(Unofficial Translation)

Financial Analyst Meeting for the Six Months Ended September 30, 2020
Q&A Summary

Date: November 20, 2020 15:30 - 17:10

Participants: Seiji Inagaki, President and Representative Director, Dai-ichi Life Holdings, Inc. and The Dai-ichi Life Insurance Company, Limited
Toshiaki Sumino, Managing Executive Officer, Dai-ichi Life Holdings, Inc.
Masao Taketomi, President and Representative Director, The Dai-ichi Frontier Life Insurance Co., Ltd.
Yuji Tokuoka, President and Representative Director, The Neo First Life Insurance Company, Limited

[Questions and Answers]

(Note) The name of the respondent is mentioned at the end of each answer.

< Next Medium-Term Management Plan >

Q1: Economic solvency ratio (ESR) sensitivity to the financial market presented on page 6 indicates that even if there is a 50 basis-point downward shift in domestic yield, high ESR would be maintained. While market risk reduction is in progress, in terms of your capital policy, would you consider a framework that allows flexibility in determining the amount of share repurchases, etc. based on ESR or ROE during the period of your next medium-term plan?

A1: We are satisfied with the level of ESR as well as reduce volatility to a certain extent. It is still early to discuss specific measures regarding shareholder payout. I can mention that we intend to pursue opportunities for capital investment in order to transform into an insurance-underwriting risk-centric risk profile and as we raise cost of capital awareness, we must examine investment opportunities more carefully. If ESR exceeds 200% and assuming our financial status is sufficiently sound under stress scenarios and there are no attractive investment opportunities that exceed cost of capital, we believe we can consider shareholder payouts based on ESR. (Inagaki)

Q2: As for your capital strategy for the next medium-term management plan, what is the background behind the revision to your self-aware cost of capital of around 10%? Is this intended to raise the target level of ROEV from 8% to 10% in the medium to long term, or is it intended to reduce cost of capital through risk-reduction? Also, in improving ROEV, in addition to the numerator approach, how should we think of the denominator including share repurchases?

A2: The board of directors and executive management are aware of the current stock price level with reference to PBR or EEV ratio. The revision from 8% to around 10% was because as a result of our continued analyses we re-recognized that our cost of capital has rose by around 2% compared to the past. We are determined to improve the balance between capital efficiency and cost of capital. To do so, we will reduce cost of capital by reducing market risk to lower market β. At the same time, we will work to improve capital productivity by improving business efficiency. Although there are differences in the time horizon, the target level of ROEV must also be aligned at 10%. If excess capital is generated in the process, and there are no attractive investment opportunities that exceed cost of capital, a reduction of the denominator through shareholder payouts could be considered an option. (Inagaki)

Q3: In aiming for an insurance underwriting risk-centric risk profile, where do you think new opportunities lie? Are you looking at the domestic market, overseas, or new types of insurance risk underwriting? Will you continue to allocate risk capital overseas?

A3: As a growth area in Japan, we see potential in third-sector products and savings-type products. Third-sector products will be driven by DL and NFL. DFL will actively offer products that contribute to asset succession and inheritance gifts. Furthermore, we intend to increase insurance underwriting risk both in Japan and overseas markets, while we will continue to expand our overseas insurance business as well. In addition, we will also continue to seek M&A opportunities in existing and new markets. As a mature entity, DL is at a phase where capital is freed up, and in the absence of domestic investment opportunities, we will continue to shift capital abroad. (Inagaki)

Q4: In terms of intra-group reinsurance included in your liability structure reform plan described on 13 page, what impact will it have on ERM and accounting profit? Are you planning to establish a company offshore?

A4: Transferring risk within the group through reinsurance does not change the amount of capital and risk in terms of economic value as a group. However, our group companies need to comply with the different capital regulations of their respective countries. Therefore, the benefit of intra-group reinsurance through utilizing a company established in a country where insurance liabilities are evaluated on economic basis is that capital and liabilities can be accumulated on an economic basis. As a result, capital can be invested more effectively in other areas, expanding the use of capital. The accounting impact will differ depending on the ceding method and will be shared when specific transactions are complete. The company will be established overseas as you have pointed out. (Sumino)

Q5: I have suggested moving to a shareholder payout policy based on economic value-based indicators. Given the present conditions of group adjusted profit and economic value indicators, what are your thoughts now?

A5: Regarding shareholder payouts, the level of ESR is duly referred to, but changes in economic value are largely affected by the financial market, and an increase is not recognized as an immediate source of shareholder payouts. An insurance company recognizes profit every year according to the insurance period and retained earnings are distributed to policyholders every year for a long period of time. As a source of shareholder payouts, we believe that EEV, which measures the present value of future profits, and accounting earnings from each period are essentially the same way of thinking and only different in perspectives. (Inagaki)

Regarding the technical aspects of various indicators, based on dialogue with investors and analysts we recognize that there are many factors that need to be reviewed for the next medium-term plan, one of which is the level of cost of capital we presented today. As for economic value indicators, the UFR approach is reasonable in the sense that it addresses the effect from excessive fluctuations in the financial environment at the reference date. On the other hand, based on various opinions, including the appropriateness of the level of UFR, for the next medium-term management plan, we will be more transparent in presenting our risk profile and ideal future through our disclosures. (Sumino)

Q6: Was there any effect on your business relationship with client companies due to the reduction in the assumed rate of return for your group pension general account?

A6: The reduction in the assumed rate of return is scheduled for October next year. We have just begun communicating with clinets and we are currently not in a situation where we can communicate the response from clients. We hope that customers can accept that it is difficult to maintain the assumed interest rate of 1.25% under the current low interest rate environment worldwide. On the positive side, we are now able to resume proposal activities of the general account and customers can aim for a return of 1.25% along with the floor asset plan with the separate account. While it is inevitable that not all customers can be satisfied, considering the best interest of all stakeholder we believe that we are making the right decision. (Inagaki)

< Dai-ichi Life Sales Representative Channel >

Q7: You are trying to address an important matter with regard to your Total Life Plan Designers channel. Do you have a timeline for your structural reforms and what is the impact on annualized net premium from new business? Also, why are you engaged in this matter now?

A7: Structural reforms in our Total Life Plan Designers channel will focus on shifting new and middle-efficiency employees to the high-efficiency segment. The training program for new recruits who join every year will be an important change. We estimate that the time horizon for the shift to the high-efficiency segment may take around 10 years. The middle-efficiency and high-efficiency segments will also aim for higher efficiency by utilizing digital. In the domestic life insurance market, while the market will not grow significantly due to high penetration, product diversification has progressed while products have become similar. The sales representative channel model is also similar among peers. In addition to continuing to differentiate our products to address customer needs, we will transform our sales methods that resonates with our customers. We will also evolve as a partner that solves social issues through our unique value propositions including health promotion and ties with local communities. We currently do not anticipate a major drop in new business. We may temporarily lose some market share in the short term due to selective recruiting but the efficiency of existing personnel will increase. We believe that structural reforms need to be carried out now. (Inagaki)

Q8: Referring to your multi-brand, multi-channel strategy on page 19 and improving the efficiency of Total Life Plan Designers channel on page 24, how will you add the online sales channel? While it will take time, how can the Total Life Plan Designers channel be streamlined without losing revenues?

A8: We are already working on the online sales channel. In the future, we will further accelerate small-scale insurance products as well. Although there are various indicators, the fact-finding survey conducted by the Japan Institute of Life Insurance shows that online insurance sales are only a few percent of the total market. Although there could potentially be a boost in sales at some point, we understand that it is not currently driving the market as a whole. Life insurance products are complex and the sales representative channel with Total Life Plan Designers active nationwide is a strength. We will increase productivity by changing the structure of Total Life Plan Designers channel. (Inagaki)

< Dai-ichi Frontier Life >

Q9: In strengthening corporate bond investment for U.S. dollar-denominated products, is there sufficient return relative to taking credit risk? Also, is DFL serving a role for taking intensive credit risk within the group because of the need to investment in foreign currencies due to foreign currency insurance liabilities?

A9: DFL's U.S. dollar-denominated products derive returns from corporate bond investment credit spreads. Risk control measures by product and each investment is strictly implemented from multiple perspectives and diversification of issuers by utilizing asset management group companies. Under these circumstances, the challenge is to provide attractive returns to customers. Apart from corporate bonds, we are considering to invest in securitized products and other products while taking on some liquidity risk. Within the Group, PLC has strengths in such investment management. We will leverage their knowledge in order to advance and diversify our investment management. (Taketomi)

As for credit risk taking within the group, each insurance company in their respective regions basically engages in investment management considering the characteristics of their own insurance liabilities. We currently are not considering an approach that concentrates credit risk to a specific company. DFL, DL and PLC invest in corporate bonds as part of their own investment management initiatives. On the other hand, utilizing asset management group companies as we are doing so now, it may be possible to explore further synergistic effects in the future. (Sumino)

Q10: Referring to sales performance on page 2, could you explain your growth strategy and sales channel mix outlook amid an apparent slowdown in market expansion?

A10: Sales volume in the market has been influenced by the financial environment, but DFL has managed to respond flexibly and offer optimal products. While low interest rates are expected to continue for some time, growth of asset formation products will become increasingly difficult as they are largely dependent on investment yields. On the other hand, demand for asset succession and inheritance gifts that add value to life insurance has been increasing and demand is expected to continue. We will continue to develop and offer products that address customer needs. We will support financial institutions where our products are sold by providing advice for consulting and life planning, using both physical and digital means to acquire market share. In addition, while over-the-counter sales at financial institutions and sales are currently our main channels, we intend to diversify our sales channels by expanding the number of independent professional agencies and walk-in insurance shops. (Taketomi)

< Neo First Life >

Q11: You plan to develop new products such as personalized protection, Wellness and Just-in-time. In expanding the NFL product line-up, will you use internal resources or will you use external expertise through M&A? What are your estimates for investment in systems related to product development?

A11: Since product development cannot be done only within the group, we are considering to collaborate with various companies, including startups. Furthermore, if product variations increase, we expect a reasonable amount of system development costs, which have already been factored into the plan. We will also consider using open API to create external connections. (Tokuoka)

Q12: NFL's points of contact with customers include banks and walk-in insurance shops and are outside the company. How will you further expose new insurance products and personalized services?

A12: NFL does not have a dedicated sales channel like DL. With the exception of direct sales, as pointed out, direct points of contact with customers are limited and it is a challenge. We have begun consumer surveys with external partners. Going forward, we will consider services that deepen the customer experience (CX) by collecting and utilizing data as a insurance product provider and create a platform to directly provide information to customers. (Tokuoka)

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

[Company names] DL: Dai-ichi Life, DFL: Dai-ichi Frontier Life, NFL: Neo First Life, PLC: Protective

【Disclaimer】