Business Strategy Presentation

(Protection Business (Japan) & Retirement, Savings and Asset Management Business)

Q&A Summary

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Respondent: Kohei Kai, Senior Managing Executive Officer
(Business Head, Protection (Japan))
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*The page numbers indicated in this document refer to the page numbers in Part I and Part II of the respective materials.

Part I: Protection Business（Japan）

Q: Upon assuming business head, protection business (Japan), it was reported in the media at the time that your appointment symbolized a departure from blood purity. How did you manage to take advantage of the healthy conflicts with the subsidiary presidents over the past year?

In addition, I believe your previous company, MetLife, has strict controls on product management using IRR and payback periods. Along with this point, I would like to know if you find any areas that you are surprised at or about to change in the management of DL's domestic business.

A: (Kohei Kai)

First, concerning healthy conflicts. As I mentioned earlier in my self-introduction, having experience with various businesses in the financial industry, I have focused on how this business would look like from an objective point of view and have talked with these presidents from that objective point of view.

Our goal is the same, so I think the rest is just a matter of which point of view to look at. So, I believe we have spent considerable time discussing and moving things forward. I think it was a good conflict, and I hope it will continue to be so.

You also asked about our product management. I am not going to comment on the product management at my ex-company, but I believe that product governance is very important.

There are several perspectives, and the profitability perspective, as you asked, is also important. From the marketing perspective, it is also important to thoroughly consider product strategy – specifically, "what product to deliver, and what kind of value to which customers." In addition, there is the perspective of product portfolio: how to differentiate and position products within the Group.

When we announced our medium-term management plan, the product development plan was disclosed. This slide (page 12) was updated with product release dates and companies that released these products.

We are always working with Mr. Iida on product marketing and management in our group. We are working to enhance our product governance from this perspective as well.

Q: Regarding page 9, operational efficiency, you said at your Q1 financial results briefing that you were considering initiatives to improve operational efficiency in Japan. No quantitative targets were presented this time.
When will you announce the cost reduction effects and investment amounts? It would also be helpful if you could share your thoughts on investment and cost savings as a gross amount.

A: (Kohei Kai)
In terms of approach, I think that both the bottom-up and top-down approaches are probably necessary.

Speaking in terms of bottom-up, it is inevitably necessary to understand in detail the small and diversified business processes and to review once more who is doing these operations and for what purpose.

We are reviewing every single process from the perspective of "What would happen if we replaced this with AI?" or "What would happen if the process were abolished?" "Every single process" naturally means the scope is extremely broad, including administrative tasks, accounting, human resources, general affairs, and within insurance related administrative tasks, underwriting, benefits payments, and claims assessment.

From a top-down perspective, I believe it's not enough to simply set targets like "reducing by X percent." We need to envision and challenge ourselves by asking, "What would happen if we set aside the underlying assumptions and started from scratch?"

HD is currently addressing this, with both bottom-up and top-down activities underway using external insights.
I think that the disclosure of information will be done in a separate step.

(Nishimura)
In terms of the scale we are aiming for, we have indicated that we will achieve 14% adjusted ROE by FY2030 as a Group, and naturally, we believe that DL, the largest company in our Group, needs to achieve similar efficiency in order to achieve this goal.

Toward the goal, as Mr. Kai just explained, we are conducting a fundamental review, including matters that take time. Next year, we believe we can make certain disclosures within the scope of regular disclosures, and after that, there will be a review of the medium-term management plan , etc., so I would like to keep you updated.

Q: To begin with, I would like to ask Mr. Kai whether your domestic business can grow further. We recognize that there are many things you can do on a profit basis, and I believe that rising interest rates will have a positive effect in some areas. However, from an insurance sales perspective, will there continue to be only competition for a limited piece of the pie, or is there still room for emerging needs that have yet to surface?
For example, look at page 5 about changes in the market environment. The number of dual-income households has already peaked out. So, from an external perspective, I think that this market is about to shrink. What kind of market outlook do you have for the long term?

Also, I would like to know if there is a possibility that the current 35,000 Sales Reps could be further reduced in order to improve operational efficiency or is there room to increase the number to around 40,000 from the perspective of enhancing competitiveness?

A: (Kohei Kai)
First, regarding whether the market will see significant growth, in my personal view, I believe the likelihood of substantial market expansion is not high but at least from a medium-term perspective,. If so, I think the key will be how to win in the end.

On page 8, I mentioned that sustainable growth requires four elements. I think I am talking about nothing special. However, it is not that easy to keep these four elements working in alignment, and I believe that by consistently operating these four elements at a high level, we can ultimately secure a solid position within the limited pie. Sales Reps are not included in this business cost reduction plan, and we will further increase the number. As I mentioned earlier, the quality of recruitment is improving, retention rates are increasing, and productivity is improving.

Simulations of staffing plans that factor in retirements due to mandatory retirement age and other reasons do not readily project expansion to a 40,000-person scale. However, I believe there is room to increase the workforce to around 37,000 people.

Q: Although it was not touched much on the slide for today, I believe OMO (Online Merges with Offline) was mentioned in your medium-term management plan. On the other hand, based on the documents provided this time and the previous Q&A sessions, I have the impression that you plan to increase the number of face-to-face Sales Reps. Is it difficult to establish a new form of sales system that utilizes online?

A: (Kohei Kai)

We feel that OMO may be a model for the future, but we believe that customers are unlikely to make a final decision without human support, so I have touched more on face-to-face Sales Reps this time.

NFL has strengthened their initiative for the online areas, and the number of new policies increased. However, as a percentage of the total, it continues to be only a few percent. At this phase, we are trying several concepts as we go along.

When we consider its potential, if AI starts to have a greater influence on customers' purchasing processes, the market may grow. From that perspective, we are paying attention to the utilization of AI.

Q: Regarding the number of policies per Sales Rep on page 11, I understand this is indexed on a three-month basis. Why hasn't the value of sales revenue increased as much, even though both the number of policies and the premiums per policy have increased? Does that include the sales of DFL's products?

In addition, I think the overall staffing situation has improved, however, which segments of Sales Reps are driving the increase in the number of policies? Are relatively younger mid-level Sales Reps achieving these results? There is a risk that numbers may decline again as veteran employees retire in the future.

A: (Kohei Kai)

Sales of DFL products is not included in the data of premiums per policy, etc.

Major driver of the increase in premiums per policy is that the proportion of asset formation products, especially Step Jump in recent years, increased. Also, increasing corporate products is contributing. These changes in the product mix led to raising premiums.

Regarding our Sales Reps and their ages, recruitment has gone well recently, and the average age of the organization is getting younger. As you pointed out, there will be compulsory retirements. We would like to carefully manage potential downsides by appropriate taking over and following up with our customers.

Q: You mentioned that corporate products are increasing, but could you please elaborate more about how much they account for, what kind of growth they account for, what kind of corporations they are, and if they also have an incredible potential in terms of improving its productivity?

A: (Kohei Kai)

Corporate products are growing, and the contribution to ANP in the first half of the fiscal year of DL has improved from 23% to 29% YOY.

We have been focusing our efforts on this since the previous fiscal year. Specifically, the main drivers have been strengthening education for Sales Reps, expanding our product lineup for corporate clients, and implementing a corporate development strategy incorporating Benefit One. In terms of products, we have introduced protection products as well as some asset formation products.

Q: I didn't understand well how Benefit One is being utilized. When it comes to corporations that adopt Benefit One's services, I think that they are not such a small corporation. Considering this point, the relationship with the small- and medium-sized enterprise development strategy explained this time is unclear, so I would appreciate clarification on that aspect.

A: (Kohei Kai)

Regarding Benefit One's services, I believe that you feel that it is primarily adopted by relatively large companies. However, in fact, our Sales Reps develops about 1,000 new companies, and a significant portion of these are small- and medium-sized enterprise. These companies are also paying attention to employee retention and benefits more than ever, and that is where the new businesses are taking place.

Q: I would like to ask you about your thoughts on the use of AI. Since the number of employees is increasing in an inflationary environment, I am wondering how you will offset the resulting cost increase. So, I would appreciate it if you could tell me specific areas where use of AI might be effective, although I think the quantitative targets will be disclosed later.

A: (Kohei Kai)

Regular communications with customers, such as call center operations, could be considered as typical examples. We need to conduct demonstration experiments in a variety of areas, but we think that, with the introduction of agentic AI and other technologies, human intervention in the business process will be minimized. AI will handle the majority of processes, and human beings will be responsible for the final decisions and judgments.

Q: I think you have a relatively strong brand in the life insurance industry, but I would like to know the relative self-evaluation of your brand for retail, or the weakness, if any, as the barriers to entry between products have been declining. The intent of my question is that I

think your current strategy is to invest resources mainly in life insurance, but I wonder whether this lineup is sufficient in a situation where the new markets have been slow to scale.

Also, it would be helpful if you could comment on whether you referred to Life Time Value (LTV) based on an EV concept or not.

A: (Kohei Kai)

Regarding our brand, I think that our credibility and recognition are very high. I don't really think about how that compares with other companies, but I am proud to say that we could be relatively unique in the financial industry, at least in terms of being able to offer many face-to-face services and further increasing those services.

The upcoming brand renewal, which I believe is an opportunity to unify the Group's naming, served as a trigger for the entire Group to think again about the importance of the brand.

As to whether we will continue with this structure and in this manner, the answer is that it is important to develop the insurance and related services to meet customer needs, and one of the specific examples is Benefit One.

When it comes to our focus for expansion, I feel that it is important to gradually broaden the scope, starting with the areas listed on the page 10.

Regarding LTV, we are using this as a general marketing term, and it is not something that is specifically managed by EV. It is written from the perspective of increasing the share of solutions addressing problems among customers.

Q: I would like to ask about your outlook for capital efficiency. From what you explained, I understand that in the future there will be an increase in corporate insurance products and savings-type products in your business. I would like to ask about the difference in capital efficiency between savings‐type products and protection‐type products for corporate customers.

A: (Kohei Kai)

We are not aware of large reductions in capital efficiency as a result of sales expansion of corporate products. As the Group continues its efforts to enhance ROE, DL is also strongly aware of the need to increase ROE, so we do not think that capital efficiency will deteriorate in that aspect.

(Nishimura)

Corporate products tend to be large in size per policy, and capital efficiency is not bad for those protection-type products.

On the other hand, I think that level-premium savings-type products are slightly less efficient in terms of capital efficiency. But within our Group, we are focusing on DFL's single-premium products in terms of savings-type products, so we are working to further improve their capital efficiency as interest rates rise.

Part II：Retirement, Savings and Asset Management Business

Q: **Turning to page 8, I would like to ask about the integrated management of the insurance and annuities business and the Asset Management Business described here.**

I understand the benefit of reducing fee outflows. Historically, many companies have attempted this kind of vertical integration, with some succeeding and others ultimately selling their asset management business. My question is whether you have sufficient distribution capability and liability-gathering capacity on the left side to make this model work.

You mentioned that GIC funding for corporate clients is progressing well, but for retail investors, equity-type investment products are still largely distributed through banks. Is it acceptable not to build your own distribution capability? I understand you have some level of in-house sales, but the scale appears quite small, so is that enough?

On the right side, the asset management industry has become a power game with consolidation accelerating. Your group appears to have a number of dispersed holdings and investments. Can you really compete with this structure?

A: (Iida)

From the standpoint of an asset management company assessing the sales capabilities and liability-raising capacity of insurance and pension businesses, insurance companies have traditionally raised funds from the retail market through products with fixed guaranteed interest rates, such as annuity products. As a result, the investment capabilities required have been primarily in fixed income. Up until now, insurance companies have generally managed these fixed income portfolios within their own investment departments, supplementing any shortfall by outsourcing to external managers.

However, as competition in guaranteed rates has intensified in the annuity market, insurance companies have needed capabilities that cannot be covered by themselves. To acquire those capabilities, we have taken equity stakes in companies such as Canyon Partners (CP) for alternative credit and M&G in Europe.

The retirement and annuity markets in developed countries are expanding, and we expect this trend to accelerate. The question is whether we should continue investing in multiple smaller boutique firms like CP, or shift toward larger, all-in-one-type asset manager. We will consider this within the Group, taking into account capital constraints as well as each company's business characteristics and stage of development.

Looking ahead, both in Japan and globally, we expect unit-linked products offered by insurance companies to grow. As you know, unit-linked products require capabilities not only in fixed income but also in equities, and in some cases alternatives. And to adjust payoffs to customer needs, quantitative investment capabilities may also be required.

Within the limited investment budget, we are now examining what kind of asset management platform would best meet the needs of the insurance companies.

Q: **My question is about page 11 regarding the release of surplus capital at DFL. You mentioned in the November presentation that a release was forthcoming. The ¥93 billion generated through this initiative, should we expect the full amount to be remitted to the holding company? If not, could you explain any constraints?**

Also, for the HD, can this cash be viewed as an incremental source for growth investment or shareholder payouts?

A: (Iida)

Yes, to both questions. The full amount will be transferred to the holding company and added to the resources available for growth investment and shareholder returns.

Q: **I would like to ask about the asset management platform mentioned in your presentation. What exactly will it enable you to do? Up to now, you have made a series of minority investments and it is expected that they contribute to earnings. And each investment came with a certain level of delegated assets from your group. I understand all of that, but the structure still looks rather fragmented.**

Once these pieces are integrated and the holding company has its own asset management function, what will actually change? What will you be able to do that you cannot do today? I would appreciate a clearer picture.

Also, on page 13, you mention selective new investments as you aim to further expand profits in the Asset Management Business. You already have substantial alternative investment know-how. From your perspective, what pieces are still missing to complete the platform?

A: (Iida)

As you pointed out, there is a gap between the ideal platform we have described and the group of asset management companies we currently own, including minority stakes.

Generally speaking, within an insurance group, an investment platform refers to a full-service asset manager that has all the capabilities needed to develop investment products for both fixed and variable insurance, whether level-premium or single-premium. It also refers to a manager that can raise third-party money by offering investment products that insurance companies themselves do not provide, thereby reaching customer segments that insurance cannot access.

Our aspiration is to integrate the investment functions within the holding company, the domestic investment teams across the Group, and the asset managers we have invested in, and build a comprehensive platform. As you noted, there is still a significant gap between that aspiration and where we stand today.

A key question for our next investment strategy will be which gaps to fill first and to what extent.

To elaborate further, as we showed earlier with the distribution of wealth, the needs of the retirement segment in developed markets, especially in the US, make the combination of insurance and asset management extremely attractive. Because these are annuity products, strong fixed income and credit investment capabilities are essential.

For Canyon Partners, we have the right to make it a majority-owned subsidiary after FY2027, and given their strong performance, that is a realistic option. However, their scale is still quite small. The biggest difference between the size of the annuity market and the capacity of a boutique asset manager is the ability to handle large volumes of assets.

We recognize that this is an area where we still lack sufficient capability, and we intend to consider strategies to fill that gap going forward.

Q: I understand that your product development capabilities have been strengthened significantly. On that basis, I would like to ask about your sales structure. In the previous explanations, it was stated that, in addition to your Sales Reps, the Company plans to develop a separate sales personnel with expertise in savings products.

Please explain whether the company possesses sufficient sales capabilities to appropriately offer investment products to customers when compared to securities companies or banks that primarily handle investment products.

A: (Iida)

Although it is not mentioned in today’s materials, we have trained a personnel positioned as “Asset Formation/Succession and Inheritance Advisors” to provide integrated proposals that combine both protection and asset formation. we have announced several times that our target is to build a network of 1,700 advisors.

At this point, approximately 700 employees have completed the necessary training and certification, and have begun serving customers. When we compare the productivity of untrained Sales Reps with that of these advisors, we see clear statistical differences. We intend to continue expanding this team so they can lead offering not only protection but also asset-formation and savings-type products.

On the other hand, the domestic market is a highly competitive market, a so-called red ocean, where many financial institutions, including securities firms and banks, compete by highlighting their respective strengths. Regarding whether Asset Formation/Succession and Inheritance Advisors currently under training will be able to compete head-to-head with such competitors, there is at present a considerable variation in skills and experience even among the 700 advisors, ranging from those who require reskilling to those who are able to operate relatively independently. We are discussing with Mr. Kai and the insurance division daily how to enhance training, how to better reach customers with larger asset bases, and how to further upgrade our development programs.

As for expanding other channels, we have no concrete plan. In the US, IFA and RIA channels, third-party advisory models, are well established, with manufacturing and distribution fully separated. Whether Japan will move in that direction as part of the shift toward becoming a leading asset management center is something we are watching closely.

We are considering whether we should organically build such channel ourselves or pursue acquisitions, but nothing has been decided currently.

Q: On page 13, it is indicated that profits from non-insurance businesses, including the asset management business, are expected to expand from ¥18.5 billion to ¥70 billion. Could you please explain the key growth drivers behind this projection? Given your earlier comments about the need for scale to handle larger asset volumes, I assume that new investments would play a particularly significant role in driving this growth. Is that the right way to think about? Or should we assume that the three drivers shown on the slide will contribute evenly? I would appreciate your view.

A: (Iida)

I will explain our current thinking. Canyon (CP) currently contributes based on a 19.9% stake. If it becomes a wholly owned subsidiary, even without profit growth, the profit attributable to the Group would increase fivefold in simple terms. That is one organic driver.

CP is not a full-scale alternative manager capable of handling very large volumes, but as a distressed-credit specialized hedge fund, it has extremely strong capabilities in complex projects that general credit managers cannot handle.

Currently, plain-vanilla direct lending has become highly competitive, with managers fighting over deals. Meanwhile, the securitization markets, often referred to as asset‐backed financing, are expanding. CP has a strong edge in niche areas outside the plain-vanilla space.

As we compete in annuity products, credit investment capability becomes a key differentiator. CP plays an important role in providing that final layer of sophistication. If we can acquire another asset management company with traditional credit capabilities, the synergy with CP would be very powerful.

Another organic driver is the real estate asset management business, where we expect significant growth.

As for Capula, DL has been an LP investor for more than 10 years and a GP investor for more than five. Their earnings power is substantial. They are fixed income arbitrage hedge fund, but they have recently been expanding business by launching new multi-strategy products, and we expect meaningful profit contribution from them as well.

That said, these organic drivers alone will not take us from ¥18.5 billion to ¥70 billion. Naturally, new investments will also be required to further build earnings. Roughly ¥20 billion to ¥30 billion, though I do not have the finalized figures at this point, would need to come from new investments in addition to organic growth.

Q: Regarding the group pension business on page 12, this market looks structurally static, and trust banks that operate both public and private pension platforms seem to have a strong position.

Given that, why do you see this market as attractive? Please explain the background behind your stated intention to expand this business domain.

A: (Iida)

As Japan's population declines and AI adoption progresses, the number of employees will likely decrease over the long term. Historically, DBs have been the core of the Japanese market, but many companies are shifting to DCs, similar to what we see in the US.

In DC, its feature is that products with strong investment capabilities are delivered, and investment support are provided to individuals who are not accustomed to managing their own assets. We recognize that we are not a top‐tier player in the DC market and that our market share is likely somewhere in the middle. Even so, we have been achieving steady growth recently. Structurally, this is a market with favorable tailwinds.

As we continue to strengthen our investment capabilities, we believe that, while giving full consideration to fiduciary duty (FD), enhancing the competitiveness of our DC products and services will contribute to capital efficiency, as DC business does not require much capital on our balance sheet.

For DB, let me address the short term and long term separately. In the short term, corporate pension plans have two types of reporting: retirement benefit accounting, which affects a company's financial statements, and pension funding calculations, which are required by law to ensure the soundness of the pension plan. This is similar to the relationship between policy reserves and economic value-based liability management in life insurance company. They do not necessarily move under the same assumptions and these frameworks are complex, therefore constructing an appropriate portfolio is a major challenge.

With interest rates rising, companies are seeing lower retirement benefit liabilities and therefore some breathing room. At the same time, market interest rates are now well above the guaranteed rates used in pension funding.

This has created strong demand to lock in spreads above the guaranteed rate. Our traditional general account products could not meet that need, but our DB-GIC (Guaranteed Interest Contract) product is now capturing significant demand, which we expect will drive short-term growth.

In the medium to long term, as seen globally, DB plans will possibly be frozen or closed as they transition to DC. Eventually this leads to pension buyouts or pension risk transfers. We believe these will become important in Japan as well, especially in the context of the policy plan for promoting Japan as an Asset Management Nation, and we have been advocating for this for several years.

Improving the investment efficiency of pension funds is also essential to strengthening the investment chain in Japan, and we believe such needs will inevitably emerge over the medium term. In that sense, ensuring that our pension business strengthen competitiveness is therefore a key strategic priority.

Regarding business expansion, corporate governance reforms are encouraging companies to deploy excess capital more effectively. As companies seek better returns on surplus funds, we want to be able to meet those needs as well.

Note: Some of the above content has been added or modified to make it easier to understand.
[Company name abbreviation] HD: Dai-ichi Life Holdings, DL: Dai-ichi Life, DFL: Dai-ichi Frontier Life, NFL: Neo First Life