(Unofficial Translation)
FY2019 Financial Results Conference Call for Institutional Investors and Analysts
Q&A Summary

Date: May 15, 2020 18:30 - 19:20

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Performance Results and Forecast

Q: Please explain current status for new policies acquisition; can we assume that there are almost no new sales at Dai-ichi Life's sales representative channel? And while some other life insurance companies are making efforts to complete the sales processes via mails as a temporary measure, we assume that you have not promoted much the digitalization of sales processes. Even if you keep focusing on the face-to-face channel in the future, do you consider any changes from your current exclusively face-to-face sales process handling approach?

A: Regarding Dai-ichi Life's sales representatives channel, the FY2019 results have not been impacted as the suspending face-to-face sales activities due to the spread of coronavirus was implemented from April. However, since implementation of self-restrain, results are expected to gradually decrease. At DFL, sales in April decreased by about 50% year-on-year due to the slowdown at bancassurance sales. At NFL, in April there was a temporary increase in demand that exceeded previous year's level, but recently it has halved. Situation at overseas group companies differs depending on the company. For example, in countries such as India that are strongly affected by lockdowns, new sales have dropped significantly, while at PLC sales are relatively strong due to more advanced digitalization of insurance sales. NFL also sells through direct online channel and that part is growing. In addition, we have begun responding flexibly to requests such as processing via mails. Internally, Dai-ichi Life is also discussing more radical digitalization of sales and ways of contacting customers.

Q: Although earnings forecast for FY2020 has not been disclosed, please tell us about the direction of fundamentals other than market factors at Dai-ichi Life, Dai-ichi Frontier Life, etc. For example, will the decline in sales activities lead to positive impact on profit from core insurance activities? Or, will the contribution of reversal of contingency reserves Dai-ichi Frontier Life decline?

A: At Dai-ichi Life, which has the biggest impact on the group results, if external factors related to coronavirus are excluded, we believe that mortality and morbidity gain will remain roughly the same. Regarding the difference of assumed and actual operating expenses, it is also necessary to consider the increase in depreciation expenses associated with IT system investment and increase in operating expenses. With regard to Dai-ichi Life's capital gains and losses, we expect contribution from sale of policy reserves matching bonds and gains on sale of equities. On the other hand, we are paying close attention to the possibility of valuation losses on securities due to a fall in stock prices and yen appreciation. At DFL the reversal of contingency reserves for matured variable annuities almost completed in the third quarter of FY2019 and expected to drop significantly for FY2020.

Shareholders' Returns

Q: Regarding the share buyback, you explained that you will decide within this year; but on what conditions you will conduct share buyback?

A: Decision will be made after carefully considering such factors as the economic solvency ratio, the status of regulatory capital at each group company, the outlook for earnings on a group basis, and cash remittance from each operating company to the holding company.

Q: So far the share buyback was considered as a shareholder return for the prior reporting period, but this time share buyback was reserved due to the forward-looking impacts; was the spread of coronavirus the main reason?

A: For the current medium-term management plan, there will be no change in our policy for a total payout ratio of around 40%, with stable cash dividends and flexible share buybacks. Although the amount of share buyback will be determined based on past performance results, it is currently under consideration due to necessity to determine the impact coronavirus spread.

Q: Can you explain whether your decision to reserve the share buyback was due to uncertain outlook or is there any material impact expected?

A: Our original approach for share buyback is conducting it flexibly, and this time the reason for reserving is uncertainties of the coronavirus business performance impact.

Q: Can we assume that you will maintain the total payout ratio of around 40% for the FY2020 as well? And as for the group adjusted profit, a source for shareholders' payout, will you exclude temporary valuation gains on financial derivatives as in FY2019?

A: In this final year of the medium-term management plan, there will be no change in the total payout ratio of around 40% of the group adjusted profits as set in medium-term plan. Regarding the treatment of the gains on derivatives, it was excluded from group adjusted profit for FY2019 considering it is a temporary valuation gain due to sharp and significant financial market fluctuation. As for FY2020 we will consider how we would handle such items in the future.

Corona Virus Related

Q: There are a total of 313 death insurance payments made by overseas group companies; can we assume that majority of them are paid at PLC? And can you share about the situation at other regions such as India and Vietnam?

A: Although the breakdown of insurance payments at each group company is not disclosed, it is generally proportional to the number of fatalities observed in each country, and therefore it is more common for PLC in the USA. There are various outlooks for insurance payments in emerging countries, but considering the size of the business, the impact on the group results is limited.

Q: In the United States we can observe that there are various measures taken to deal with the impact of the coronavirus at each state and federal level; is there a possibility that PLC results could be significantly affected by a different factor from what we have seen so far?

A: PLC mainly sells simple life insurance and annuities, therefore we do not expect that unusual payments, such as special medical treatment expenses, will have a significant impact on business results.

Q: Please explain about items that could have a significant impact on PLC's accounting profits, such as the higher amortization of deferred acquisition costs (DAC) due to rising mortality and falling interest rates in the United States?

A: As we observe large number of fatalities in the United States, we expect an increase in insurance payments also at PLC, but the increase amount as well as the impact on DAC, etc. are unclear at this time. In addition, high probability of continued low interest rates is expected, pushing down profits due to assumptions changes. Moreover, losses might be incurred if the corporate bond investee defaults. In addition, effective from this fiscal year, there is an unfavorable impact from new US GAAP rule on recording the current expected credit loss. Also, since PLC invests in bond-type preferred stocks, the change in market value will have an impact on net income, and the change in the variable annuities account values, due to the drop in stock prices, will also have an impact through the assumption change.

Q: Did you withheld disclosing earnings forecasts due to significant factors that affect the profitability of PLC?

A: Uncertainties due to spread of the coronavirus make it difficult setting a forecast for the FY2020, and regarding PLC we think it is necessary to carefully evaluate the impact as well.

Q: PLC's asset protection business sells non-life insurance; in this regard, will the decrease in the traffic volume due to the spread of coronavirus have a positive impact through a reduction in accidents?

A: PLC's asset protection business mainly focuses on insuring automobile repairs, so a decrease in traffic volume contributes to a reduction in insurance claims. On the other hand, the business is also affected by vehicle sales volume and prices therefore some negative impact profits could be expected.

European Embedded Value (EEV)

Q: Please explain about the factors behind the EV decrease at DFL?

A: In FY2019, DFL mostly sold products denominated in US dollars, and investment return on such products are set considering yields on corporate bonds. On the other hand, in terms of EV calculation, the expected return is calculated using the risk-free rate, even if the assets and liabilities are matched. So the difference of expected return at risk free rate and the actual investment return that is set considering corporate bonds, results in negative impact on EV. In addition, in order to show the actual impact of the investment spread this time, we have also disclosed an estimated value considering the investment spread with reference to the ICS standard, so please check it as well.

Reinsurance Transaction

Q: Will you continue to use the reinsurance scheme to reduce risks? Also, do you consider offsetting the loss from reinsurance scheme with the gain from the sale of securities?

A: Regarding market risk reduction, first, we will focus on adding policy reserve matching bonds, utilize derivatives such as swaps, and reduce domestic equities. And while conducting such operations, each year we will decide reinsurance transaction considering the reinsurance valuation and the capacity of the reinsurer. For the past two years, we have ceded policy reserves of about ¥300 billion, and achieved assumed interest rate reduction effect of about ¥8 billion per year before tax, and the impact on EV was also neutral. As we continue to work on risk reduction, we will consider reinsurance while balancing the impact on profits.

Note: We made partial additions and alterations in preparing the above summary for clarity.

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