

IR Meeting (Domestic Life / Nursing Care & Senior Business) Q&A (July 19, 2021)

Domestic Life Insurances Business

Q: What are the key points that differentiate SOMPO from peers and maintain profitability of your health promotion-type insurance products and services?

A: We consider it more important that we change our customers' behavior to achieve positive results than seeking to differentiate our products and services from those of other companies. Our approach is to combine insurance and non-insurance fields into "Health-Supporting Customer Experience" and develop them. We believe that, by offering such value, we will be able to continue spreading the value of Insurhealth in the market, without getting caught up in price competition.

Q: What were the reasons behind the significant growth in annualized new premiums in the third-sector products (e.g. medical insurance) in FY2020? How are you going to further expand Insurhealth products in the future?

A: The launch of new medical insurance (insurhealth product) in June 2020 led to the significant growth in annualized new premiums because it accounts for approximately 50% of new policies. In addition, we plan to launch an Insurhealth product for cancer insurance in October 2021. Consequently, we plan to increase the ratio of Insurhealth products in annualized New premiums to 80% during the period covered by the New Mid-Term Management Plan.

Q: What will drive significant growth in the new policy value for MCEV during the period covered by the New Mid-Term Management Plan? Will it be the growth driven by volume growth or margin expansion?

A: The main driver will be the growth in volume that will significantly increase new policies.

Q: Can you please tell us about your channel strategy? Also, are you going to increase the size of your operations to the level comparable to major life insurers?

A: To accelerate the rollout of Insurhealth products, it is vital that we have channels that can deliver high values to our customers. Going forward, our policy is not to focus on specific channels but to securely deliver values to our customers to achieve growth. Life insurance business is a "stock business" that generates recurring profits by maintaining contracts with customers. Although we fall behind major life insurers who have longer histories, we have achieved growth by offering highly profitable protection-type products. If IFRS are introduced in the future, we consider it possible for us to achieve the profit level comparable to that of major life insurers.

Q: What is your understanding of the discrepancy between the FY2023 segment ROE target of the Domestic Life Insurance Business and the Group's adjusted consolidated ROE target?

A: Our Domestic Life Insurance Business is in the growth stage. In comparison with our adjusted profit, which is a numerator representing our current profit, the value of in-force insurance policies, which is a denominator and represents future profits, is large. This makes segment ROE seem small. Meanwhile, on

the IFRS basis, we can expect to reach a level close to the level of the adjusted consolidated ROE target. We therefore do not simplistically conclude that our capital efficiency is low because the segment ROE of life insurance is low. We will steadily improve the Domestic Life Insurance Business' ROE to help achieve the Group's adjusted consolidated ROE target.

Q: Is it correct to understand that you will reduce interest rate risk, while increasing the embedded value (EV) of new policies, to improve capital efficiency from the viewpoint of further improving RoEV?

A: We will increase the EV of new policies by increasing highly profitable products centered on Insurhealth products. In addition, we will reduce interest rate risk by measures such as purchasing 300 billion yen of super-long-term bonds each year. If, as a result, we have capital surplus, we will use it in areas that will contribute to improving the Group's capital efficiency.

Q: How much interest rate risk volume will you reduce in the Domestic Life Insurance Business during the period covered by the New Mid-Term Management Plan? Do you consider accelerating the pace at which you reduce interest rate risk in view of growth investments such as M&As?

A: The reduction of the volume will fluctuate depending on interest rate movements. Based on the interest rate level at the end of FY2020, we think that we can reduce the Group's interest rate risk volume by about 20%. We may accelerate the pace of its reduction, which may include the implementation of other risk reduction measures, depending on growth investment projects.

Nursing Care & Seniors Business

Q: What is the background of the acquisition of Tokyo Tatemono Senior Life Support Co., Ltd. (SLS)? What are your targets in future M&As?

A: We have developed our business mainly targeting the middle and middle-upper segments. We acquired SLS because we judged that we would be able to utilize our know-how for the company. We will continue examining our M&A targets factoring in their geographical areas and markets.

Q: Have you made any specific progress with respect to the Real Data Platform (RDP) for nursing care?

A: We have been conducting a proof of concept (PoC) since FY2020 in five SOMPO Care facilities combining the daily operational data and vital data we have collected with the data analysis technology of Palantir Technologies Inc. In this PoC, we are working on initiatives that will lead to the improved quality and productivity and we are getting positive feedback. Through this type of initiatives, we plan to develop and deliver solutions that are also useful for other nursing care operators. We consider it essential to work with outside partners, instead of working on our own, to create products.

Q: What kind of enhancement are you going to make as priority to create an ecosystem for the nursing care RDP?

A: We have partnerships with top players such as Palantir with respect to data analysis and ABEJA, Inc. with respect to AI. We also need specialized knowledge in medical care, pharmaceuticals, and academics.

To gain such knowledge, as announced earlier, we have formed an alliance with the National Institute of Advanced Industrial Science and Technology and are conducting research with them.

Q: Do you have any track records in collaborating with the national or municipalities in nursing care business?

A: The Japanese government is also stepping up their efforts to promote ICT and digitalization in nursing care. Our “Future Care Lab in Japan” has been designated by the Ministry of Health, Labour and Welfare of Japan as one of only several “Living Labo” institutions in Japan whose aim is to promote the development of nursing care robots based on the front-line needs of nursing care practitioners. It is attracting much interest from government agencies and local governments.

Q: There is an image that the nursing care business is labor intensive. How important are data?

A: The concept of “Scientific nursing care” was incorporated in the FY2021 revision to the Long-term care fees. This presented the direction for the Long-term Care Insurance system, which will be based on evidence supported by data. We are aware that the concept of productivity improvement through “Long-term care Information system For Evidence” (LIFE) is highly compatible with the vision we aspire to achieve.

Other related topics

Q: Can you tell us your past efforts and future challenges with respect to cross-business synergy between, for instance, the Nursing Care Business and Domestic Life Insurance Business?

A: In the area of dementia, we have already launched an initiative that combined dementia insurance and nursing care service. There is a large common ground between insurance and nursing care in a sense that they both try to cover financial risk arising from aging and longevity. Furthermore, dementia insurance allows us to maintain contacts with customers through the payment of benefits not only after the policyholder is diagnosed with dementia, but also when the policyholder suffers from Mild Cognitive Impairment (MCI). We collaborate by, for instance, introducing nursing care facilities and services to policyholders suffering from MCI. Of the five focus areas of RDP, we are looking into the healthy aging area on the premise of generating synergy among the Domestic Life Insurance Business, Nursing Care & Seniors Business, Digital Business, and Healthcare Business.

Q: Can you tell us about the newly created Healthcare Business?

A: We have already owned two companies in our Healthcare Business. We plan to expand customer reach in the healthcare area through M&As and digitalization and generate profits as an independent business.

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