5 days for hospitalization of up to 5 days**
- **New benefits for out-patient surgeries and advanced medical care**

# Change in Largest Major Shareholder



- Organizational changes within KDDI Group lead to change in largest major shareholder to au Financial Holdings Corporation (“auFH”)



- Lifenet, auFH and KDDI will aim to provide new products and services in future

# New Business Partnership



- Aim to innovate customer experience and enhance promotion capabilities with **insurtech business company justInCase**

**justInCase**



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**First Initiative**

To design a product or service exploiting product and sales channels through business collaboration

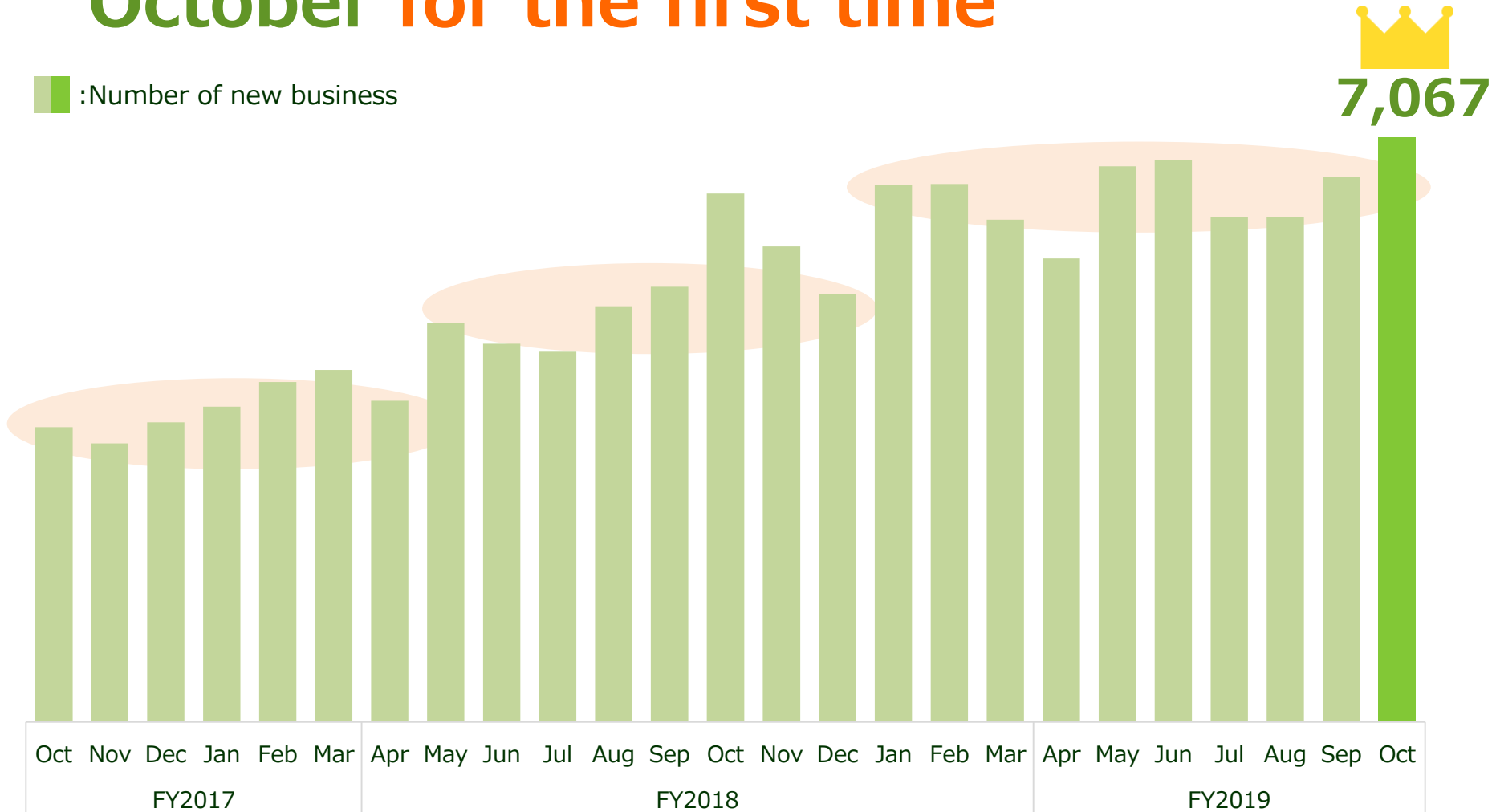


# Number of New Business (Monthly)



■ **Exceeding 7,000** new policies in **October** for the first time

■ :Number of new business



1. October 2019 results based on monthly disclosure

# Business Forecast FY2019

## Promote further business acquisition following strong business performance

(JPY mn)

	【Revised】 Business forecast		【Original】 Business forecast		(Reference) FY2018 Results
		Including impact of modified co-insurance		Including impact of modified co-insurance	
Ordinary income	<b>16,500</b>	2,000	<b>16,200</b>	2,000	<b>12,560</b>
Ordinary profit (loss)	<b>(2,500)</b>	1,400	<b>(2,000)</b>	1,400	<b>(1,719)</b>
Net income (loss)	<b>(2,500)</b>	1,400	<b>(2,000)</b>	1,400	<b>(1,735)</b>
(Reference) Annualized premium of new business <sup>1</sup>	<b>3,300</b>		<b>3,000</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.

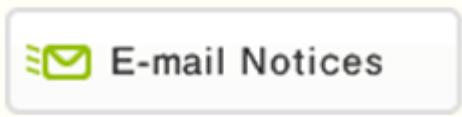
**We wish to be a company that helps our customers embrace life more fully.  
In order to live out that vision, we continue to challenge ourselves.**



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



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# Condensed Statements of Operation / Fundamental Profit (1H)



		(JPY mn)	2018/1H	2019/1H	Change	Note
Condensed statements of operation	Insurance premiums and other		5,847	<b>7,754</b>	1,906	Due to increase in in-force policies business and utilization of modified co-insurance
	Other		250	<b>199</b>	(51)	
	<b>Ordinary income</b>		6,097	<b>7,953</b>	1,855	Includes 852M increase for utilization of modified co-insurance
	Insurance claims and other		1,251	<b>1,688</b>	436	Increased due to growth in in-force policies. Percentage of insurance claims and benefit claims to insurance premiums is 19.2%.
	Insurance claims		710	<b>832</b>	122	Increased from 48 cases in 1H of FY18 to 58 in 1H of FY19.
	Benefit claims		318	<b>455</b>	137	Increased from 3,331 cases in 1H of FY18 to 4,055 in 1H of FY19.
	Provision for policy reserves and other		1,885	<b>2,337</b>	452	Increased by transferring to standard policy reserves. Percentage of provision for policy reserves (2,271 million yen) to insurance premiums is 33.9%.
	Operating expenses		2,997	<b>4,604</b>	1,606	Increase in marketing expenses, mainly advertising expenses
	Marketing expenses		1,721	<b>3,186</b>	1,465	
	Customer service		367	<b>424</b>	57	
	System and other		908	<b>993</b>	84	
	Other		339	<b>537</b>	198	
	<b>Ordinary expenses</b>		6,473	<b>9,167</b>	2,694	
	<b>Ordinary profit (loss)</b>		(376)	<b>(1,214)</b>	(838)	Includes profit of 743M for utilization of modified co-insurance.
Extraordinary losses and income taxes		8	<b>8</b>	(0)		
<b>Net income (loss)</b>		(384)	<b>(1,223)</b>	(838)	Includes profit of 743M for utilization of modified co-insurance.	
Fundamental profit	Mortality margin		1,442	<b>1,328</b>	(114)	
	Expense margin (loss)		(1,756)	<b>(2,580)</b>	(824)	Increase in marketing expenses, mainly advertising expenses. Includes 768M expense margin for utilization of modified co-insurance.
	Interest margin (loss)		(6)	<b>20</b>	26	
	<b>Fundamental profit</b>		(319)	<b>(1,232)</b>	(912)	

# 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 September 30, 2019</b>	66,426	911
<b>Sensitivity 1a: 1.0% increase in risk-free rate</b>	(2,354)	77
<b>Sensitivity 1b: 1.0% decrease in risk-free rate</b>	1,877	(201)
<b>Sensitivity 1c: 0.5% increase in risk-free rate</b>	(1,139)	50
<b>Sensitivity 1d: 0.5% decrease in risk-free rate</b>	1,023	(81)
<b>Sensitivity 1e: Interest rates based on JGB yields</b>	632	62
<b>Sensitivity 2: 10% decrease in equity and real estate value and other</b>	(413)	—
<b>Sensitivity 3: 10% decrease in operating expenses</b>	2,853	300
<b>Sensitivity 4: 10% decrease in lapse rate</b>	29	(6)
<b>Sensitivity 5: 5% decrease in claim incidence rates for life business</b>	3,878	255
<b>Sensitivity 6: Change the required capital to the statutory minimum</b>	48	4

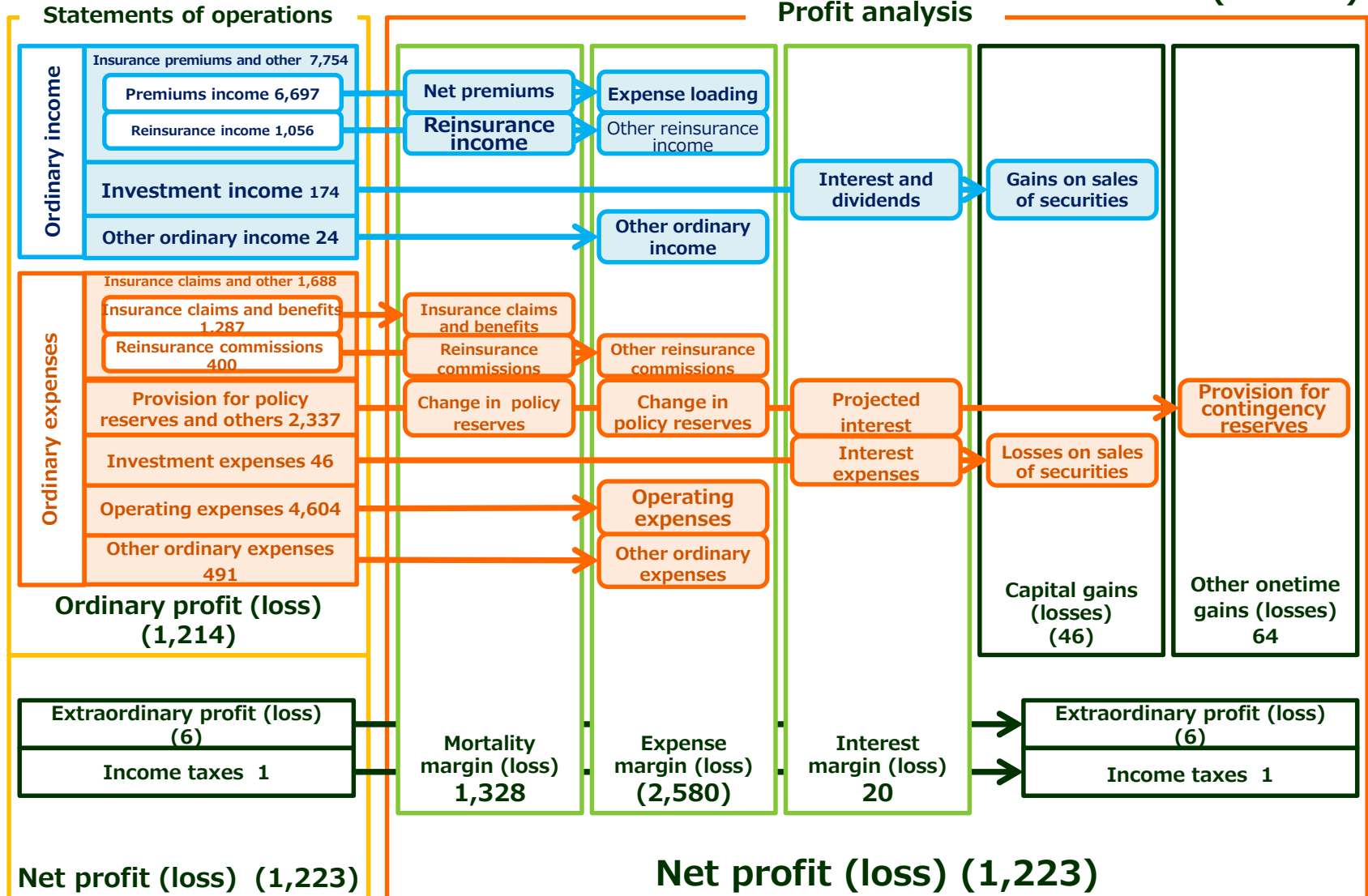
1. For each sensitivity, only one specific assumption is changed and other assumptions remain unchanged. It should be noted that the effect of the change of more than one assumption at a time is likely to be different from the sum of sensitivities carried out separately. As Japanese policy reserves are 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 September 30, 2019 is calculated by updating the operating assumptions used for June 30, 2019, and has not been reviewed by third-party specialists.



# Three Surplus Factors of Fundamental Profit

2Q of FY2019

(JPY mn)



1. Some items with minimal amounts have been omitted.

# Solvency Margin Ratio Calculation



LIFENET

As of Sep 30, 2019

**Solvency margin ratio**  
2,132.3%

=

**Total amount of solvency margin**  
<numerator>  
19,627

÷

$\sqrt{(R_1 + R_8)^2 + (R_2 + R_3 + R_7)^2} + R_4 / 2$  (JPY mn)

**Total amount of risk/2**  
< the denominator >  
1,840/2

Cash and deposits 1,074	Other liabilities 993
Monetary claims bought 799	Reserves for outstanding claims 535
Money held in trust 3,336	<b>Policy reserves</b> 27,058
<b>Securities</b> 31,618	Contingency reserves 1,616
	Excess over the full-Zillmerized reserve 6,998
	Price fluctuation reserves 49
	Deferred tax liabilities on available-for-sale securities 272 <sup>1</sup>
	Valuation difference on securities available-for-sale 699 <sup>1</sup>
Tangible fixed assets 86	<b>Capital stock and other assets</b> 9,990
Intangible fixed assets 706	<b>Net assets</b> 10,768
Other assets 2,084	

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

**Insurance risk R<sub>1</sub> 1,162**

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

**Medical insurance risk R<sub>8</sub> 313**

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> 969**

[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> 73**

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:

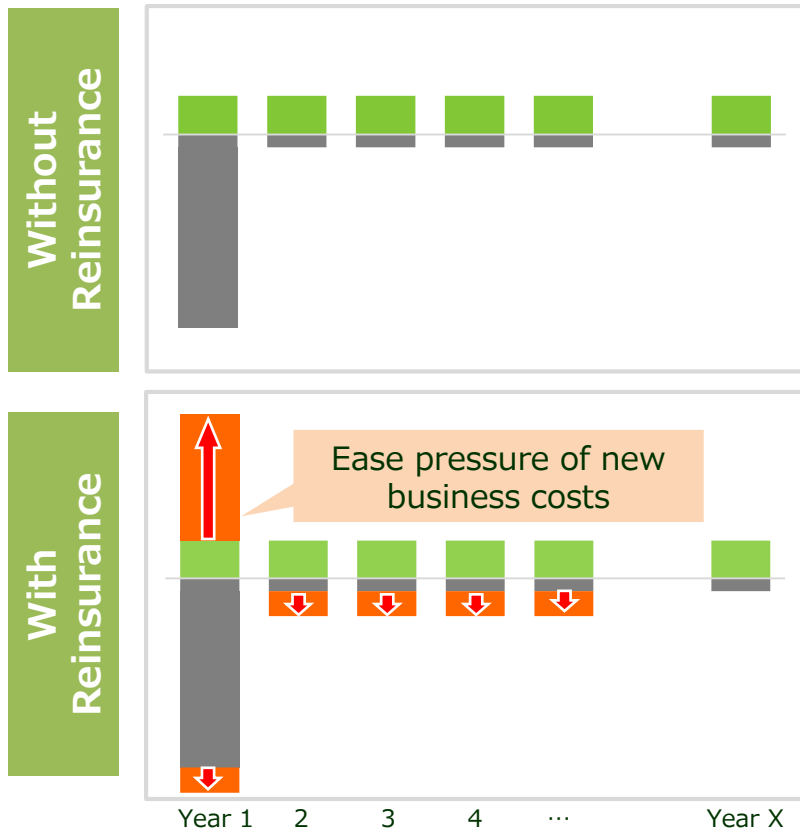
- New business value in the fiscal year
- Expected existing business contribution
- Operating experience variances

# Utilization of Reinsurance (Modified Co-Insurance)

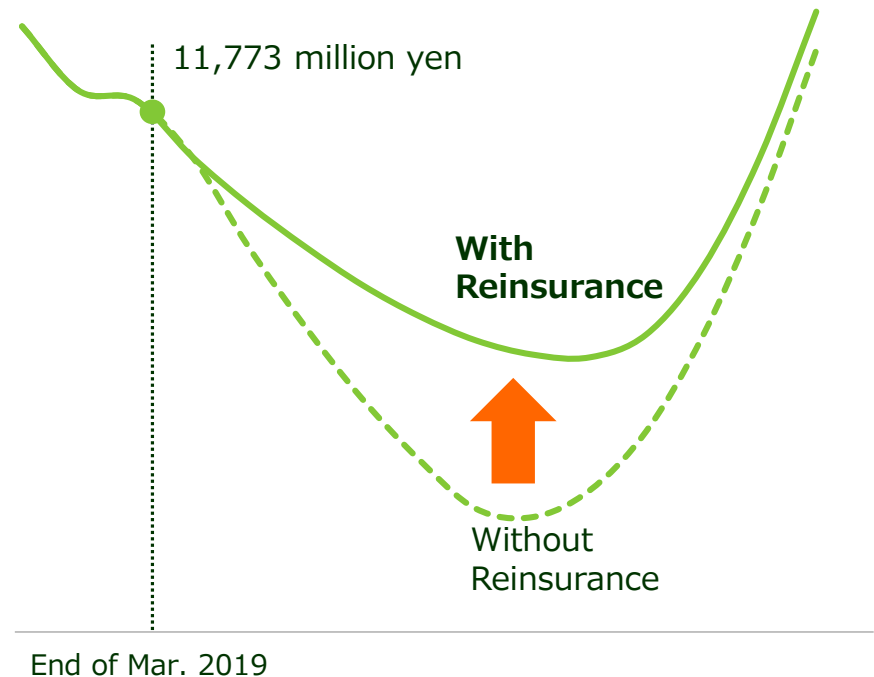
- **Ease pressure** of new business costs on P&L
- **Alleviate decrease in capital** during growth

## Illustration image of change in profit/loss structure by reinsurance

■ : Revenue ■ : Costs ■ : Effects of reinsurance



## Illustration image of impact of reinsurance on net assets



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.