FALIA Invitational Seminar in Japan
"Product Development Strategy Course"

Corporate Management Strategy of a Life Insurance Company

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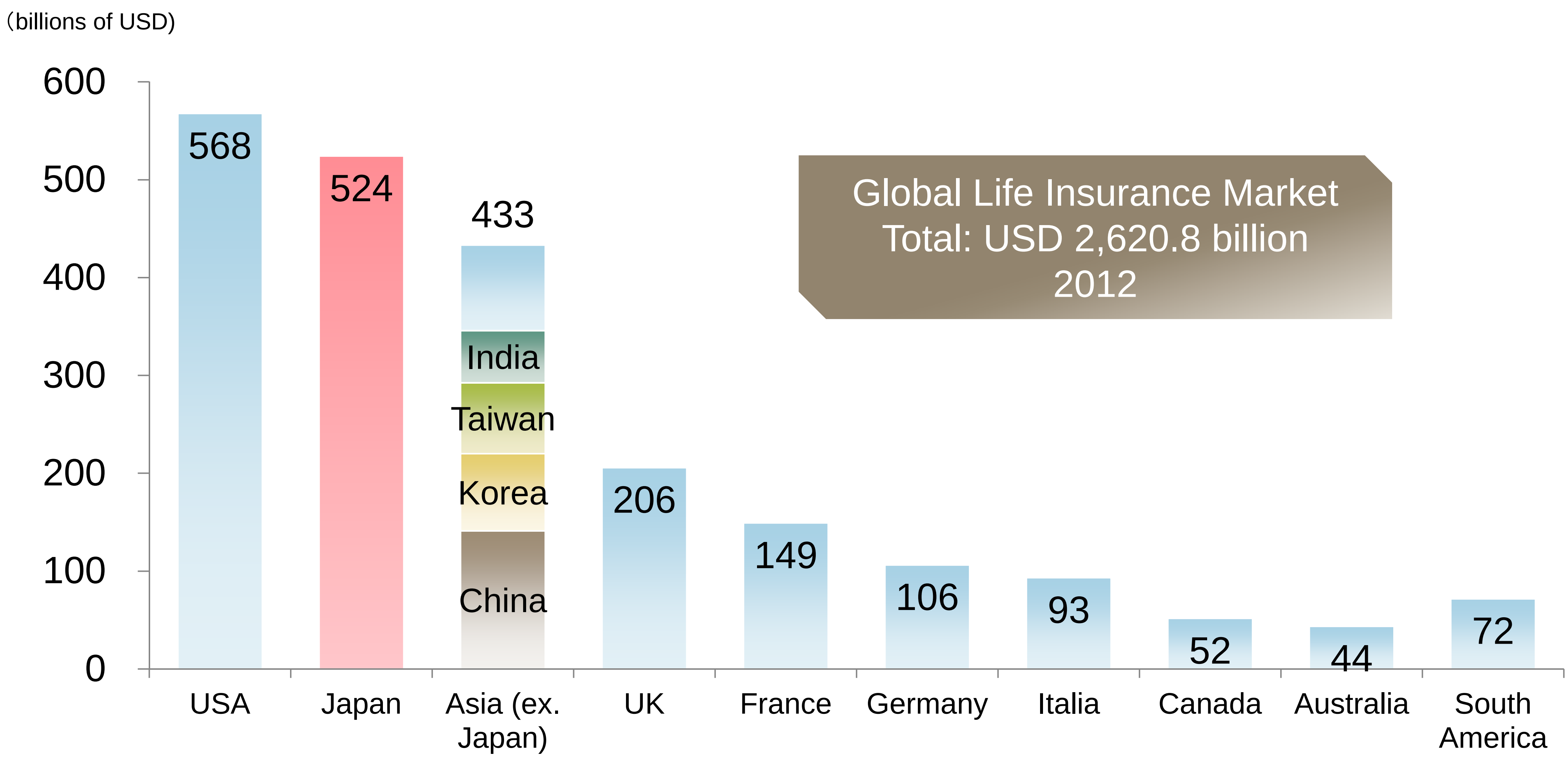
Table of Contents

The Life Insurance Market in Japan

Global Life Insurance Market

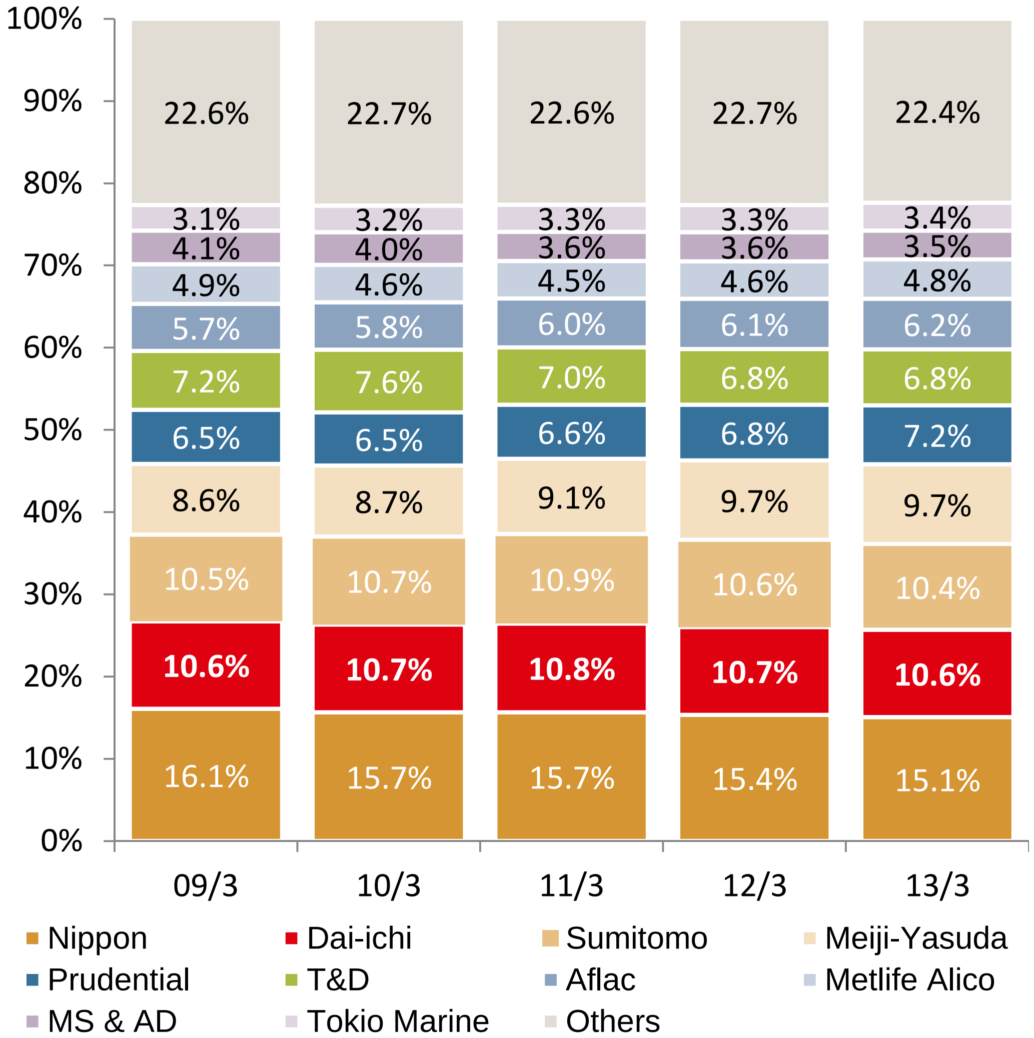
■ *Japan is the second largest life insurance market in the world*



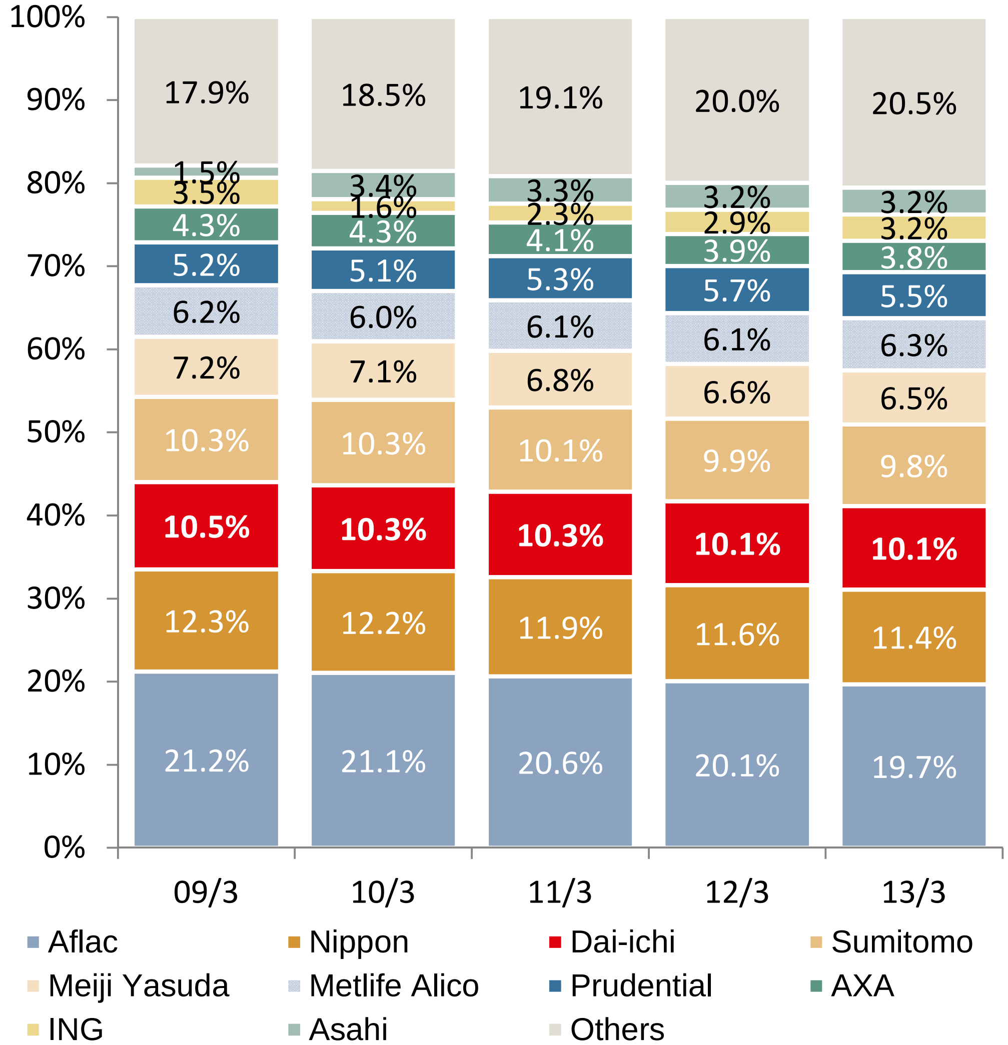
(Source) Swiss Re

Life Insurance Market Share in Japan

Share in In-force ANP



Share in Third Sector (Medical, etc.) In-force ANP



(Note) Shares exclude Japan Post Insurance.

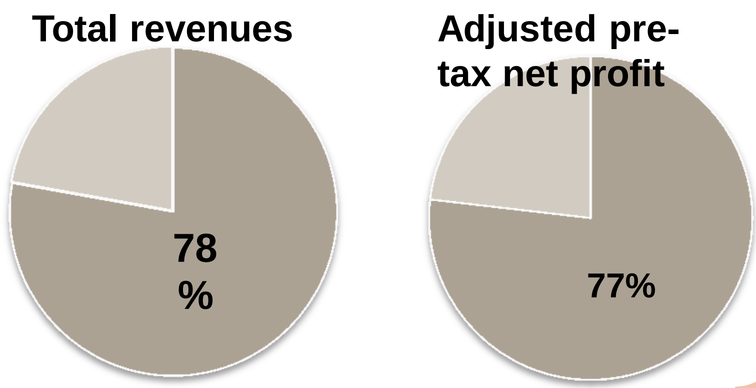
(Source) Company disclosures and Life Insurance Association of Japan

Foreign Players in Japan

The number of foreign players in Japan: 17 companies (accounting for 39.5% of all players)
ANP of policies in force: 5.8 trillion yen (27.3%)
ANP of third sector policies in force: 2.2 trillion yen (41.4%)

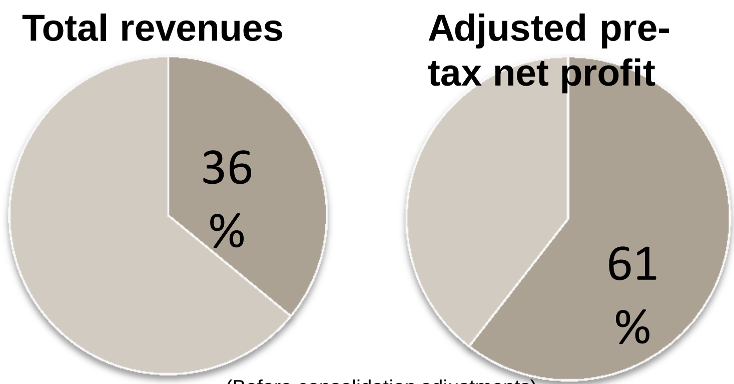
Company A (US) Operation in Japan

Share of Operation in Japan



Company B (US) Operation in Japan

Share of Operation in Japan



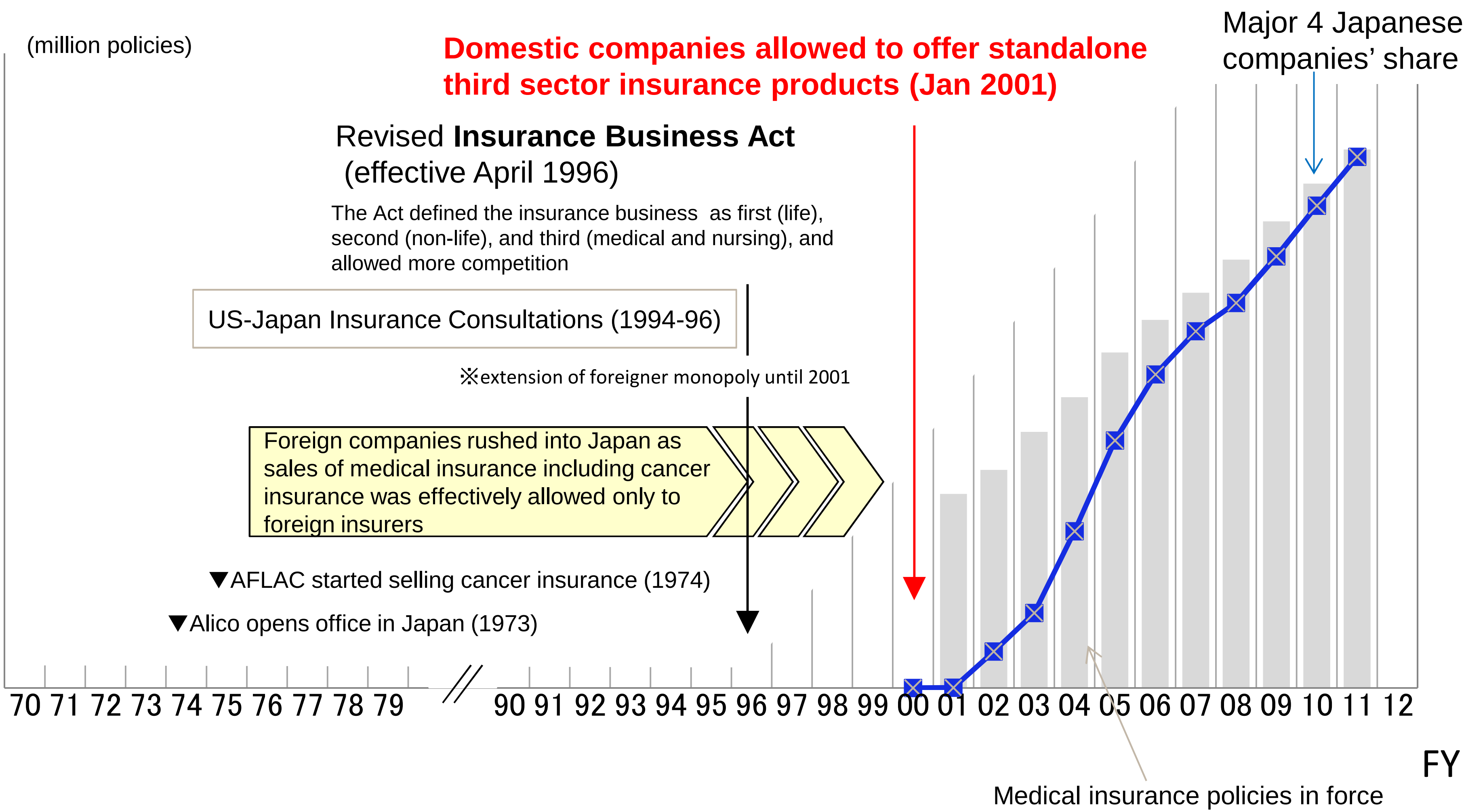
(Before consolidation adjustments)

Some major foreign life players set their operations in Japan as main pillars of their profitability – strengthening their operations in Japan even in the recent years.

- Feb 2010: AXA Japan Holding Co., Ltd. made a wholly owned subsidiary SBI AXA Life Insurance Company (a joint venture company established by SBI Holdings Inc., AXA Japan Holding Co., Ltd. and Softbank Corporation).
- Mar 2010: Metlife agreed to acquire Alico Japan from AIG for USD 15.5 billion, including 6.8 billion yen in cash. Metlife financed the cash portion by issuing USD 3 billion common share and USD 3 billion bond.
- Sep 2010: Prudential Financial agreed to acquire AIG Star Life and AIG Edison Life from AIG for USD 4.8 billion in total.

Changes in Competitive Environment of Third Sector Area

Number of medical insurance policy in force and share of major four [1] Japanese companies



(1) *Sum of medical insurance policies in force of Dai-ichi Life, Nippon Life, Meiji Yasuda Life, and Sumitomo Life*
(Source) Company based on Insurance

Overview of Dai-ichi Life

Key Statistics of Dai-ichi Life

Key Figures

■ Established	September 15, 1902
■ Employees / Sales Representatives (5)(6)	60,771(Group total) / 43,779 (Sales reps of Dai-ichi Life)
■ Major Group Companies	Dai-ichi Frontier Life, Dai-ichi Life Vietnam, TAL (Australia), DIAM Asset Management
■ Premium Income (1)(2)(3)	¥3,646 bn ($38 bn)
■ Fundamental Profit (1)(4)	¥314 bn ($3 bn)
■ Total Assets (2)(5)	¥35,694 bn ($379 bn)
■ Embedded Value (2)(5)	¥3,341 bn ($35 bn)
■ Solvency Margin Ratio (5)	715.2%
■ Insurer Financial Strength Rating (7)	

S&P	Moody's	Fitch	R&I	JCR
A	A1	A+	A+	A+

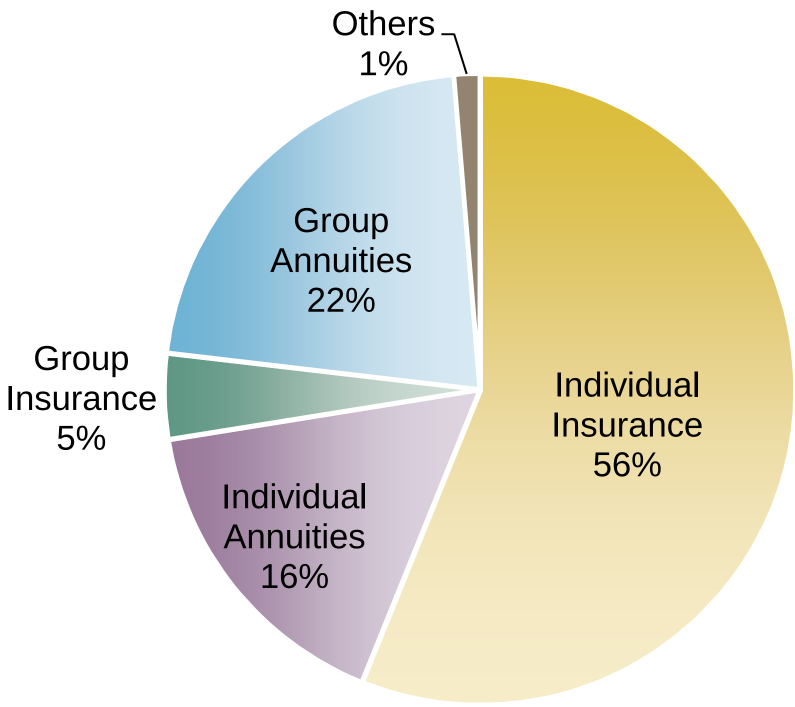
Source: Dai-ichi Life information
(1) Figures are based on fiscal year ended March 31, 2013
(2) Consolidated basis. Other figures (except for embedded value) are not accounting-based figures and are therefore presented on a non-consolidated basis
Embedded value is shown on a group basis and calculated as follows; [Dai-ichi Life's EEV] plus [Dai-ichi Frontier Life's EEV corresponding to Dai-ichi Life's equity stake in Dai-ichi Frontier Life] plus [TAL's EEV] less [the carrying amount of Dai-ichi Life's equity of Dai-ichi Frontier Life] less [the carrying amount of Dai-ichi Life's equity of TAL]
(3) Premium income represents premium and other income
(4) Fundamental profit represents underwriting profit from insurance businesses and excludes capital gains / losses, etc.
(5) As of March 31, 2013
(6) The number of sales representatives does not include those who are not full-time employees of Dai-ichi Life and who are engaged mainly in ancillary work.
(7) Current ratings

Business and Channel Mix of Dai-ichi Life

- *High proportion of premiums from profitable retail business (Indiv. Insurance and annuities)*
- *While most sales are generated through the sales rep channel, Dai-ichi has been diversifying its sales channels*

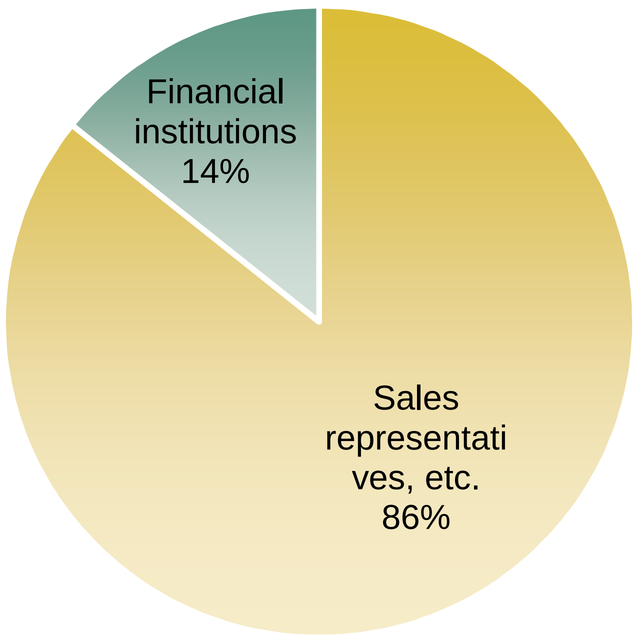
Business Mix

Insurance Premiums by Product Line (FY 2012) (1)



Channel Mix

Insurance Premiums by Channel (FY 2012) (1)

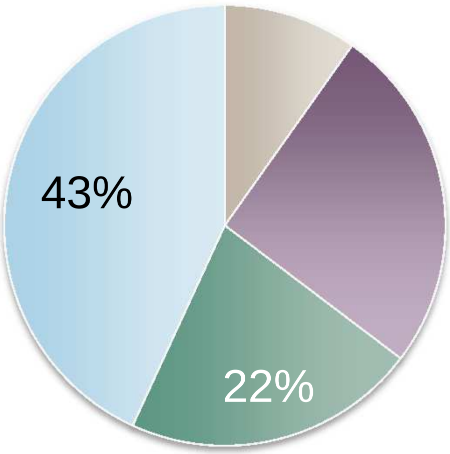


Source: *Dai-ichi Life information*
(1) *Sum of Dai-ichi Life and Dai-ichi Frontier Life*

Business Model of Major Life Insurance Companies

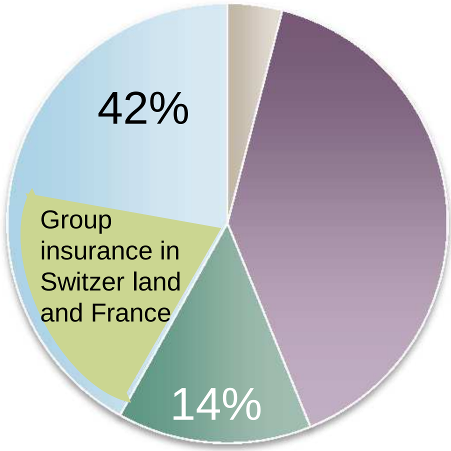
Product Composition

Dai-ichi Group
(Consolidated annualized net premium)



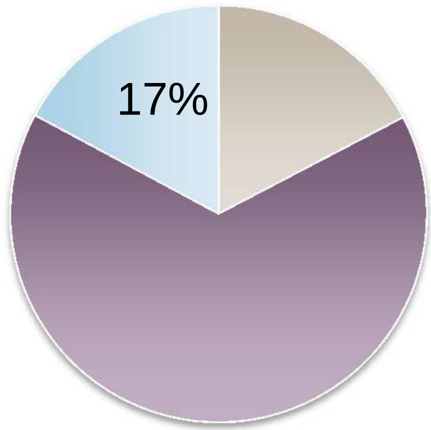
- Bancassurance
- Savings-type
- Medical, etc.
- Death protection, etc

Company A (Europe)
(Gross written premiums, Life and Saving segment)



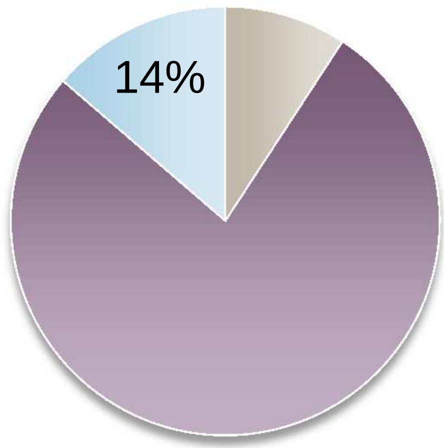
- Others
- Savings-type
- Medical, etc.
- Death protection, etc.

Company G (Europe)
(Life gross premiums)



- Unit/index linked
- Savings and pension
- Protection

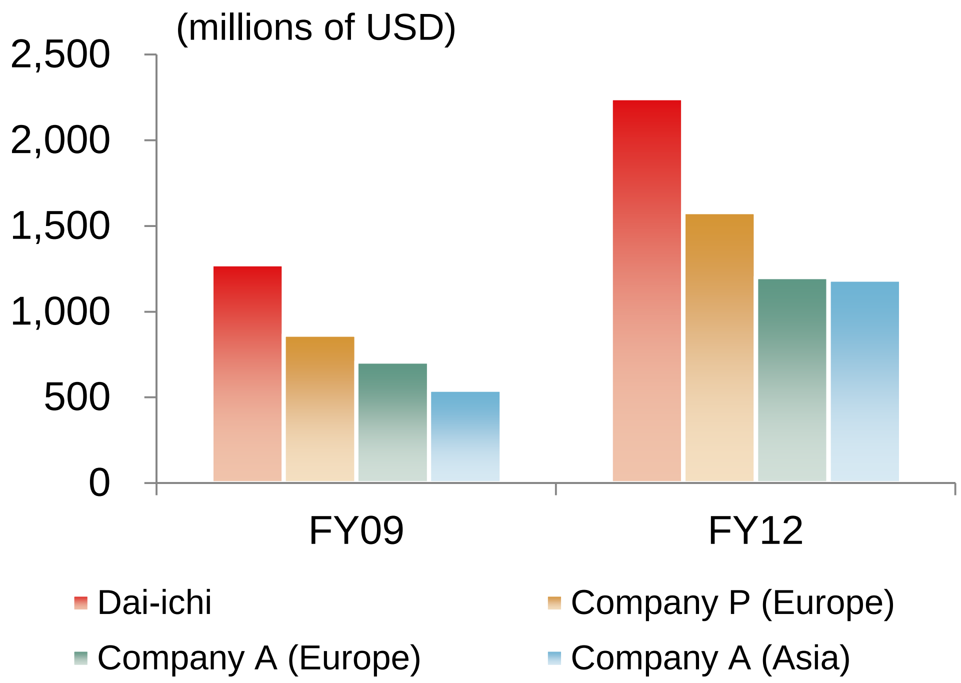
Company B (Europe)
(Gross premium written, life and health operations)



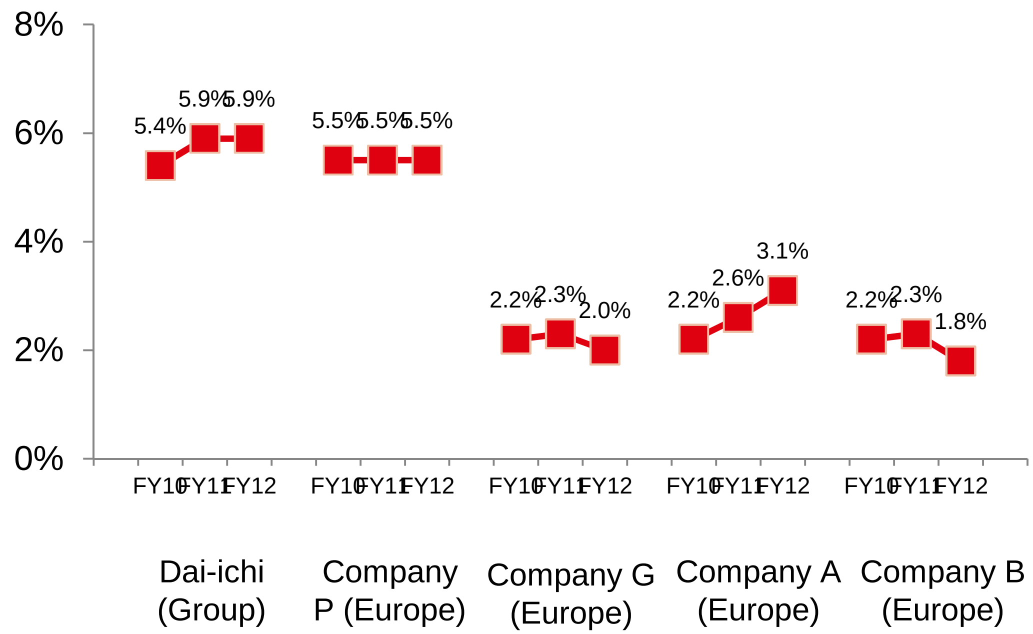
- Unit linked w/o guarantee
- Guaranteed savings & annuities
- Protection & health

Value of New Business / New Business Margin among Asian Life Insurers

Value of New Business Comparison among Asian Life Insurance Companies



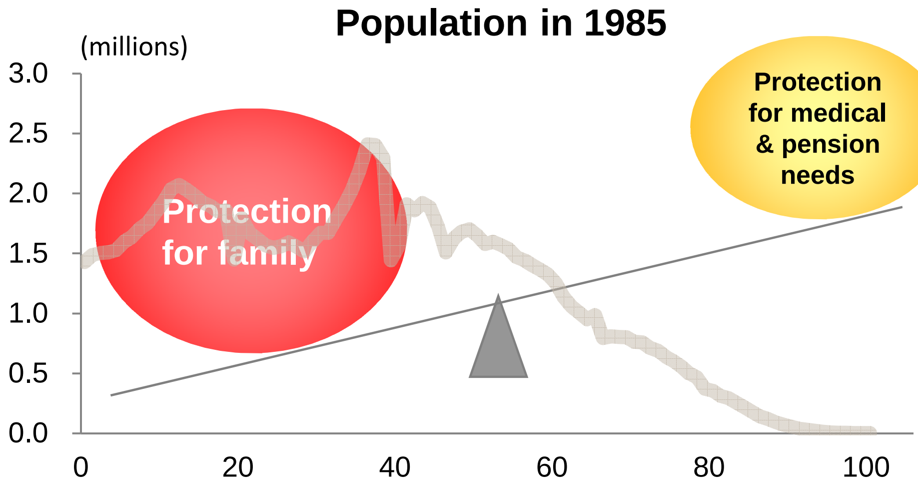
New Business Margin



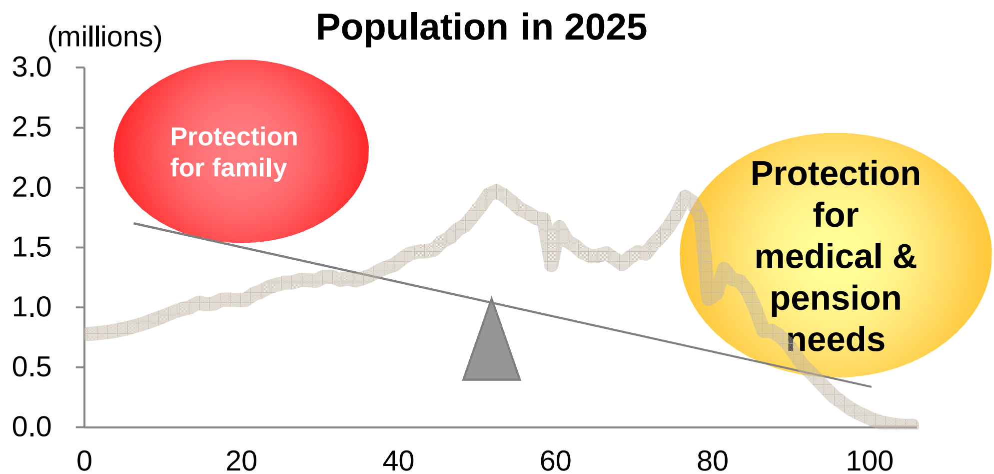
Corporate Management Strategy of Dai-ichi Life

Change in Population and Customer Needs in Japan

Change in Population and Protection Needs

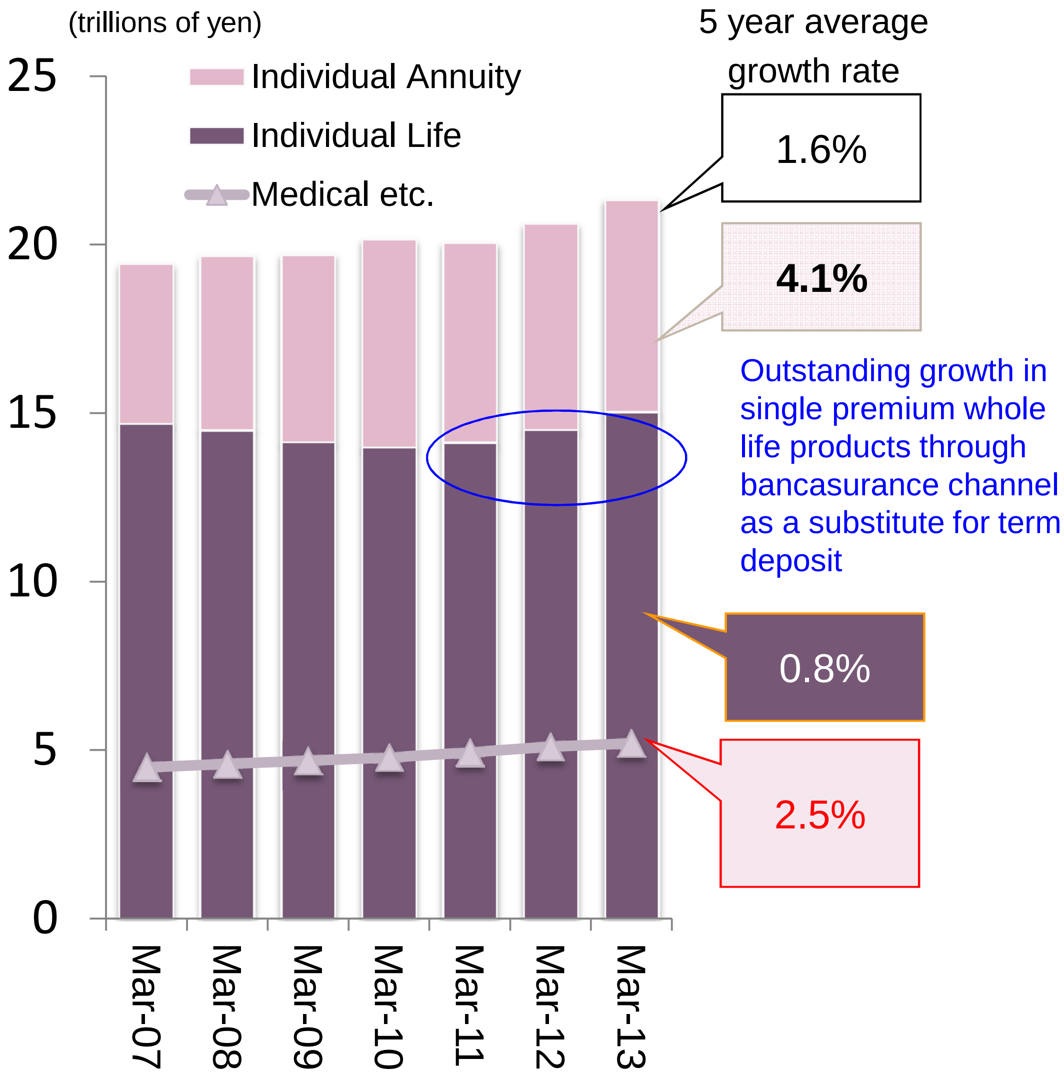


declining birthrate and aging population



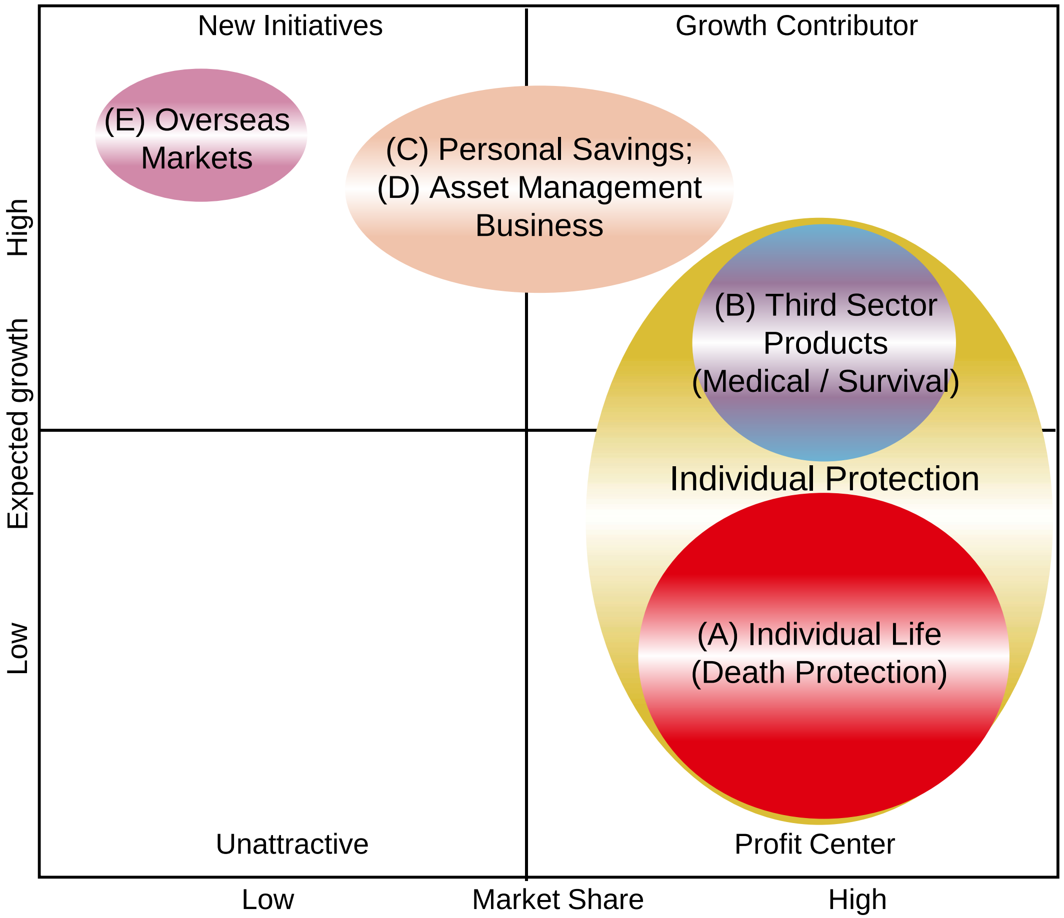
(Source) National Institute of Population and Social Security Research

In-force ANP of Japanese Life Companies



(Source) Company disclosure, Life Insurance Laboratory, Life Insurance Association of Japan

Our Business Portfolio



Domestic insurance business (A) + (B) + (C)

<u>Traditional Death Benefit Market (A)</u>

- Aim to increase market share
- Take initiatives for improvement of cost efficiency

<u>Growth Market (B) + (C)</u>

- Third sector products (medical and survival benefits)
- Saving-type products for individuals

International life insurance business (D)

- Expanding operations in the Asia-Pacific markets

Asset management business (E)

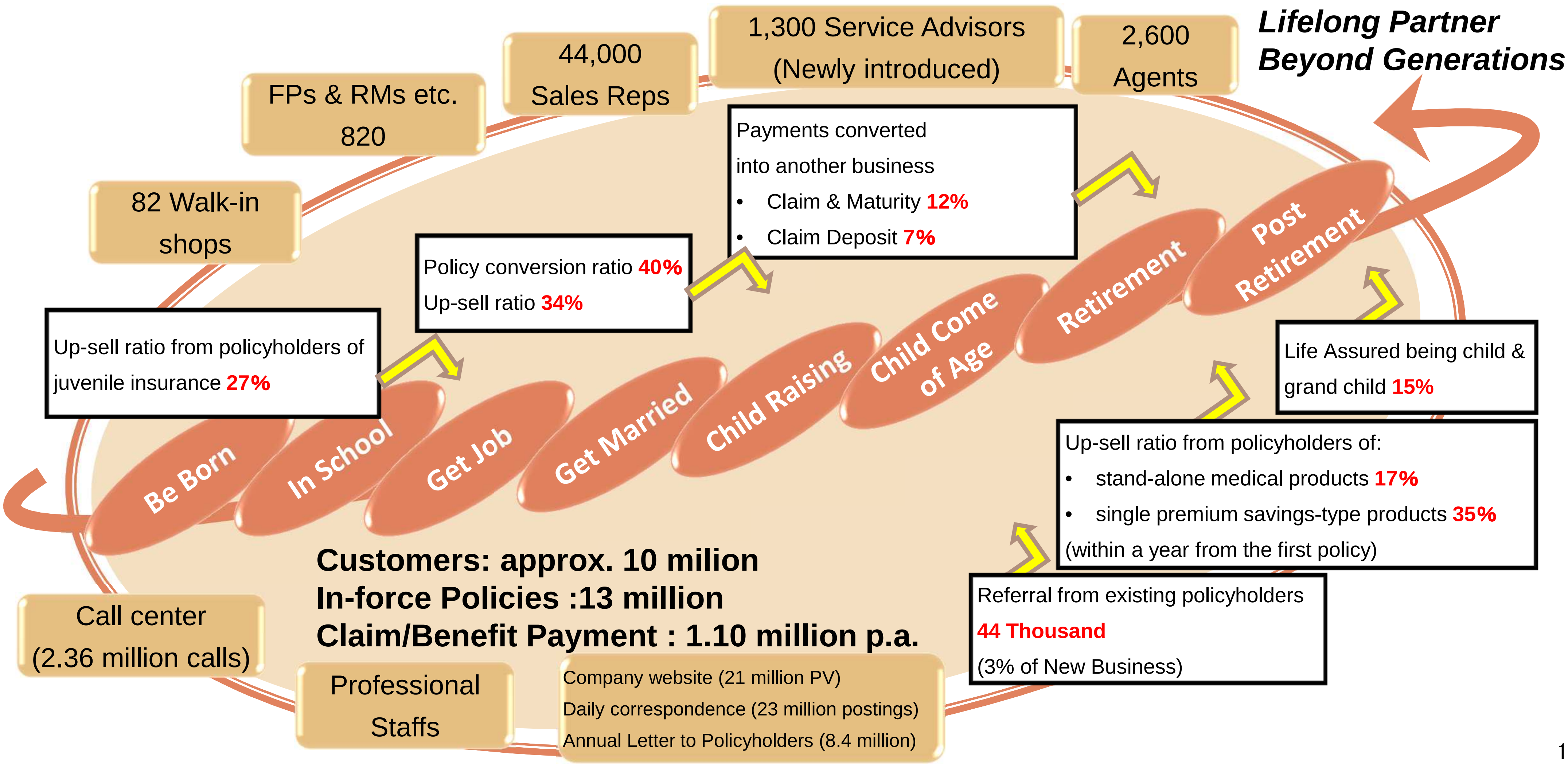
- Operate through DIAM and Janus, leading asset management companies in Japan and the US
- Seek domestic and international growth

- Pursuing external growth including through M&A to supplement organic growth

Individual Protection Business ~
Our Marketing Strategy: Total Consulting Service

Maximizing the life time value of each customer and creating new markets based on existing customer base

- *Promoting multichannel access to our vast customers base for new business opportunities to maximize the lifetime value of each customer.*
- *With our group mission "By your side, for life", we will strive to create new markets by becoming a lifelong partner of our customers, their family members beyond generations, and other new customers with their referrals.*

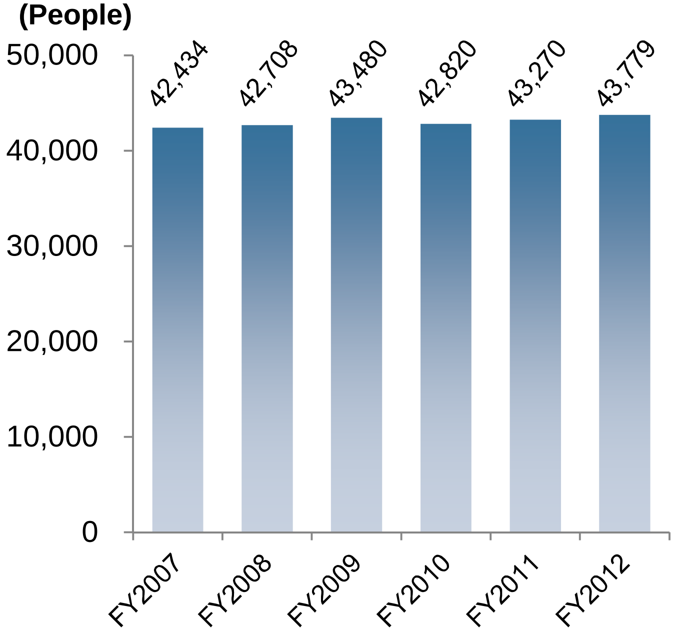


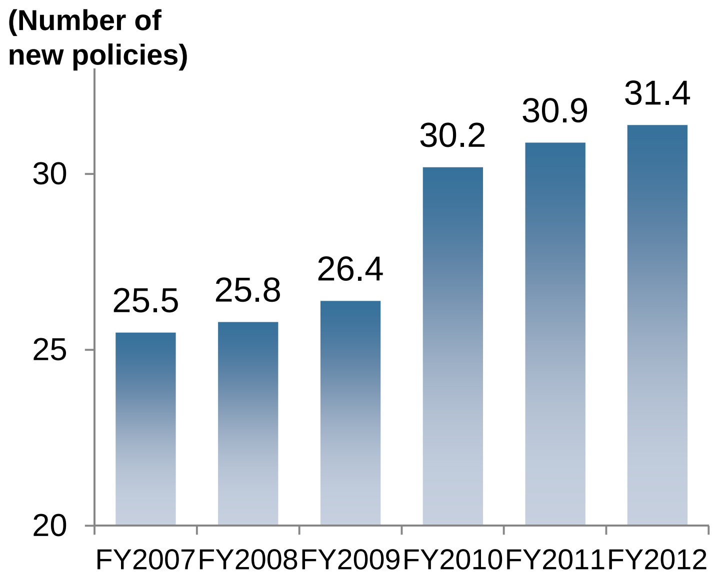
Effectiveness of Sales Representative Channel

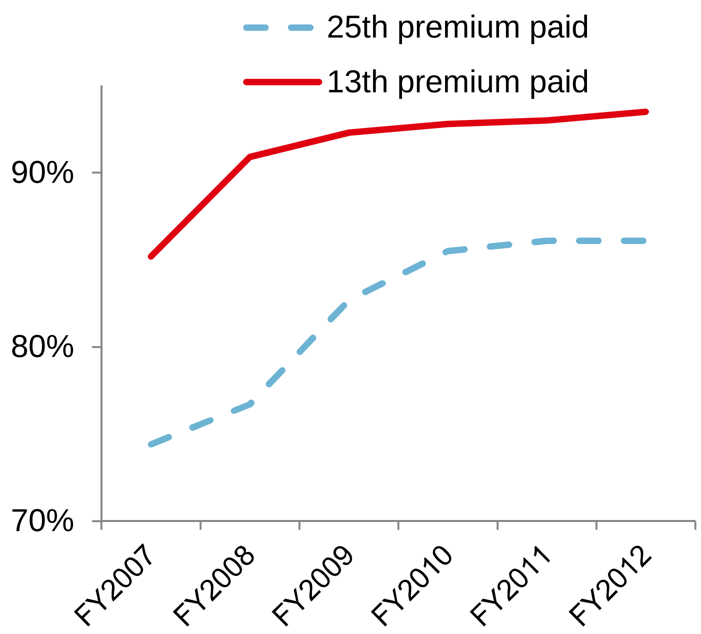
■ *With our marketing strategy, we improved the number of sales reps, number of new policies per sales rep, and persistency rate*

Total Production Capability through the Sales Representative Channel

Production Population	Productivity	Sustainability
Sales Representatives (FY2007 - FY2012) (1)(2)	Number of New Policies per Sales Rep (FY2007 - FY2012) (2)(3)	Persistency Rate (FY2007 - FY2012) (4)







Source: Dai-ichi Life information, The Life Insurance Association of Japan, Summary of Life Insurance Business in Japan (Annual)
(1) Fiscal year end
(2) The number of sales representatives does not include those who are not full-time employees of Dai-ichi Life and are engaged mainly in ancillary work.
(3) Number of new policies (incl. conversions) as the numerator and the average number of sales reps (excluding those who are not full-time employees of Dai-ichi Life and are engaged mainly in ancillary work) in each period (calculated from numbers at the beginning and end of each period) as the denominator
(4) Non-consolidated basis. The amount of Japan Post Insurance is not included in the annual industry average

Dai-ichi's Products in Japan

■ *Our main products cover (1) death protection, (2) medical, and/or (3) savings type products*

Launched in December 2013-

"Bright Way", participating whole life insurance product and "Crest Way", participating whole life nursing care product with various rider options (i.e. medical riders, etc.), "tailor-made" kind of products.

- Targeted for customers in 30's – 40's, in need of (1) death protection for their families and (2) medical protection and nursing care protection for themselves

Launched in January 2011-

"Medical Yell" (meaning "medical support") a product integrating features provided by various medical riders

- The whole life version targets mainly for senior customers, in need of medical protection.
- The term life version targets for younger generation to maximize the life time value

Launched in August 2011-

"Grand Road", a single premium whole life insurance product, retaining high cash value while providing whole life protection

- Targeted for senior customers, (1) accumulating retirement funds and/or (2) preparing for inheritance tax

Since Dec 2006

The Dai-ichi Frontier Life Insurance Co., Ltd.

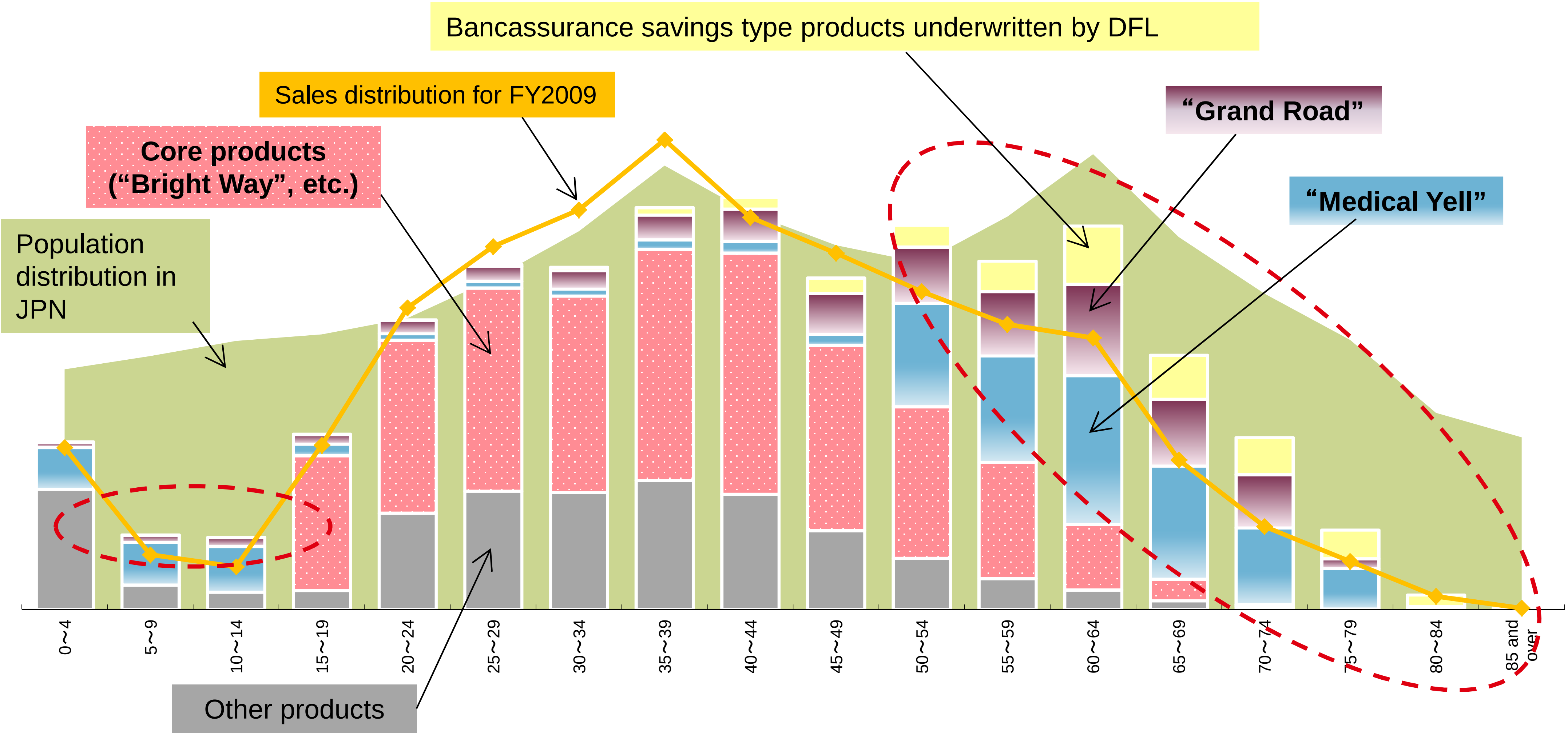
Dai-ichi Frontier Life is a subsidiary of Dai-ichi Life and offers various kinds of savings type bancassurance products, such as variable annuities and fixed annuities (yen- & foreign currency-denominated)

- DFL offering various savings type products mainly for seniors.

Product Targeting

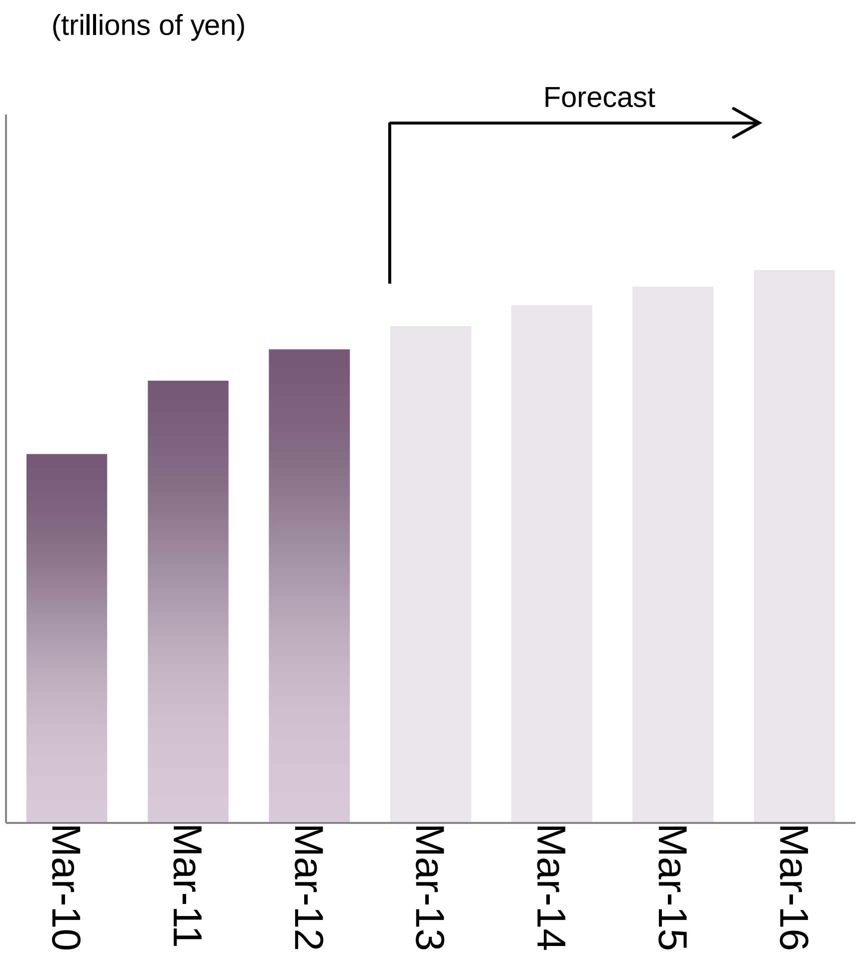
■ *With our marketing strategy, we have expanded sales to the seniors and the underage generation.*

Annualized Net Premium (ANP) from Policies in Force of the Dai-ichi Life Group [1]

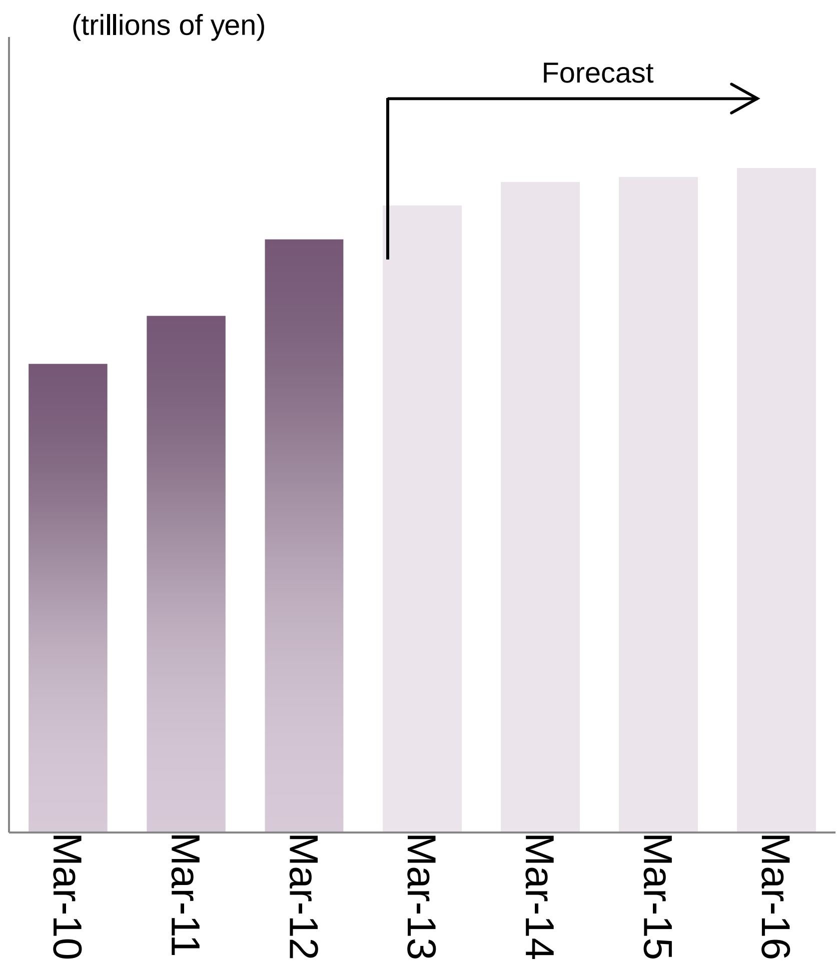


Growth Area:
Outlook for medical & savings-type insurance markets

Annualized net premium of medical and other products



Asset outstanding of single premium individual annuities products

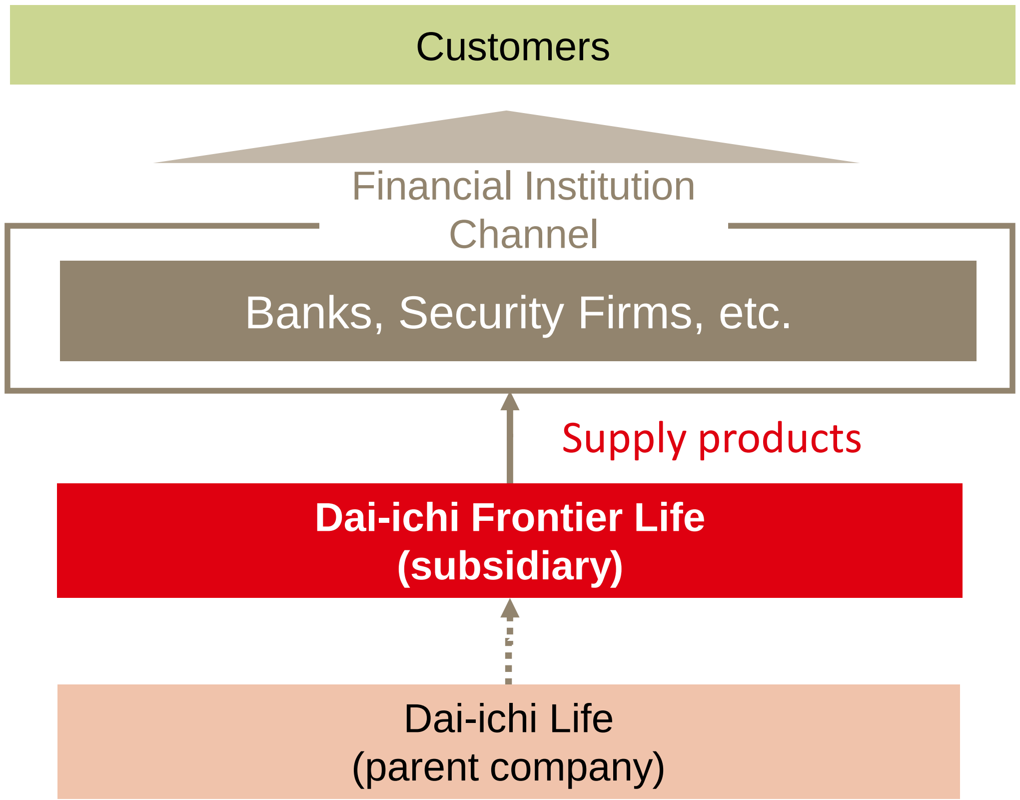


(Source) company projection

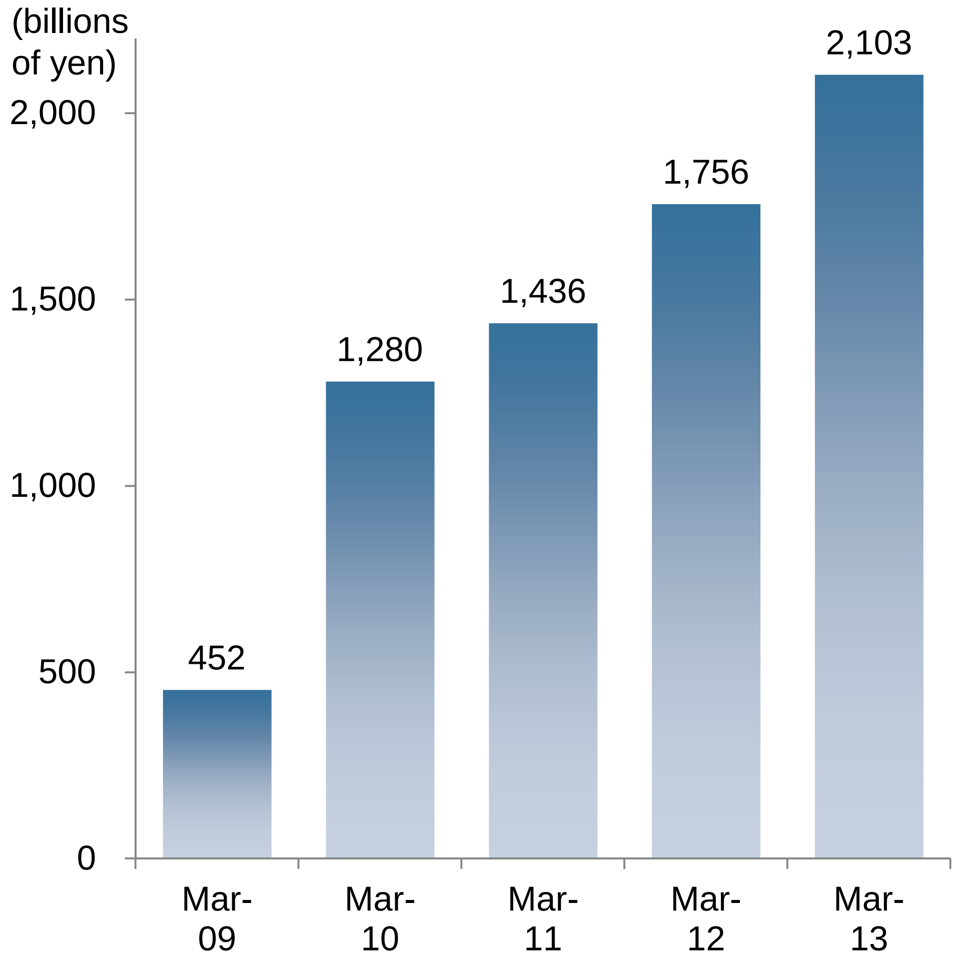
Growth Area: Personal savings (individual annuities)

- *We established Dai-ichi Frontier Life, a subsidiary specializing in bancassurance products*
- *DFL sells its products through over100 FIs, including Mizuho FG, Resona Group and Nomura Securities*

Initiatives for Bancassurance Channels

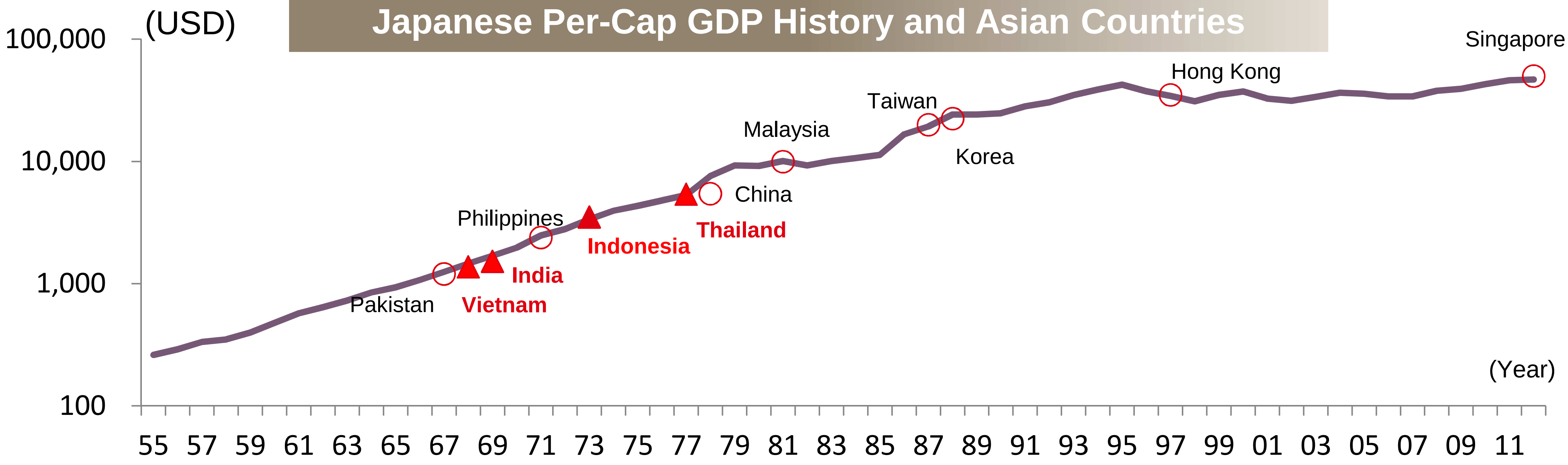


Sum-insured of Dai-ichi Frontier Life

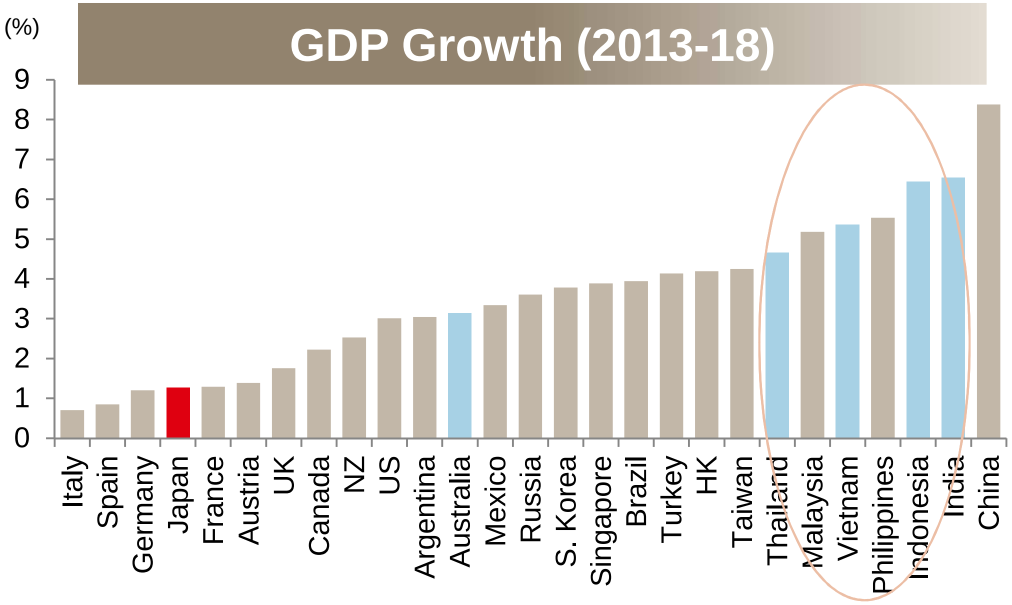


Growth Area: Overseas insurance business
- Expanding into promising markets on the back of the success in Japan

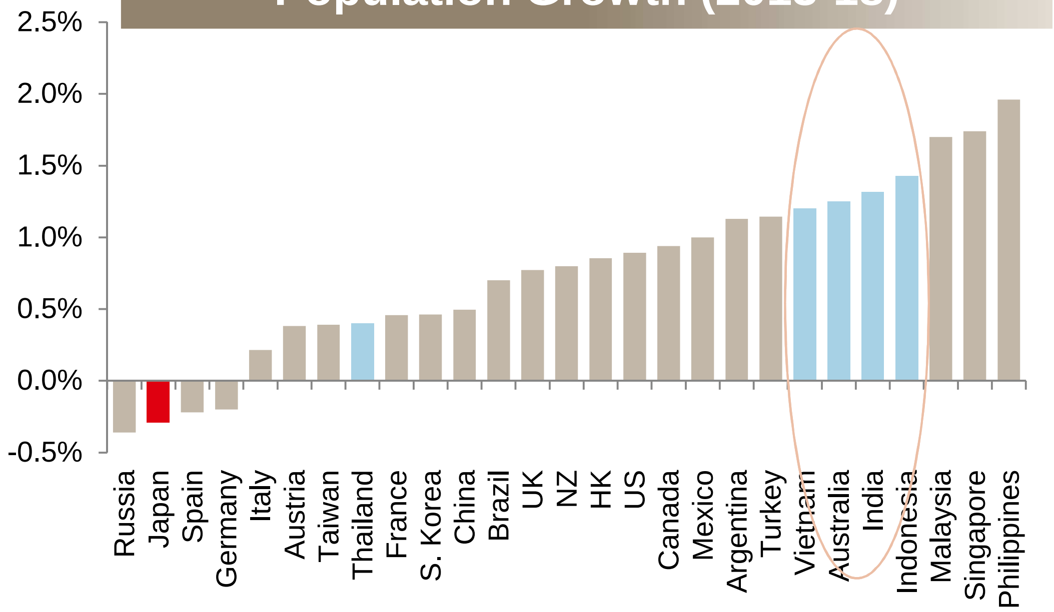
Japanese Per-Cap GDP History and Asian Countries



GDP Growth (2013-18)

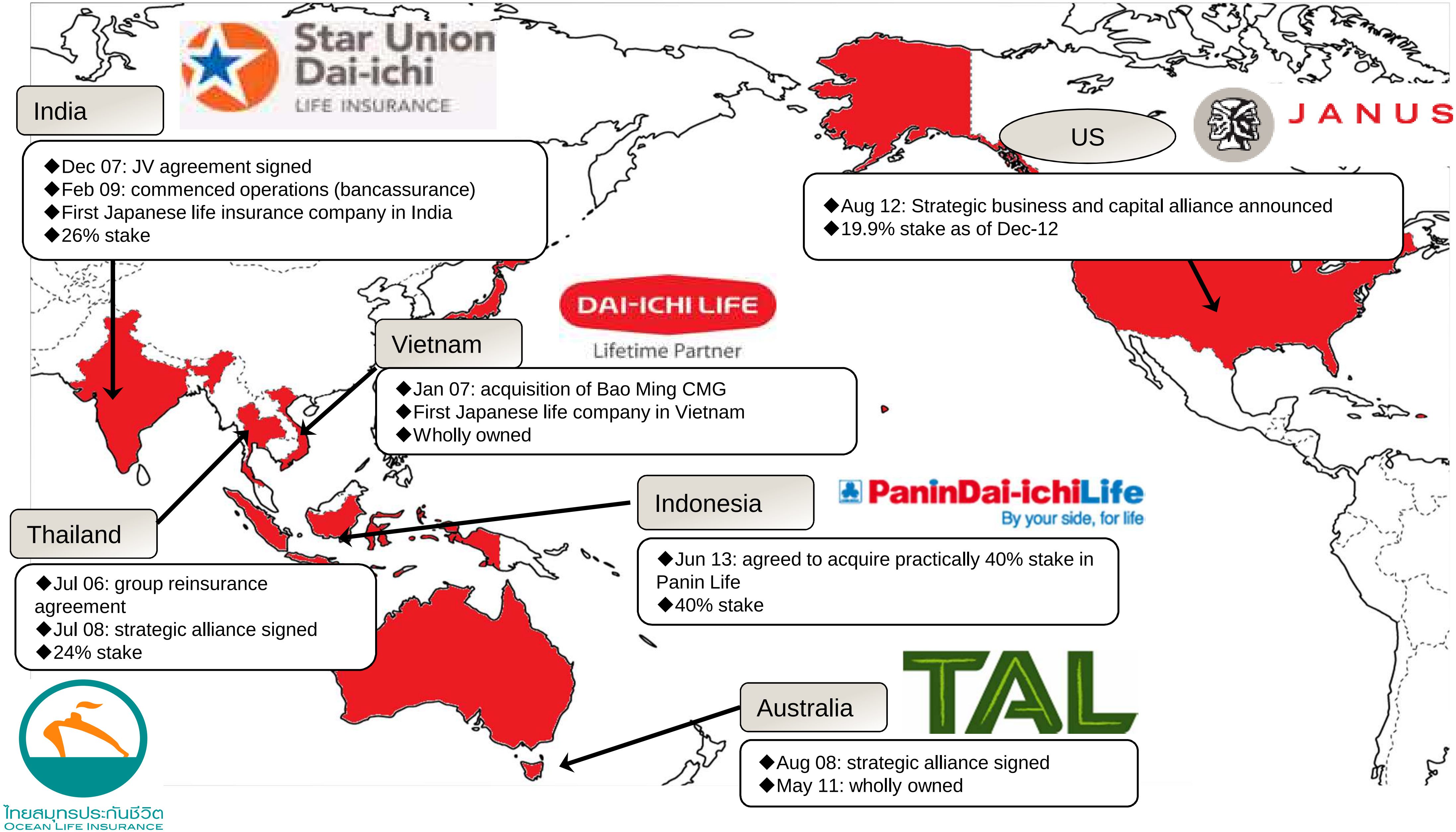


Population Growth (2013-18)



Source: IMF, Swiss Re

Growth Area: Overseas insurance business
- Overview of our overseas group companies



Growth Area: Overseas insurance business
- Key figures of our overseas insurance group companies

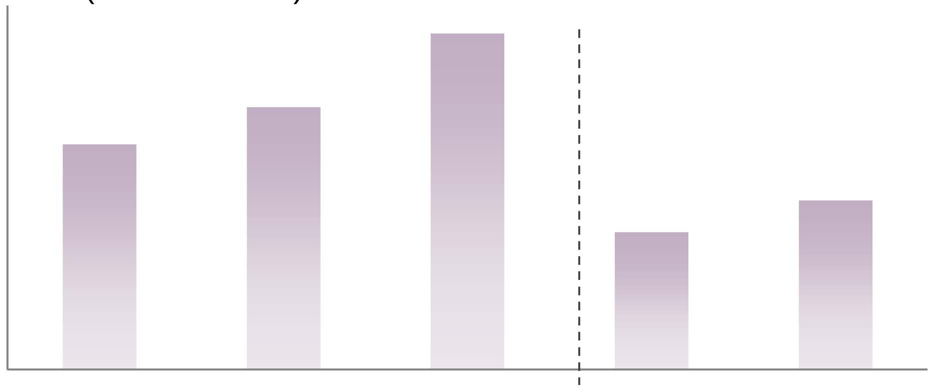
	Number of employees[(1)] (as of Mar-13)	Main sales channel	Major products	Premium revenue for the six months ended June2013 [(2) (3)]	YoY	Market shares
Dai-ichi Life Vietnam (Wholly owned since Jan-07)	555	Individual insurance agent	Universal insurance, Endowment insurance	743.6billion VND (3.4billion JPY)	+22.9%	7.5%
TAL (Australia) (29.7% stake in 2008, acquisition of 100% ownership in May-11)	1,339	Financial advisors (Retail), Wholesale (Group), Call centers (Direct)	Risk products (death, income protection & total permanent disability)	1,102million AUD (100.2billion JPY)	+14.6%	14.3%
Star Union Dai-ichi Life (India) (26% stake, in operation since Feb-09)	1,891	Bancassurance	Unit-link insurance, Endowment insurance	3,416million INR (5.6billion JPY)	+0.03%	0.8% [(5)]
Ocean Life Insurance (Thailand) (24% stake since Jul-08)	1,961	Individual insurance agent	Endowment insurance	6,879million THB (21.7billion JPY)	-7.4%	3.2%

(1) Does not include sales channel personnel. However, persons who engage in TAL's direct sales are included.
(2) The corresponding period of TAL is from April to September, whereas the other companies' corresponding period is from January to June. Premium revenue indicator for Dai-ichi Life Vietnam, TAL and Ocean Life Insurance is premium income. Star Union Dai-ichi Life uses effective premium income.
(3) Exchange rates used are as follows: 1VND=0.0047JPY, 1AUD=90.87JPY, 1INR=1.65JPY, 1THB=3.16JPY.
(4) In calculating market shares, premium income for the six months ended June 2013 is used for Vietnam and Thailand, first year premium for the six months ended June 2013 for India, and annual premium in-force (risk business) as of June 2013 is used for Australia.
(5) The market share accounted for 2.7% on a private insurer basis excluding LIC, a government-owned insurer

Growth Area: Overseas insurance business
- Our strategies in local markets (1)

Premium Income in Vietnam(1)

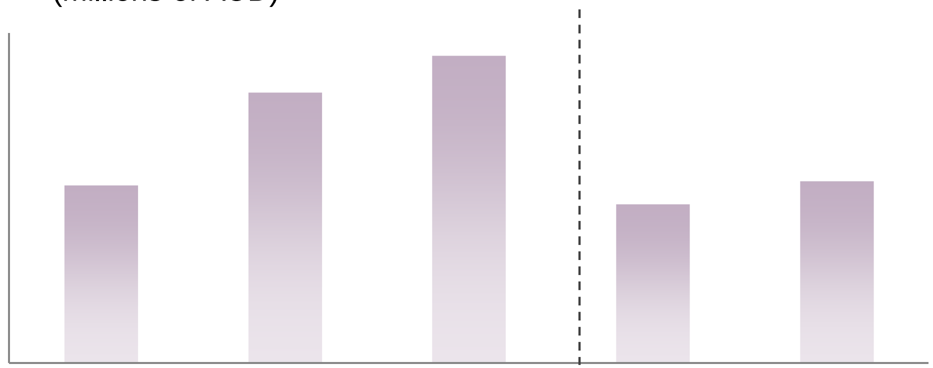
(billions of VND)



- What we have achieved
  - ⇨ Premium income continued to grow as sales through individual insurance agents maintained momentum on the back of sales channel expansion and improvement in agent productivity
- What we'll strive to achieve
  - ⇨ We are studying development and sales of higher margin products on top of our effort to strengthen existing sales channels and to study channel diversification opportunities.

Premium Income in Australia(2)

(millions of AUD)



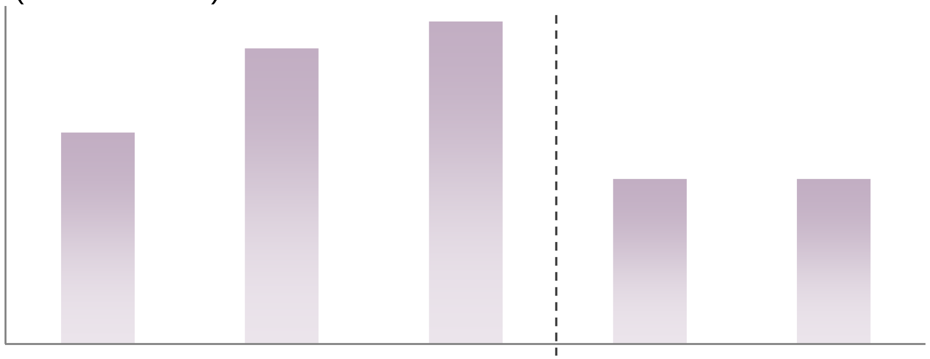
- What we have achieved
  - ⇨ Premium income increased against last year as we built stronger relationship with independent advisors and promoted strong product features through retail channel, and revised premium rate through group insurance channel.
- What we'll strive to achieved
  - ⇨ We'll try to maintain growth in premium income faster than industry by enhancing the strategy of its own sales channels and sales alliance in direct business.

(1) Fiscal year ends December 31.
(2) Fiscal year ends March 31. Premium income after FY2011 is presented after reclassifying items of TAL's financial statements under Australian accounting standards to conform to Dai-ichi's disclosure standards and is not comparable with figures in the previous fiscal years.

Growth Area: Overseas insurance business
- Our strategies in local markets (2)

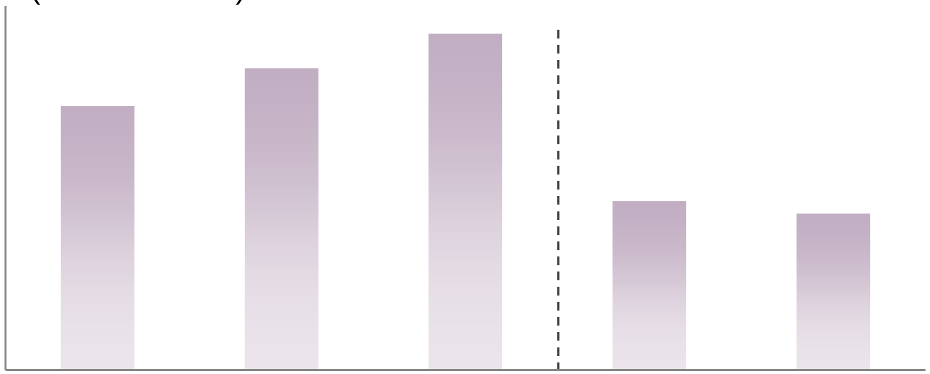
Effective Premium Income in India[1][2]

(billions of INR)



Premium Income in Thailand[1]

(billions of THB)



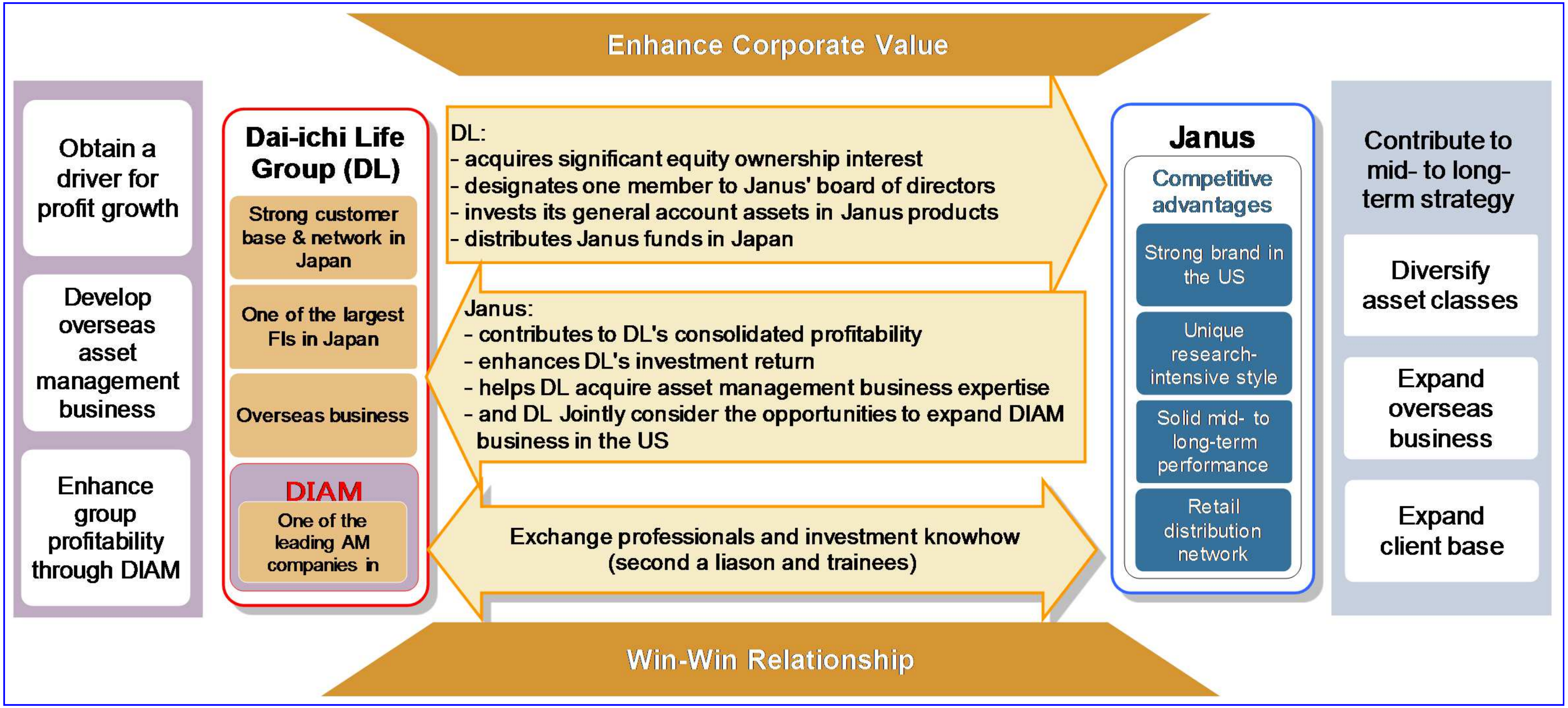
- What we have achieved
  - ⇨ Weaker economy and stringent regulations on commissions contributed to slower growth in the industry. We focused more on sales of traditional regular premium insurance products than unit-linked single premium insurance, in order to enhance revenue base and improve profitability.
- What we'll strive to achieve
  - ⇨ We plan to maintain premium income base by reinforcing the bancassurance channel, e.g. recruitment of wholesalers, and introducing measures to improve lapse & surrender.

- What we have achieved
  - ⇨ We have shifted our product portfolio from single premium products to regular premium products in order to improve profitability.
- What we'll strive to achieve
  - ⇨ We will maintain sales momentum by strengthening recruitment and training system at individual insurance agents channel, on top of alignment in product portfolio.

(1) Fiscal year ends December 31. Figures are not adjusted to Dai-ichi's interest in the company.
(2) Effective premium income accounts only one tenth of individual single premium insurance products and excludes premium income from lower margin group annuity.

Growth Area: Asset management business
- Framework of the alliance with Janus Capital Group

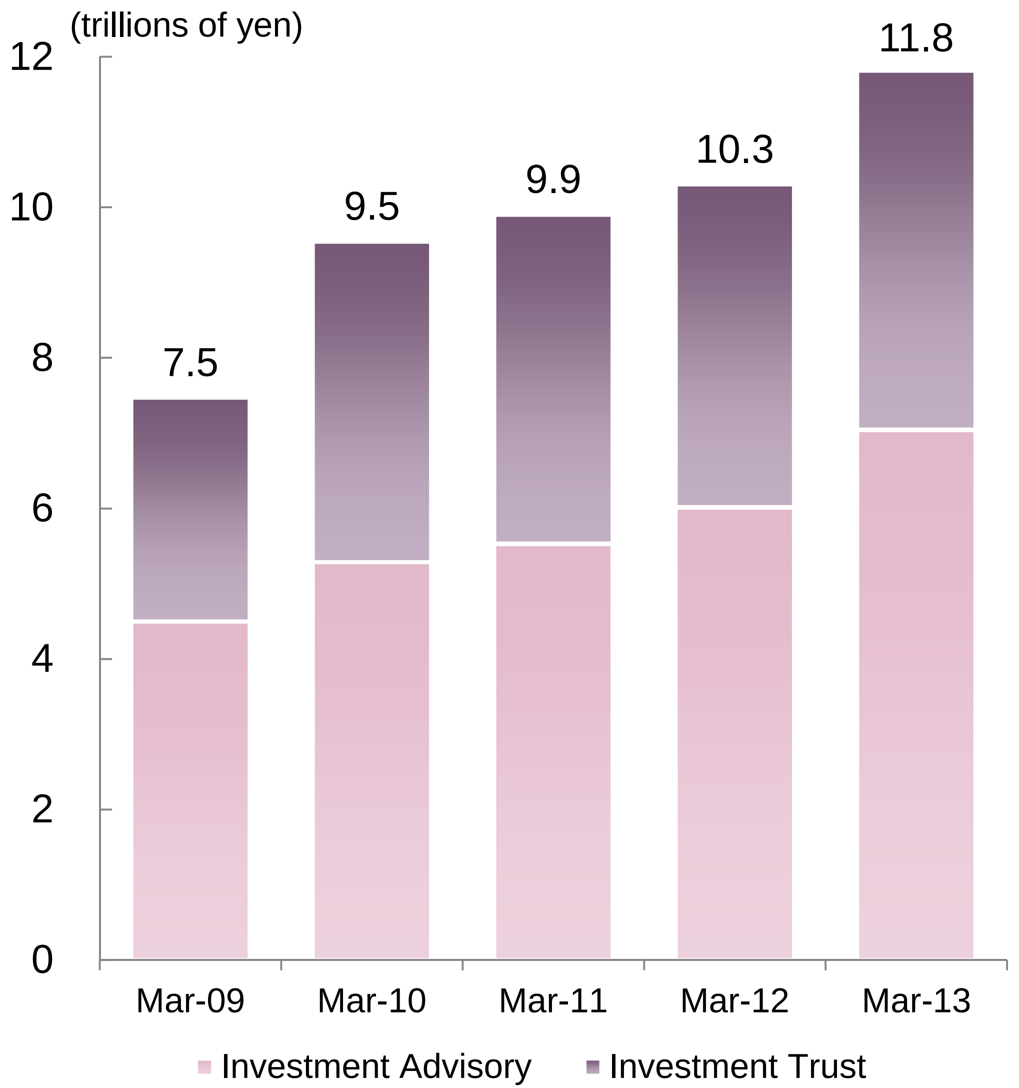
- *Aim to enhance corporate values of Dai-ichi Life and Janus*
  - ✓ *Strengthen profit growth of Dai-ichi Life and accelerate global expansion by obtaining a new global growth driver*
  - ✓ *Contribute to Janus' mid- to long-term business strategy through execution of the business alliance*



DIAM is a 50:50 joint venture between Dai-ichi Life and Mizuho Financial Group

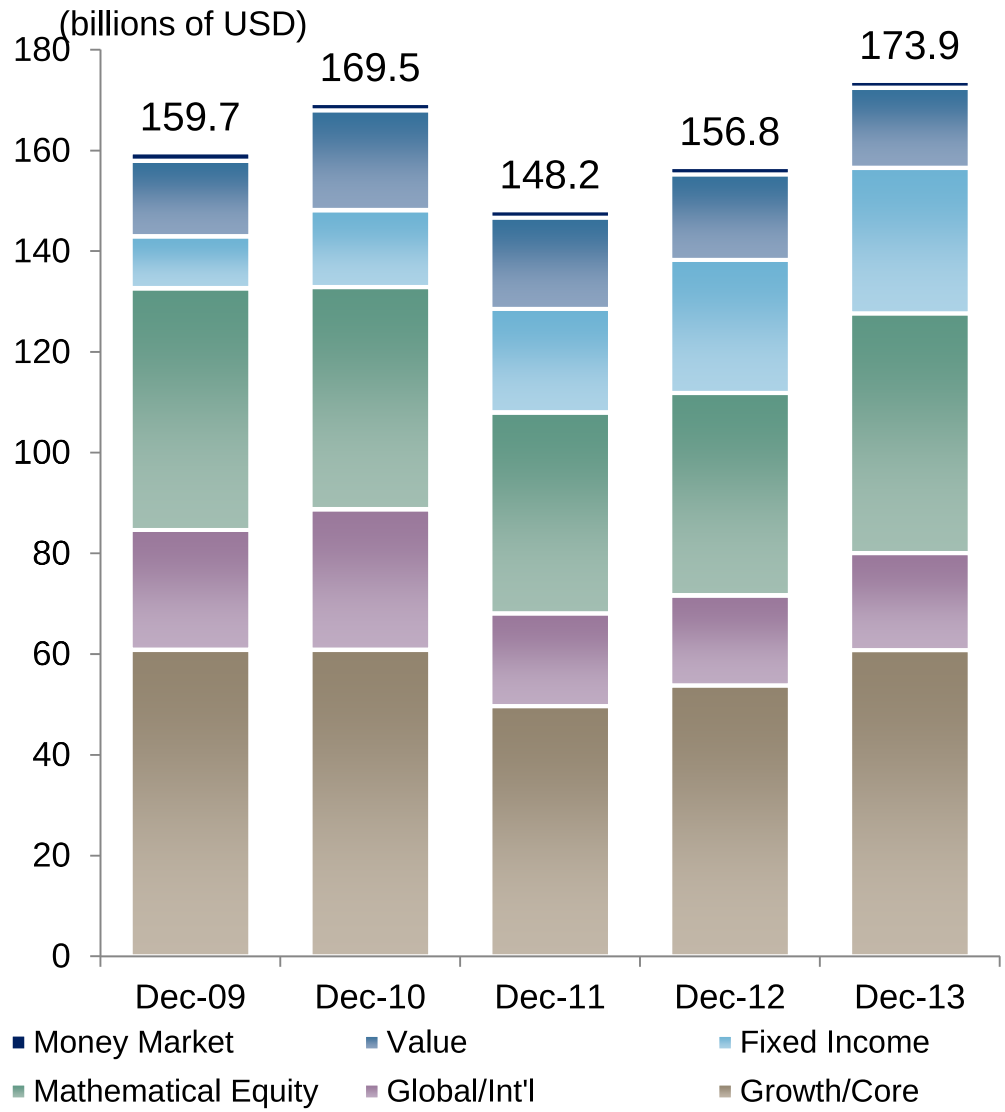
Growth Area: Asset management business
- Trend of asset under management

DIAM's Assets Under Management



(Note) DIAM's assets under management is the simple sum of assets under management in the investment advisory business and the investment trust business.

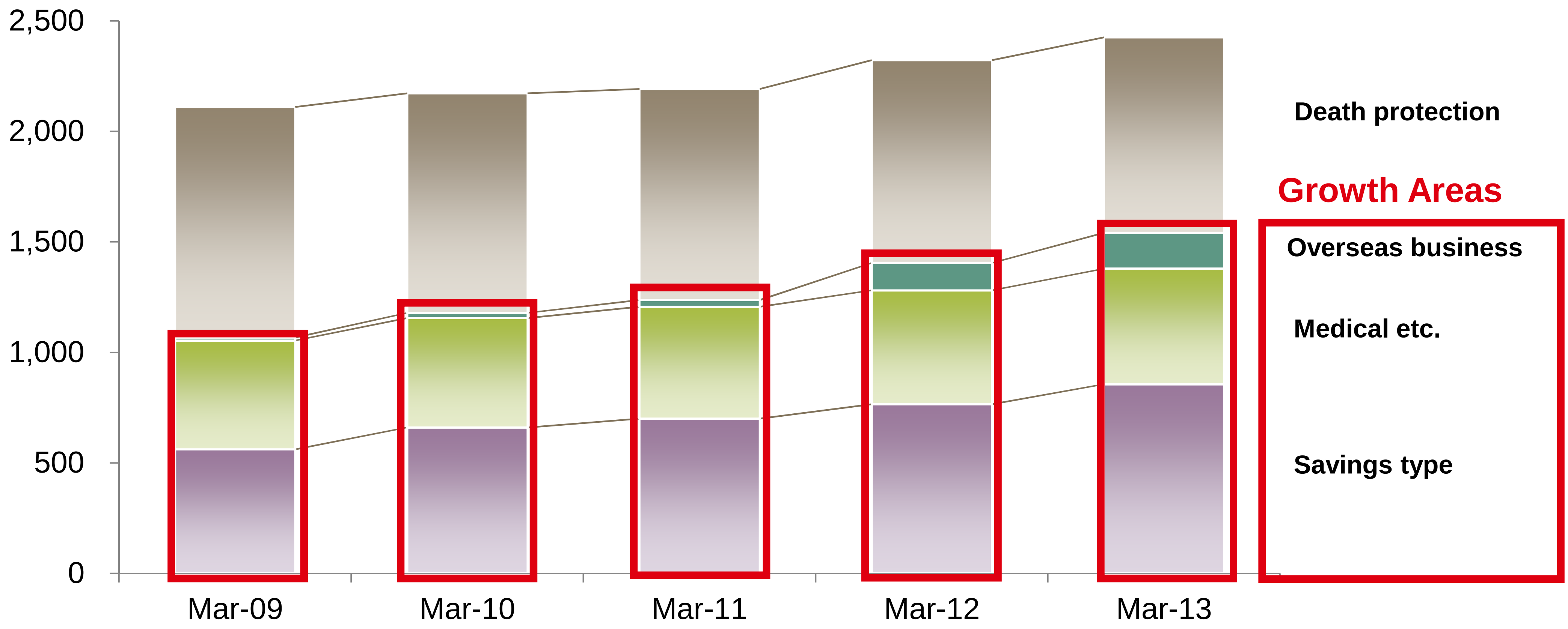
Janus Capital's Assets Under Management



Trend in Annualized Net Premium - increased contribution from growth areas

- *Customer needs shifting from 1st sector (death protection) products to medical and saving-type products.*
- *Additionally, our overseas businesses have recently contributed to the Group.*
- *As a result, annualized net premium from growth areas has steadily increased.*

Annualized Net Premium (ANP) from Policies in Force of the Dai-ichi Life Group (1)



Discover and Create New Areas for Growth
- Business Expansion through New Subsidiary (Sompo Japan DIY Life) (1)

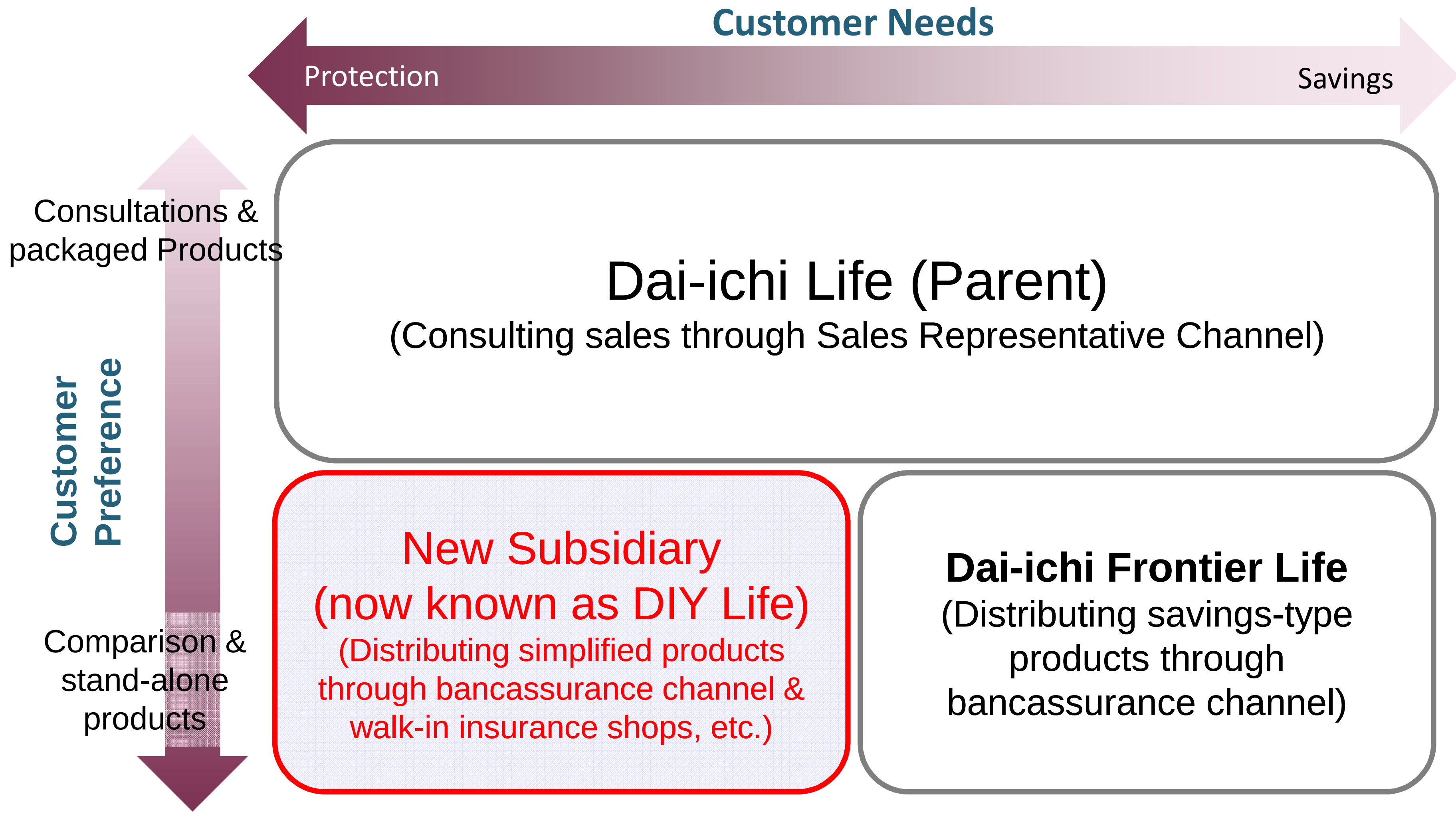
- *Capturing the market currently not covered by Dai-ichi Life Group through a new subsidiary (DIY Life)*
- *Estimated market size approx. ¥500bn in new business ANP (VS the Japanese life market ¥3tn)*

Customer characteristic	1) tends to compare products, 2) prefers simple products and procedures, and 3) active in seeking information					Prefers consulting for services with high value added			
Distribution channels	Banc-assurance (level premium)	Walk-in insurance shops	Internet	Direct (TV)	Leaflet, direct mails & fraternal insurance sellers	Sales represen-tatives	Life planners	Agents (P&C & tax accountants)	Banc-assurance (single premium)
			Direct channels						
Products	Relatively simple products					Relatively comprehensive products			
Main players	Foreign & P&C insurers	Foreign, P&C & other new players	Internet life insurers	Foreign insurers	Mutual associations	Major players	Sony Life & Prudential (US)	P&C & foreign insurers	Bancassurance specialists & major players
Market size in new business ANP (1)	Approx. ¥500bn in new business ANP (1)								
Market Maturity	Inmature			Mature	Relatively mature	Mature		Relatively mature	
Dai-ichi Life Group's presence	NEW MARKET TO BE COVERED THROUGH NEW SUBSIDARY (DIY LIFE)					Dai-ichi Life (parent)			DFL

(1) Estimated by Dai-ichi Life using information in "Insurance" by Hoken Kenkyujo, etc.

Discover and create new areas for growth
- Business Expansion through New Subsidiary (DIY Life) (2)

Customer Zoning within Group Companies in Japan



Discover and create new areas for growth
- Business Expansion through New Subsidiary (DIY Life) (3)

New Subsidiary (now known as DIY Life)

Customers

Providing products and services at teller windows

Banks & Walk-in Insurance Shops, etc.

Developing and supplying products and services

New Subsidiary (DIY Life)

Holding100% stake (after acquiring additional 90%)

Dai-ichi Life

< DIY Life at a Glance (1) > (millions of yen)

Capital stock	10,100
Sum insured of policies in force	725,215
Sum insured of new business	40,695
ANP of policies in force	3,759
ANP of new business	186
Fundamental profit	418
Net income	539

(1) As of or for the year ended March 31, 2013. Source: company disclosure

DIY Life Strategy within Dai-ichi Group

Simplified Products

+ Simplified Customer Procedures

+ Strengthened Services to Distributors

+ Flexible Information Systems

×

Sharing Group Resources & Injecting Manpower

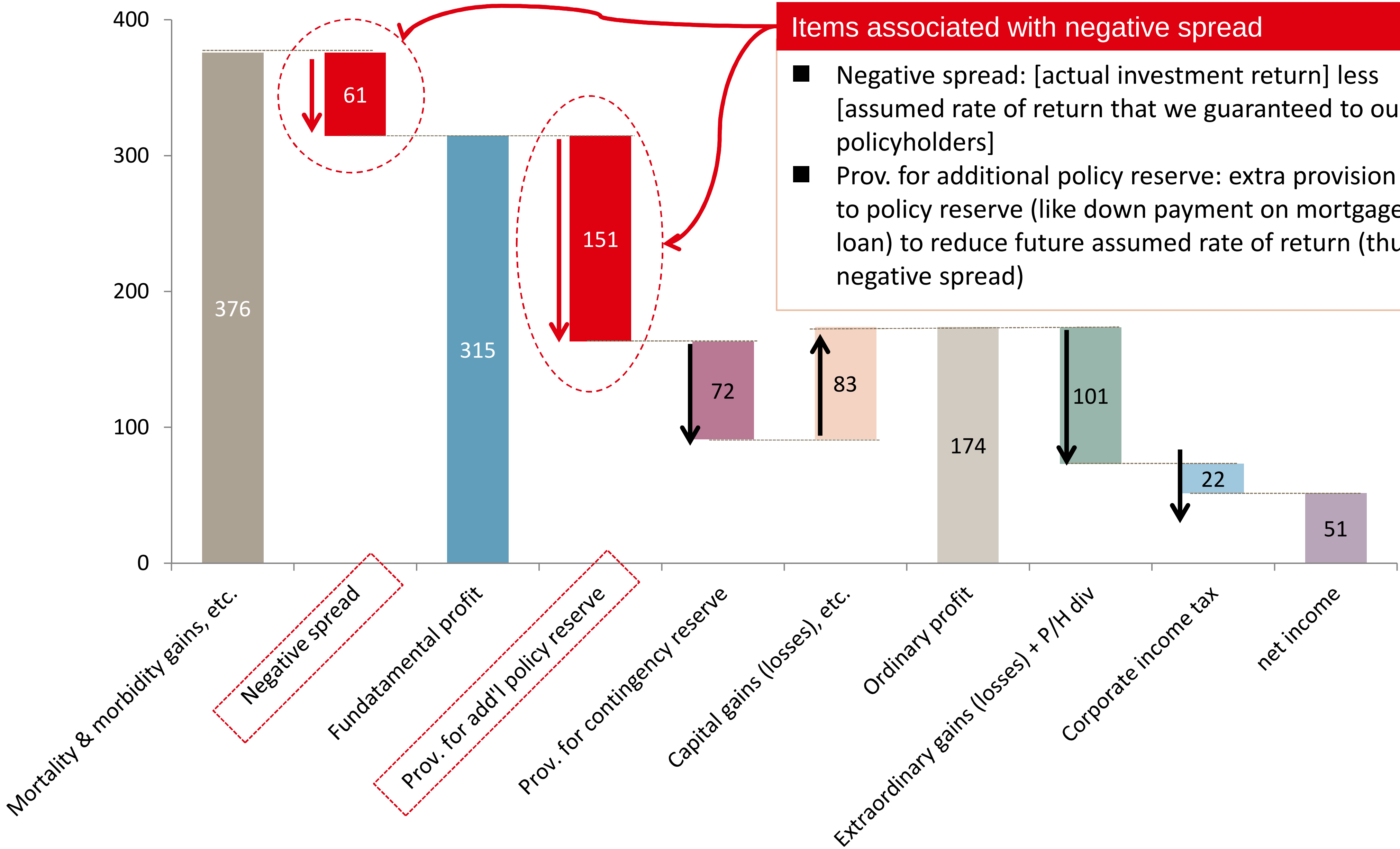
=

Pursuing:
1) easy-to-understand products,
2) simplified procedures &
3) low cost operations

Other Management Challenges

Other Management Challenges: Negative Spread (1)

Dai-ichi Life's Profit Structure



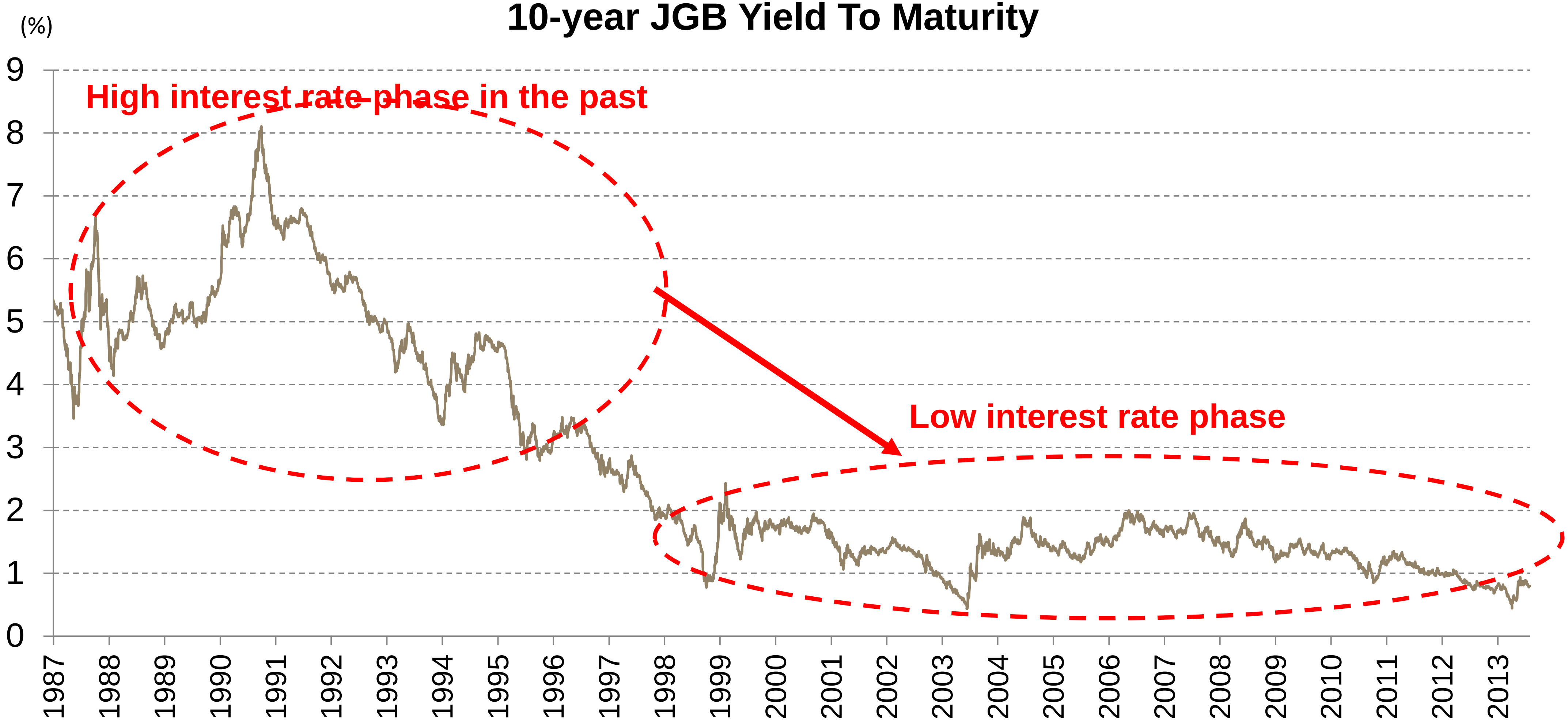
Items associated with negative spread

- Negative spread: [actual investment return] less [assumed rate of return that we guaranteed to our policyholders]
- Prov. for additional policy reserve: extra provision to policy reserve (like down payment on mortgage loan) to reduce future assumed rate of return (thus negative spread)

Negative Spread (2)

- *In the high interest rate phase before mid-90's, Life insurers underwrote policies with high assumed rate of investment return (guaranteed rate of investment return).*
- *Those past policies have generated negative spread in the current low interest rate environment.*

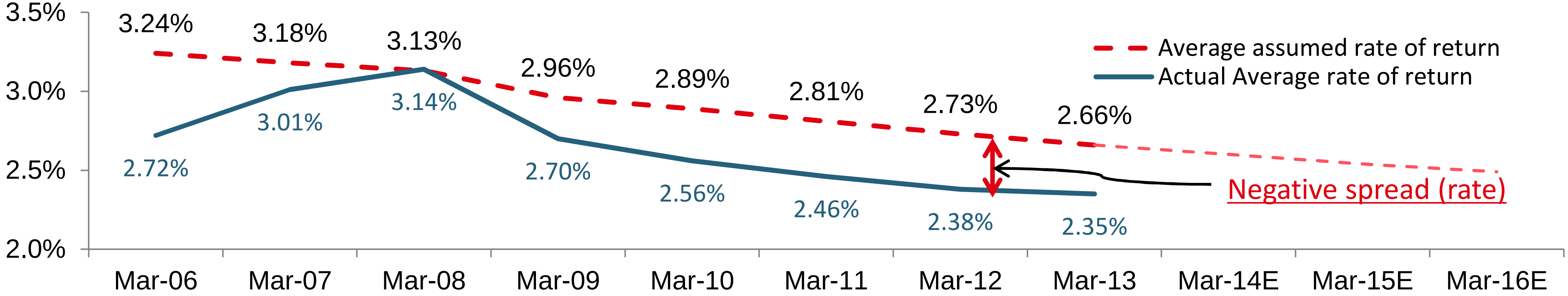
10-year JGB Yield To Maturity



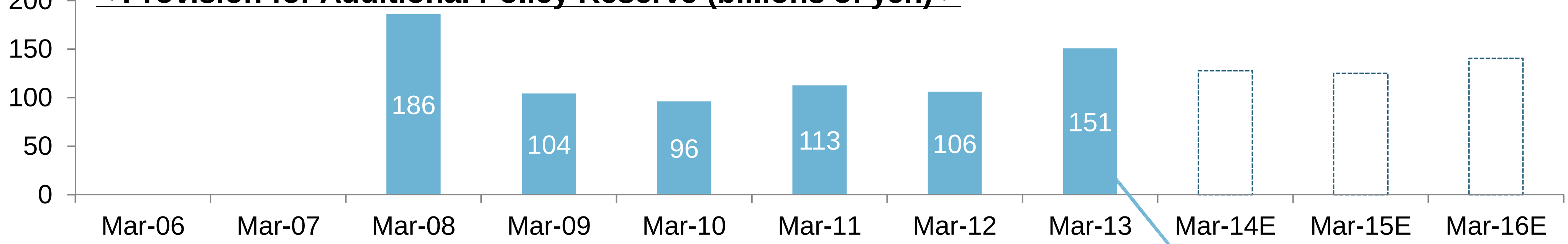
Negative Spread (3)

- *We have decreased our assumed rate of investment return by providing for “additional policy reserve”.*
- *By completing the 9y program to intensively provide for APR, we will reduce the guaranteed rate and be free from APR provision burden, significantly improving our profitability.*

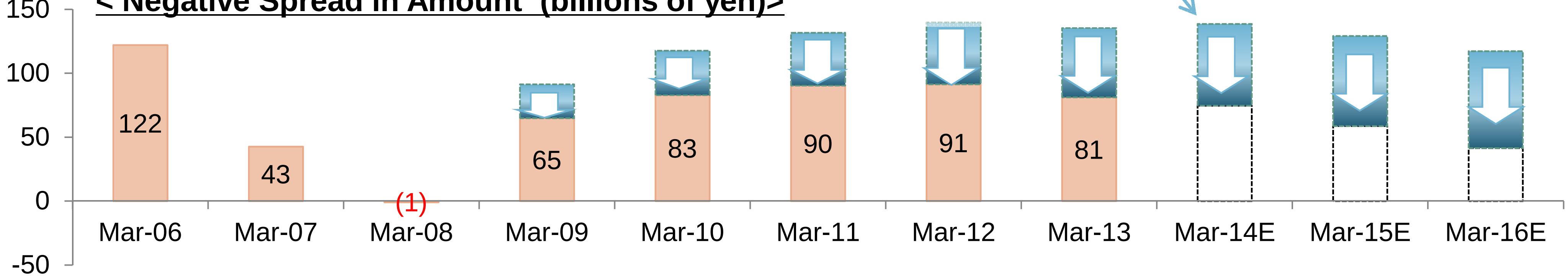
< Assumed & Actual Rate of Return >



< Provision for Additional Policy Reserve (billions of yen) >



< Negative Spread in Amount (billions of yen)>



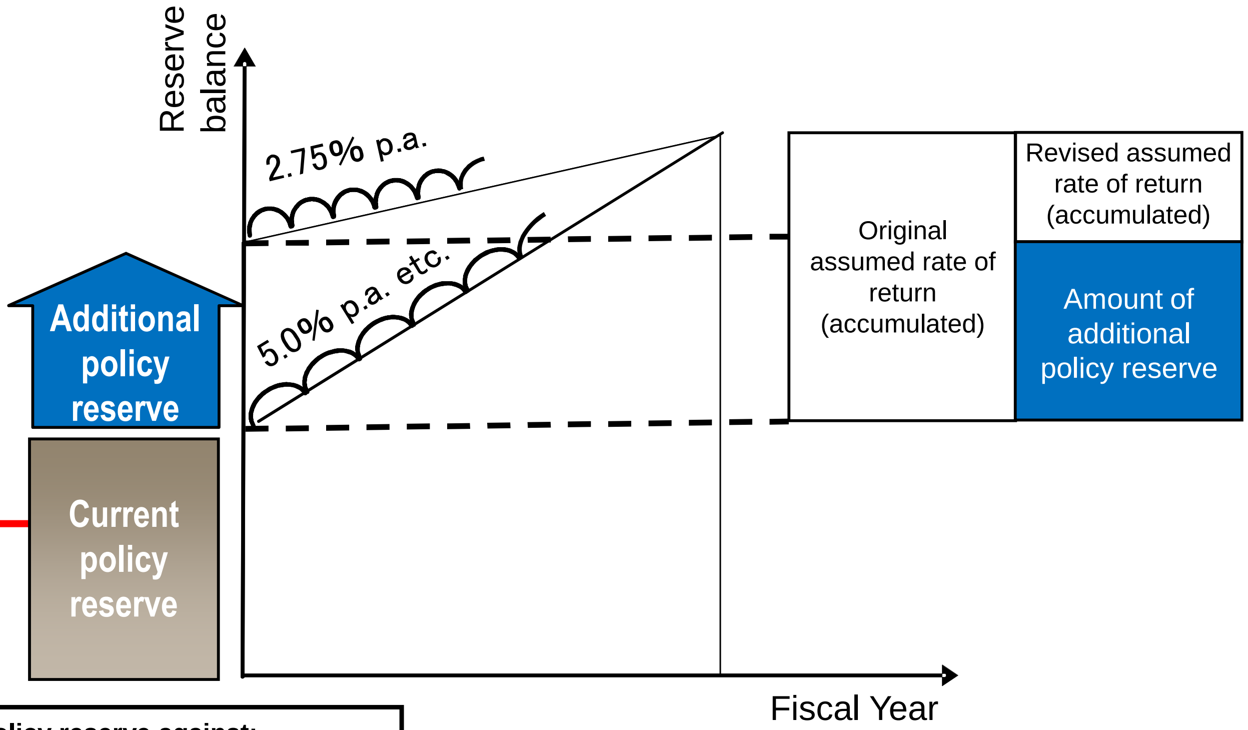
Negative Spread (4): Additional Policy Reserve

Policy Reserve Outstanding by Year Signed (1)~(4)

(billions of yen)

Year Signed	Policy reserve outstanding	Assumed rate of return
prior to Mar/81	849.3	2.75% - 5.50%
Mar/82 to Mar/86	1,476.8	2.75% - 5.50%
Mar/87 to Mar/91	4,773.4	2.75% - 6.00%
Mar/92 to Mar/96	4,069.2	2.75% - 5.50%
Mar/97 to Mar/01	1,655.3	2.00% - 2.75%
Mar/02 to Mar/06	2,411.1	1.50%
Mar/07 to Mar/11	4,092.7	1.50%
Mar/12	1,033.3	1.50%
Mar/13	1,046.3	1.50%

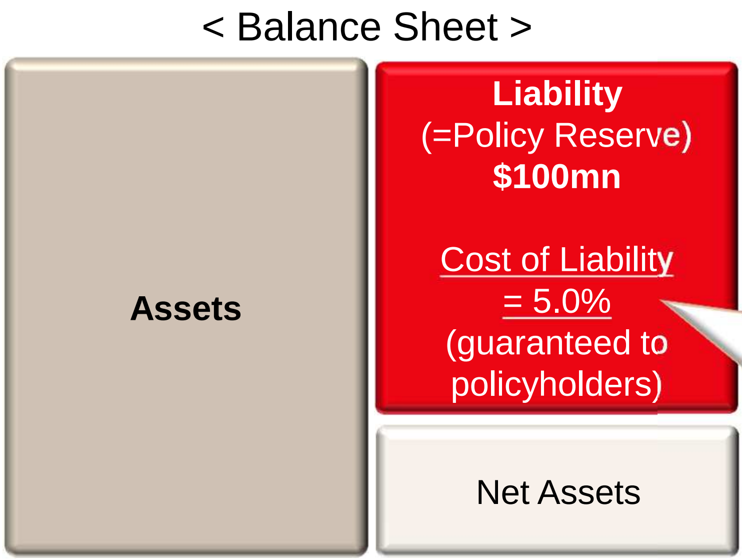
Accumulation of Additional Policy Reserve (1)

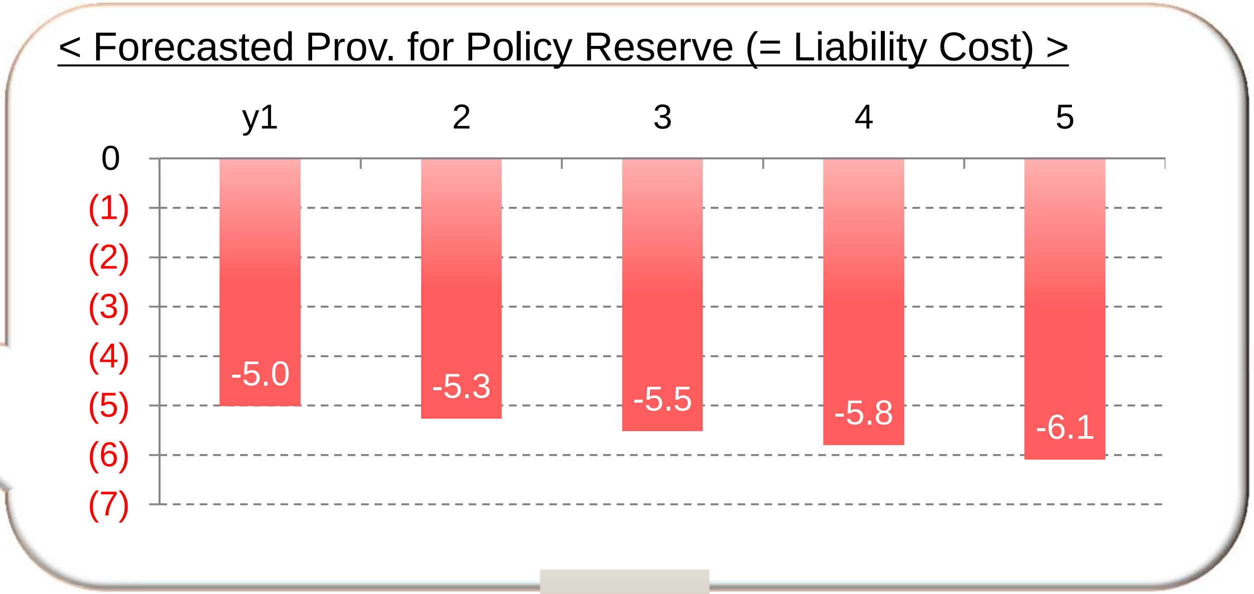


Additional policy reserve against:
Whole life insurance signed before March 1996 and paid in full

(1) Dai-ichi Life non-consolidated base.
(2) Policy reserve amount include those for individual insurance and annuity products but excludes reserve for separate account and contingency reserve
(3) Certain policies are divided based on actuarially appropriate method into several fiscal years
(4) Assumed rate of returns indicate representative rates against each year's policy reserves

Negative Spread (5): Hypothetical Situation

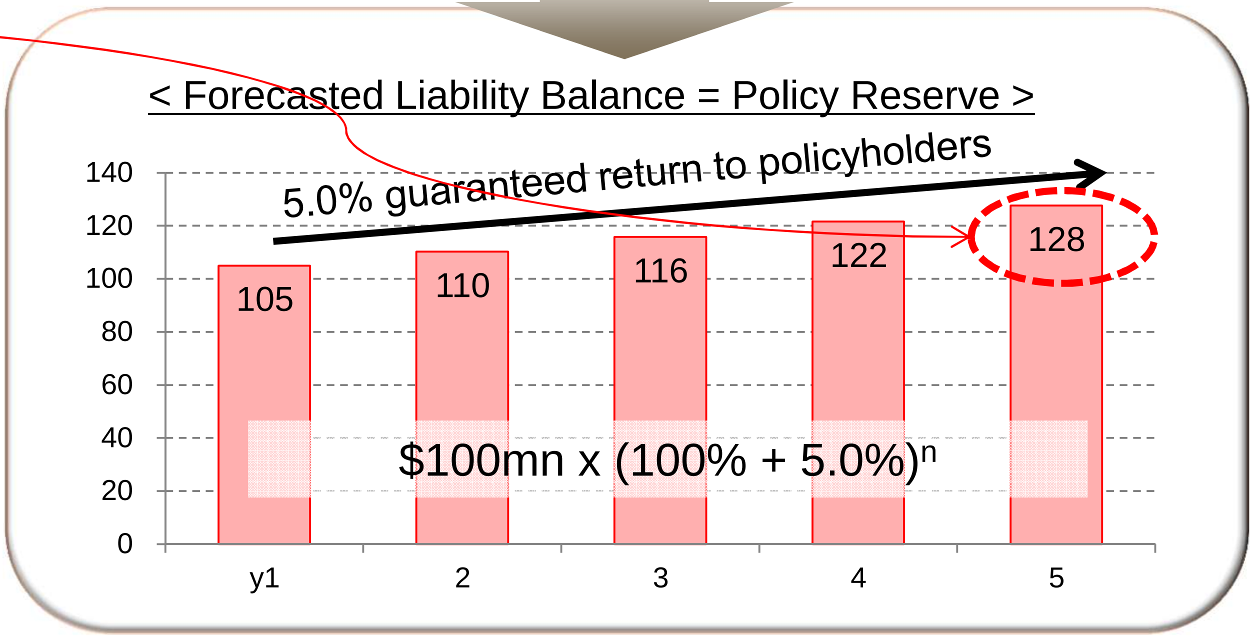




[PV = $100mn] and [cost of liability = 5.0%]

⇒ FV at the end of y5 = $128mn

- Now let's suppose I have negative spread, meaning [the cost of liability] is larger than [the actual investment return].
- Yes, I have a choice to increase the investment return by taking more investment risks, but that is negative to our risk-based capital – I have to find another solution to reduce my liability cost.
- What I finally want to do is (1) to reduce yearly payments (liability cost) while (2) achieving $128mn at the end of y5.
- So, I choose to provide for additional policy reserve, which will be explained in the next slide.

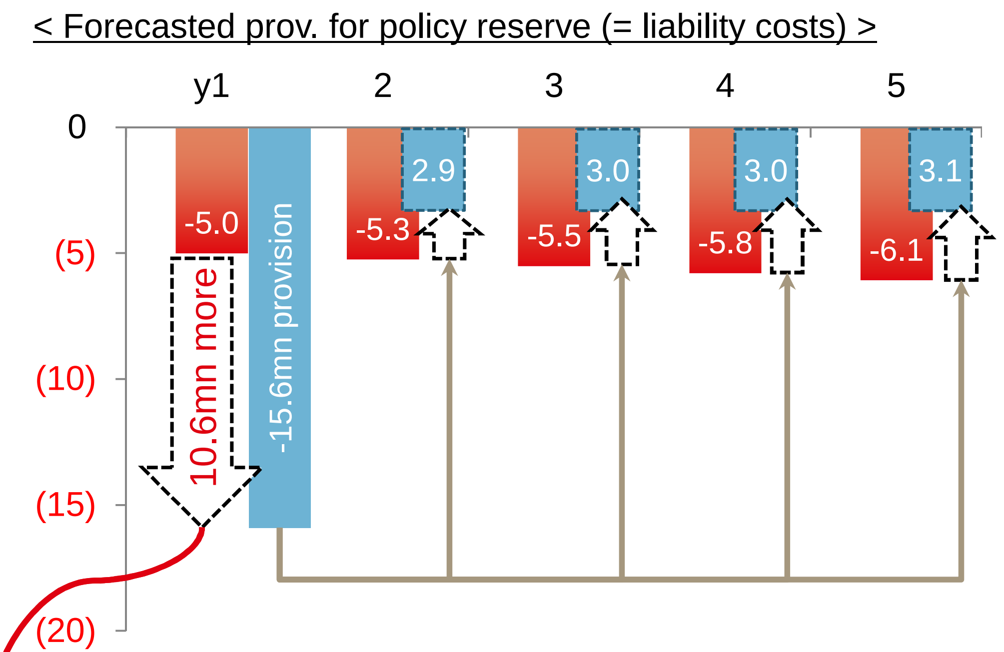


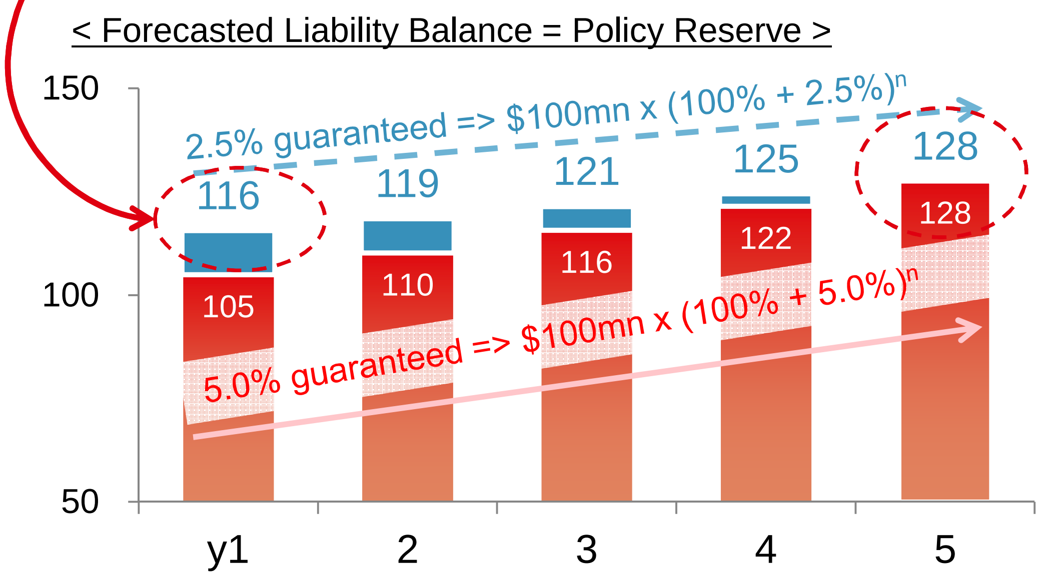
Negative Spread (6): Hypothetical Situation (continued)

The concept of provision for additional policy reserve is:
"PAY MORE NOW AND LESS IN THE FUTURE"

That is:

1. The ultimate goal is to achieve the $128mn policy reserve at the end of y5 (as assumed in the previous slide) and reduce the liability cost from 5% to, for example, 2.5%.
2. So, I made $15.6mn lump-sum provision in y1, rather than $5.0mn which I was supposed to pay with the 5.0% cost of liability.
3. This means that I paid 10.6mn more (= $15.6mn – $5.0mn) than I was supposed to pay in y1. This additional provision will reduce my yearly payments in y2 through y5 as shown in the blue bars. But still, I can achieve the $127.6mn policy reserve at the end of y5 as shown in the below graph.
4. The question is, are you willing to pay more in y1, although the additional payment will reduce your profit in y1? The answer may depends on your profitability – if you have enough profit to cover the additional provision, you have an option whether to pay it now or not. If you don't, you practically have no choice – you cannot pay more now.
5. How should I explain to my shareholders? Additional provision is NON-CASH EXPENSE and only paying now what you have to pay in the future, so the provision is NEUTRAL TO YOUR CORPORATE VALUE. Or, simply, PV of additional policy reserve = PV of reduced payments (=liability costs).

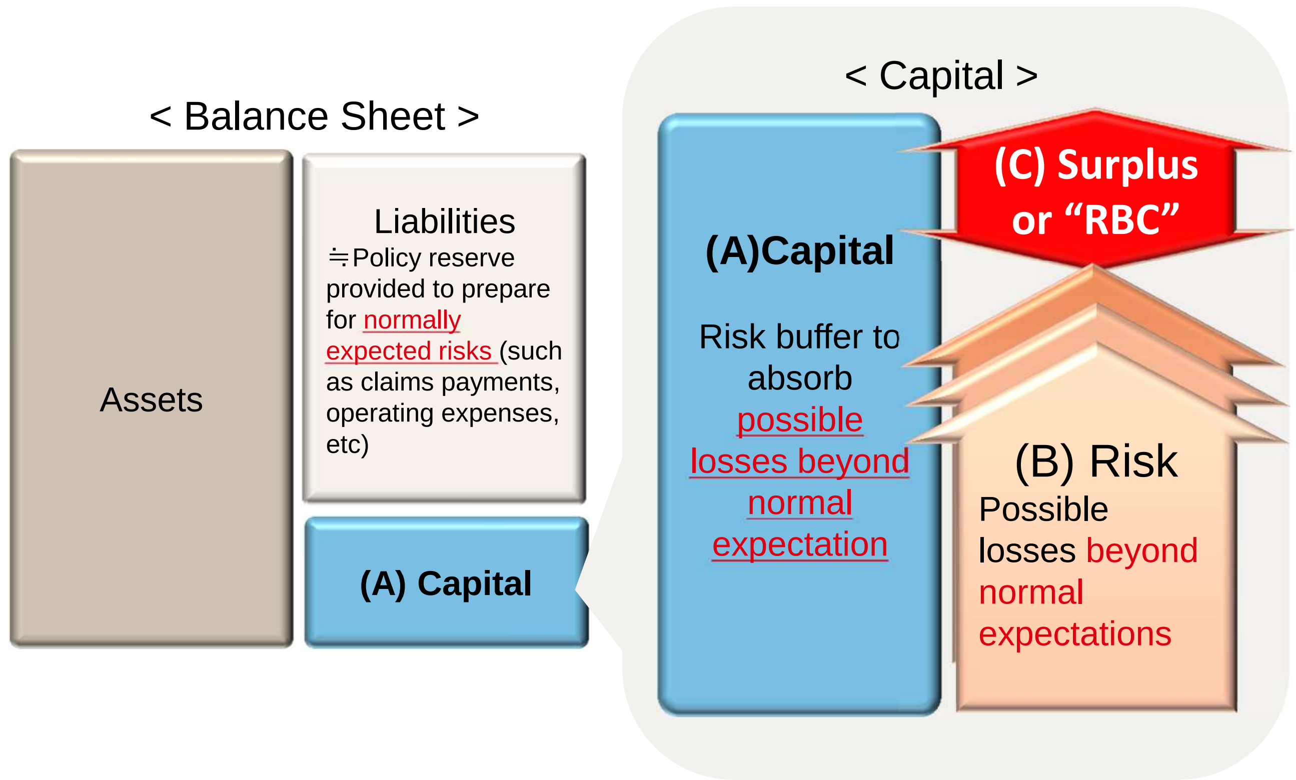




Other Management Challenges: Capital Regulation (1)

- *Under the Japanese GAAP, insurers do NOT mark-to-market their 1) policy reserves, 2) held-to-maturity securities, nor 3) policy-reserve-matching bonds (held to match the duration of liabilities).*
- *Under the current capital regulation ("Solvency Margin Ratio Regulation"), we are required to satisfy 95% confidence interval (the "(B) Risk" below) on an accounting basis.*
- *Under the future capital regulation to be introduced around 2016 or later, we are allegedly required to satisfy 99.5% CI on an economic value basis – meaning mark-to-market all items (1,2,3 above)*

Capital Regulation of Life Insurers



Capital regulations for Fis are different from other industries because of:

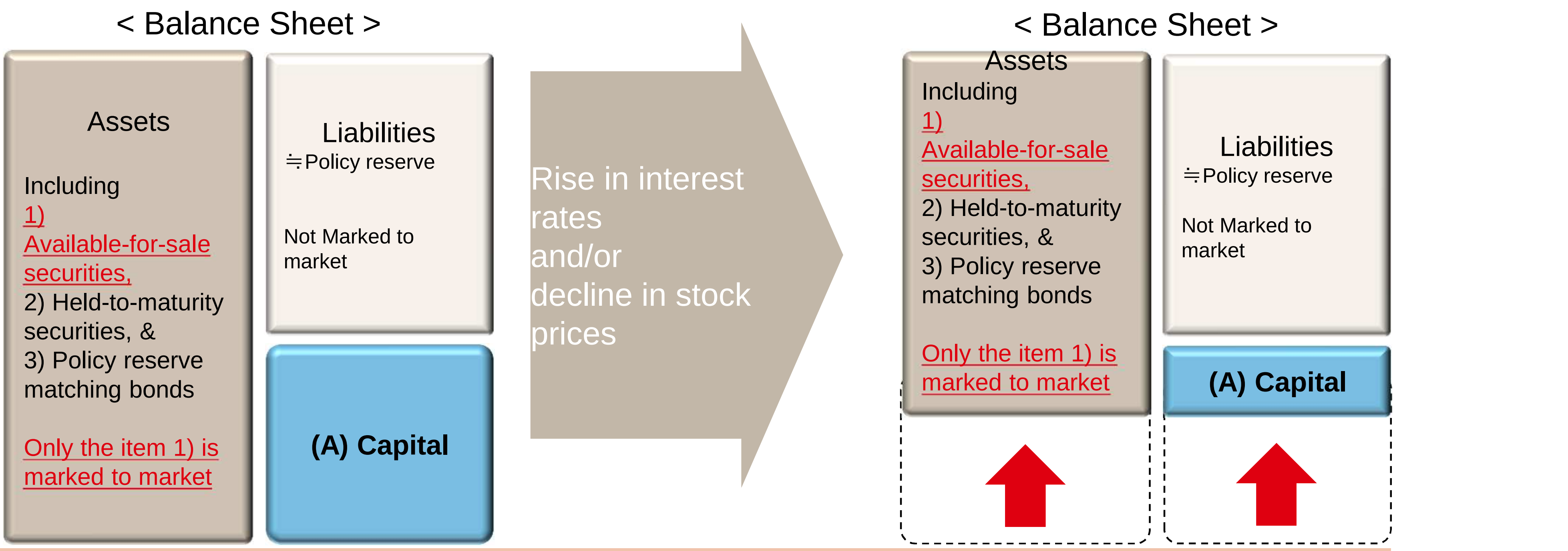
- Emphasis on creditor (policyholder) protection
  => Financial institutions must have more than "normally enough" capital
- Global trend for "economic values" rather than "accounting values", including valuation of policy reserves

- Global convergence of capital regulation

i.e. Basel III (banking sector)
Solvency II (insurance sector in EU)

Capital Regulation (2)

Current Capital Regulation ("Solvency Margin Ratio")

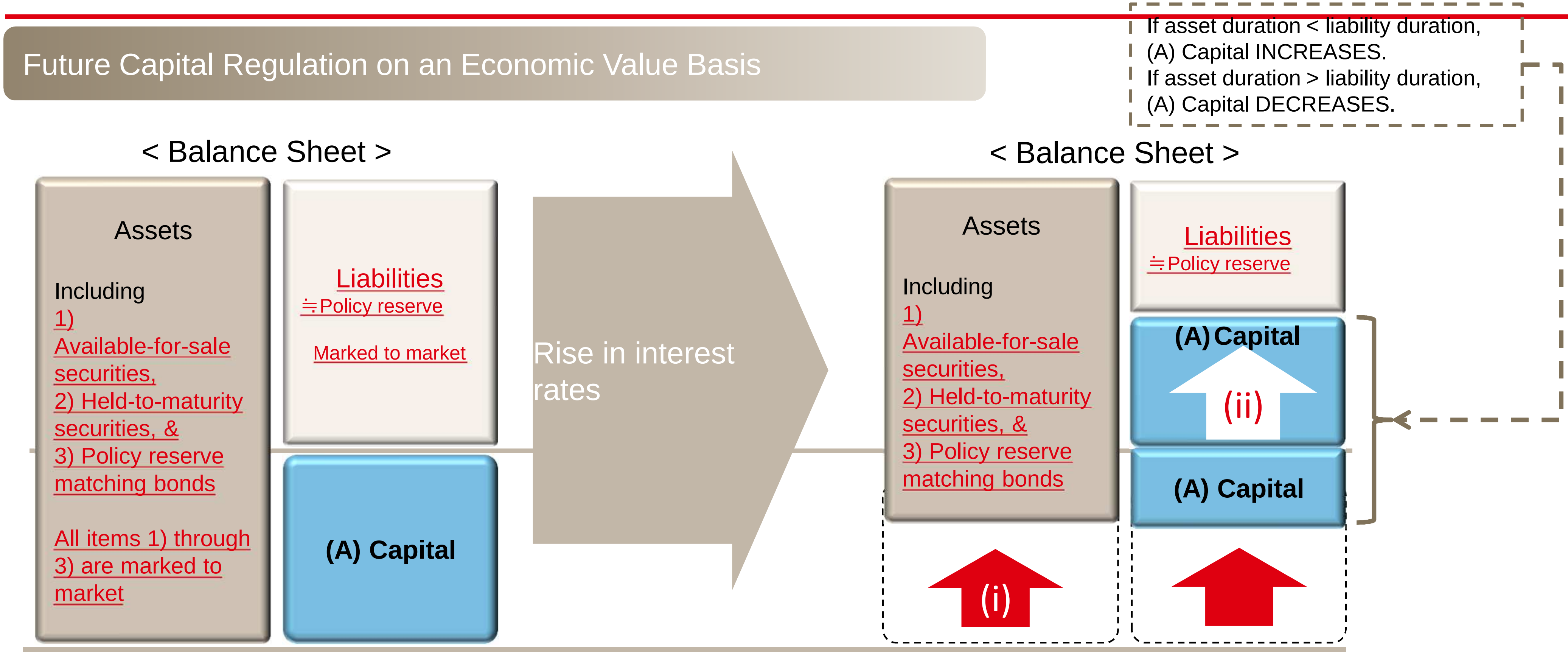


Decrease in the value of AFS securities

- Under the current capital regulation, only AFS securities are marked to market, while liabilities are NOT marked to market. When facing rise in interest rates and/or decline in stock prices, the value of AFS securities declines but the value of liabilities do not change. Consequently, our regulated capital (called "solvency margin" shown by (A) capital) declines.

Capital Regulation (3)

Future Capital Regulation on an Economic Value Basis

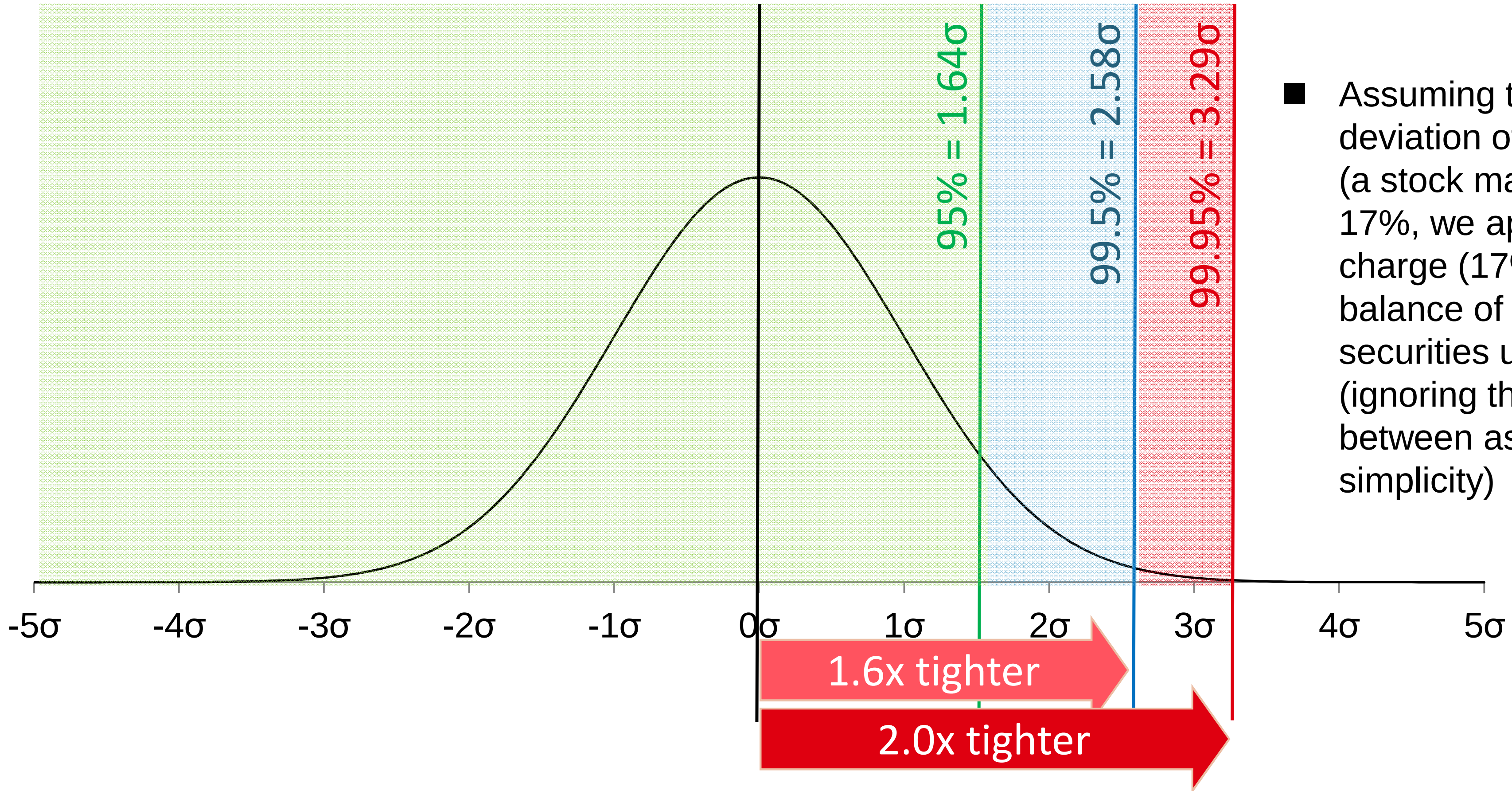


- Under the new capital regulation on an economic value basis, all items (including securities and policy reserves) are marked to market.
- When facing rise in interest rates and/or decline in stock prices, the value of 1) AFS securities, 2) HTM securities, and 3) PRM bonds declines, but the decline is (partly or more than) offset by a decrease in the value of liabilities.
- As the duration of Dai-ichi Life's liabilities (18 years) is longer than that of our assets (14.6 years), the decline in security prices due to rise in interest rates will be more than offset by a decrease in liabilities ((i) < (ii)). Therefore, rise in interest rates is positive to Dai-ichi's capital on an econ-value basis and vice versa.
- If we close the duration gap, we will be free from interest rate risk (although giving away the upside)

Capital Regulation (4)

Risk Charge

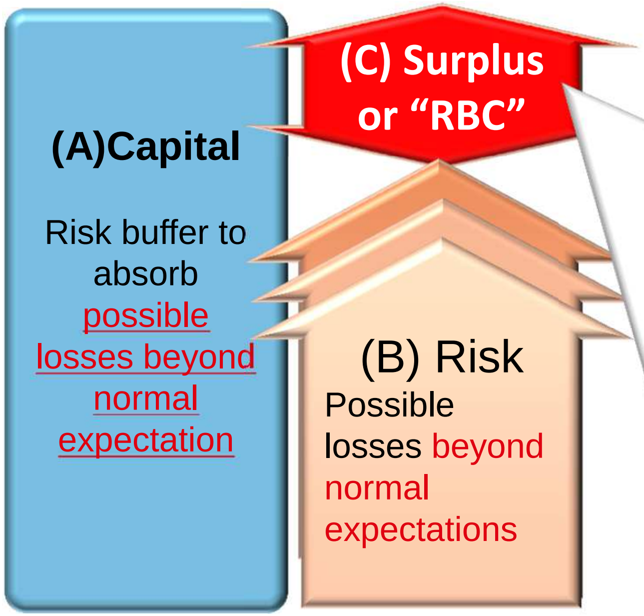
CI 95% = 1.64σ: the confidence interval under the current SMR regulation
CI 99.5% = 2.58σ: the CI to be allegedly charged under the future capital regulation
CI 99.95% = 3.29σ: the CI that Dai-ichi Life will strive to satisfy by March 2015



- Assuming the standard deviation of return on TOPIX (a stock market index) to be 17%, we apply 44% risk charge (17% x 2.58) to the balance of our domestic equity securities under the 99.5% CI (ignoring the correlation effect between asset classes for simplicity)

Capital Regulation (5)

< Capital >



Q. What can we do to maximize "(C) Surplus"?

1) Increase "(A) Capital" by:

- Generating more profit and retaining more earnings (VS dividend payout), and/or
- Issuing equity (or quasi-equity) capital
- In either way, you need to explain to your shareholders (or policyholders if you're a mutual company) – they sure don't like share dilution, lower dividend payout, nor lower ROE

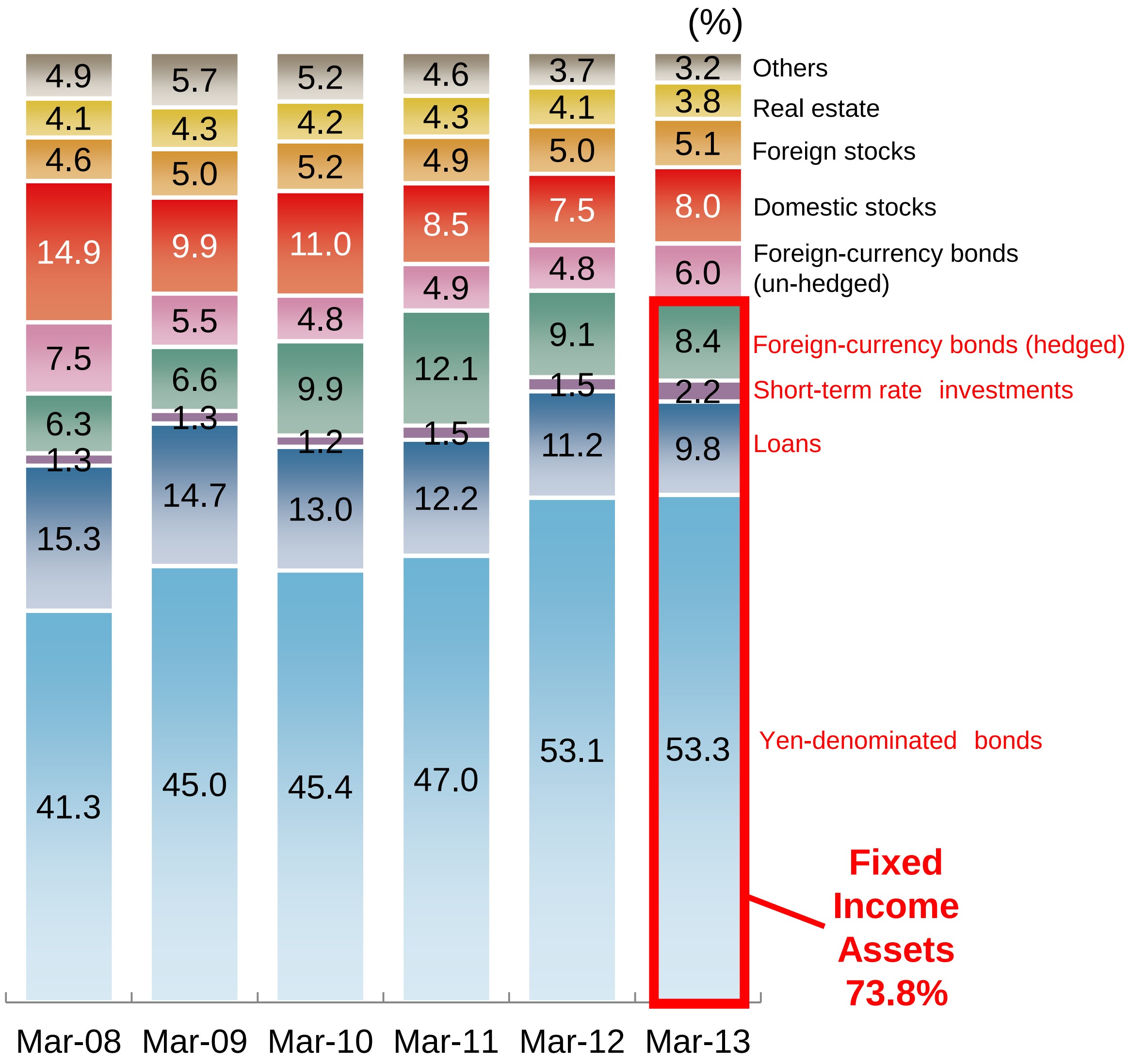
2) Reduce "(B) risks" by:

- Selling risk assets and buying low-risk assets – regulator charges higher risk weight on assets with higher risks,
- Narrowing the duration gap between assets and liabilities to reduce interest rate risk, and/or
- Selling low risk insurance products – less guarantees to policyholders will reduce risks of the insurer
- The problems may be:

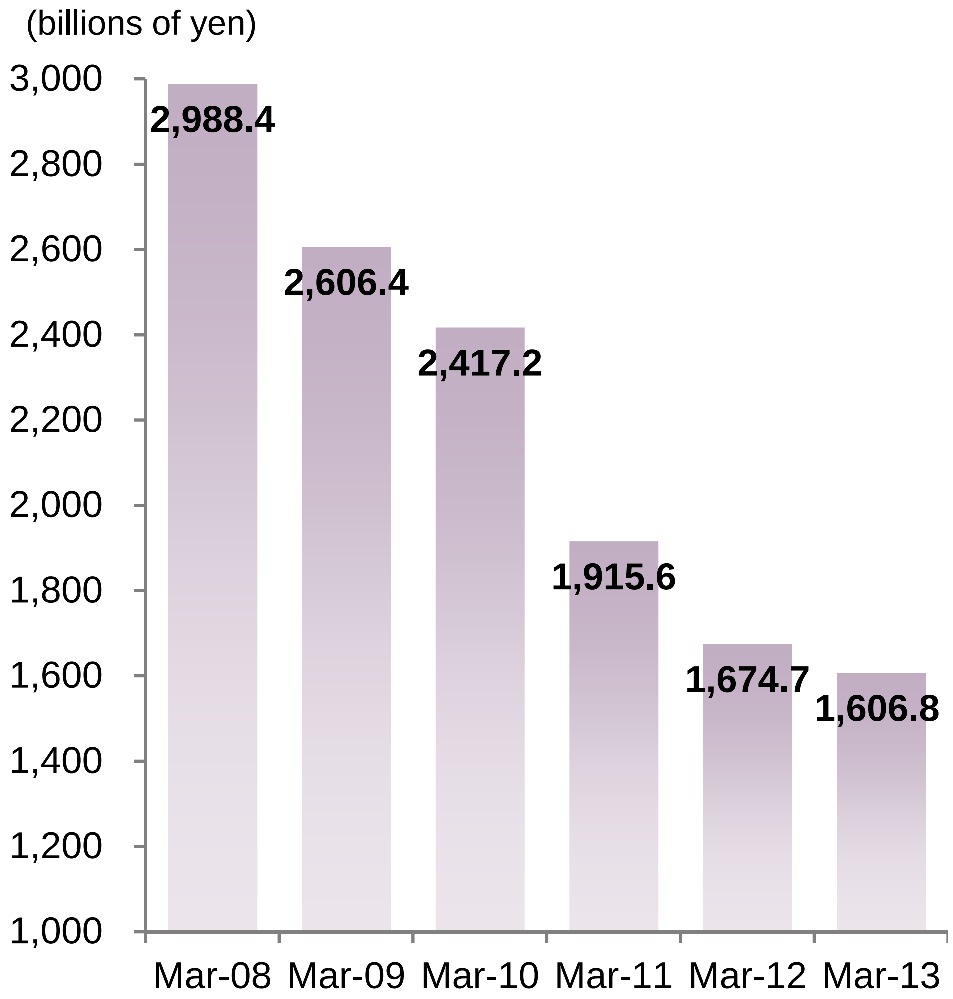
i. Your investment return declines if you reduce the balance of risk assets,
ii. Are people buying less guaranteed products?, and/or
iii. What would the regulator say if you sell less guaranteed products?

Our ALM Initiatives – Changes in General Account Assets (i)

Asset Portfolio（General Account） (1)



Book Value of Domestic Stocks (2)

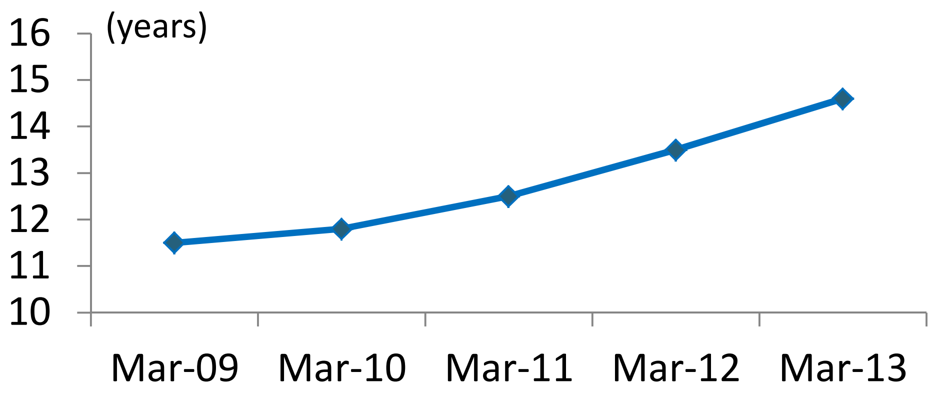


(1） Carrying amount - basis

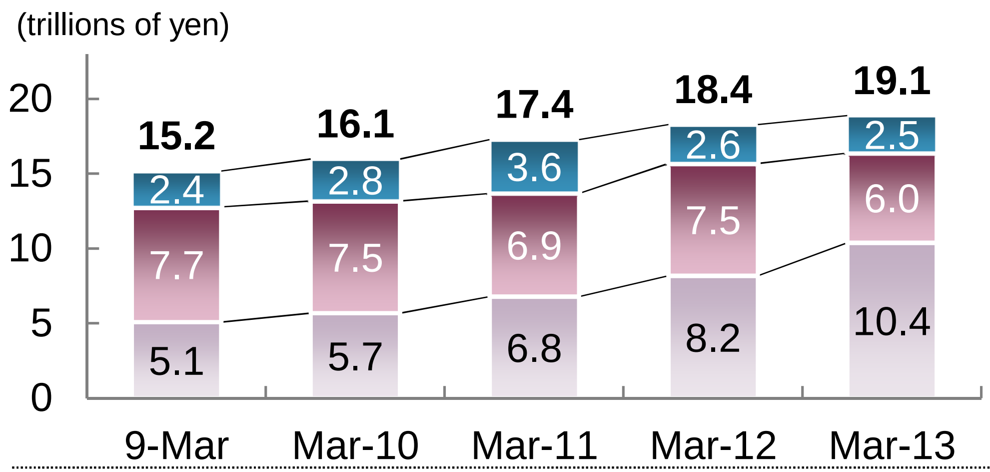
(2） Book value of domestic stocks with fair value (exclude stocks of subsidiaries / affiliated companies and unlisted companies)

Our ALM Initiatives – Changes in General Account Assets (ii)

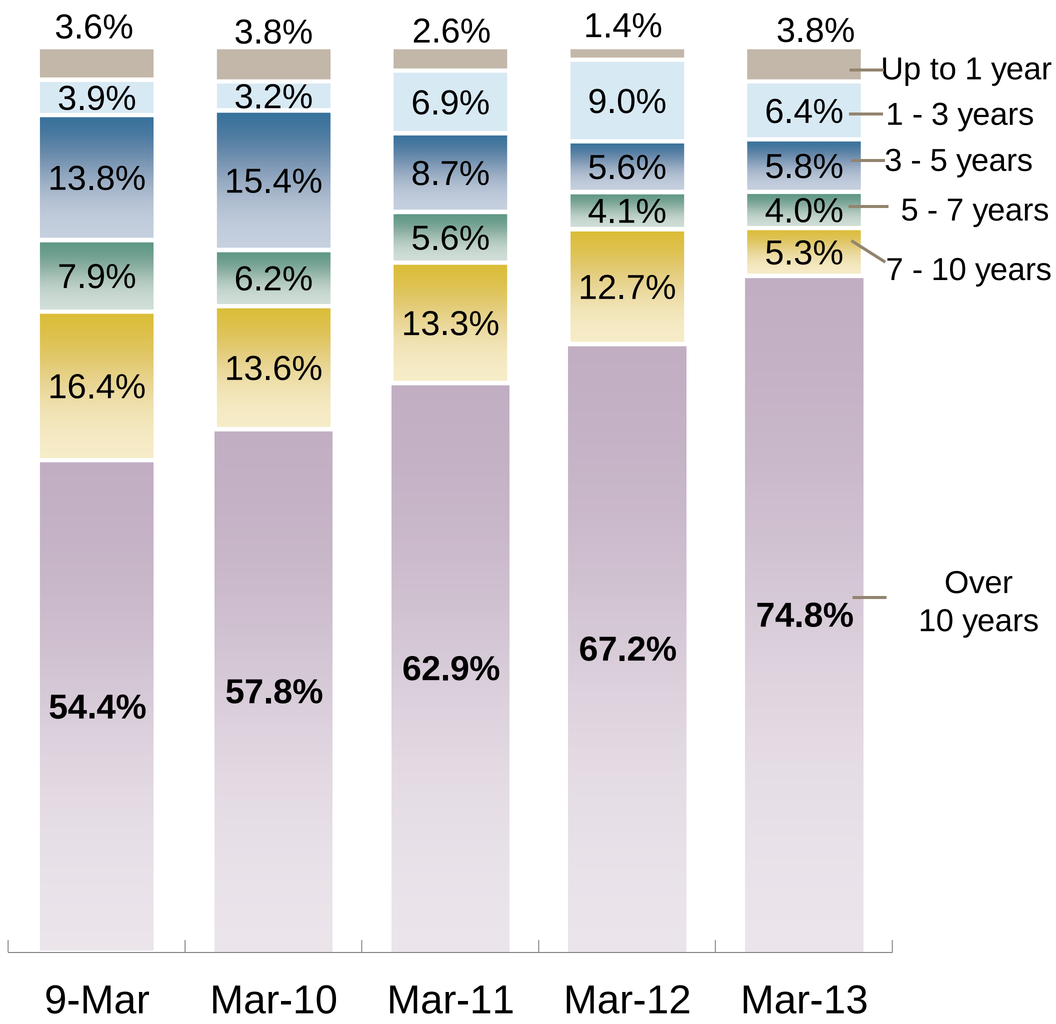
Duration of Fixed Income Assets



Yen and Currency-hedged Foreign Bonds (1)



Maturity Profile of Domestic Bonds (2)



(1) Represents yen-denominated bonds and foreign bonds with currency hedges in the company's general account. The balance is shown on an amortized cost basis.
(2) Represents domestic bonds in the company's general account. The balance is shown on a fair value basis.

FAQs

1. Why don't you increase the balance of risk assets rather than government bonds, so that you can reduce negative spread by increasing investment returns?
   - Because of the capital regulation to be introduced around 2016 or later; The regulation is allegedly imposing 99.5% confidence interval, under which the risk charge on Japanese equity securities is supposed to be around 45% - if you buy ¥100mn of Japanese equity, the risk charge is around ¥45mn, meaning you need to have ¥45mn capital to satisfy 99.5% CI (ignoring correlations between asset classes for simplicity).

2. Why you have so much JGBs?
   - Because of the low risk profile of (so the lower risk charge on) JGBs. Moreover, under the new regulation, we are required to reduced interest rate related risks by narrowing the duration gap between assets and liabilities. In Japan, life insurers sell long-term insurance, including whole life insurance, meaning that the average duration of our liabilities are quite long (in our case 18 years). To narrow the duration gap, we need to buy bonds with very long duration (i.e. 20y – 30y) and enough liquidity. In Japan, only JGBs match such criteria.

3. So, you practically have no choice to increase investment return. How do you reduce negative spread?
   - Additional policy reserve, that I explained in this presentation.

4. What is 99.5% confidence interval?
   - Suppose a normal distribution and let's forget about skewness for simplicity. 99% confidence interval can be represented by 2.32 standard deviations and 99.5% CI can be represented by 2.58 SDs. That is, 99.5% CI charges 1.11x heavier risk weight (= 2.58 / 2.32) than 99% CI.
   - You can just calculate daily returns on a certain asset and then standard deviation of the returns. If the standard deviation is 15% on a yearly basis then the risk weight is likely to be 38.7% under 99.5% confidence interval (15% x 2.58).

And the Takeaways Are…

< Response to Environmental Changes >

The population and age distribution matter because:

1. Change in population generates the trend of life insurance products – different age classes demand different products
2. If the population of your country is in an increasing/decreasing trend, what should you have on your store front rack? Death protection, medical protection, savings type product?

< Our Marketing Strategy >

Dai-ichi's marketing strategy is basically to maximize the life time value of each customers with stochastic sales approach – i.e. if a customer gets a child, we know the probability she/he buys juvenile insurance – but you must know she/he gets a child. So, we visit policyholders periodically to gather such information.

< Negative Spread >

1. Guaranteeing long-term products involves the risk of negative spread – nobody can predict the level of interest rate though. After 1990's, several JPN life insurers went bankruptcy partly because of negative spread.
2. To avoid (or mitigate) the risk of future negative spread, you may have three choices: 1) sell short-term insurance, 2) develop a protection type product to keep ample mortality and/or morbidity margin, and 3) develop a capital free product, whose investments are made at the risk of policyholders (in a separate account).
3. To reduce the loss of negative spread, you may have a choice to provide for additional policy reserve, if you have enough profit and your regulator permits it.