■Cover

Implementation and Progress on the “Lengthening, Expansion, and Stabilization” of Insurance Float

“Insurance for Insurance”

— Substantive Hedging Against Structural Risks Through Internal Circulation (within the Group) of Advanced Animal Medical Care, etc. —

●Positioning of Float Management

Insurance companies receive premiums in advance to prepare for future claim payment obligations. The management of these funds—i.e., the capital that remains on hand during the period until claims are statistically expected to occur (the “float”)—in a manner that contributes to societal development (“float management”) is both (i) a unique social responsibility of insurance companies and (ii) a source of medium- to long-term competitiveness.

●Enhancing Float “Duration, Volume, and Quality”

The value of float lies not only in its **volume**, but also—critically—in its **duration** and **quality** (stability and predictability). These attributes may be structurally strengthened through the evolutionary stages of insurance (Insurance 1.0 to 3.0).

(1) Leveraging Insurance 1.0 to 3.0

① **Insurance 1.0: Providing peace of mind through risk assumption**
By responding promptly to treatment-cost burdens after accidents or illnesses occur—including psychological care—insurance fulfills its fundamental role as a social safety net.

② **Insurance 2.0: Supporting prevention (reducing probability of onset)**
By supporting prevention—one of policyholders’ genuine needs—insurance may reduce the probability of disease onset and may shift the timing of onset later. This may contribute to prolonging float duration and expanding cumulative float volume.

③ Insurance 3.0: Optimizing access to advanced medical care (smoothing the distribution of payouts)
By supporting access to medical care that is minimally invasive, has a lower risk of complications or long-term effects, and offers higher success rates even after illness onset, claim payments may be optimized, temporal and monetary dispersion may be reduced, and float quality (stability and predictability of cash outflows) may be improved.

●Float Strengthening and Economic Circulation

These initiatives may simultaneously achieve:

- Maximization of demand for insurance enrollment
- Improvement in retention rates
- Reduction in marketing costs

Consequently, they may bring about a **structural reduction in new-float acquisition costs** (effectively, a "negative interest rate" structure).

●Characteristics of Float in Pet Insurance

Pet insurance is paid monthly or annually, so the simple float period itself is short. However, pet insurance has a structure in which:

- It lacks widespread, simultaneous, correlated catastrophe-type risks such as those seen in earthquake insurance;
- It is an aggregate of petty losses (small-value, high-frequency losses), which creates a strong dispersion effect in claim payment timing; and
- Retention tends to be high, making future cash flows relatively predictable.

As a result, pet insurance may exhibit a characteristic not commonly seen in other non-life insurance lines:
"A float that is short-term yet temporally smooth and resistant to disruption."

Therefore, in pet insurance, it is important to intentionally and structurally implement measures that further enhance the float's **duration, volume, and quality**.
This is not merely the sophistication of asset management. Rather, it is akin to designing insurance not as a "financial product," but as a "biological and behavioral system."
Float is not something simply granted. It is something to be **designed and continually acquired** through prevention, medical care, and behavioral change.

Part 1: Addressing Growth Potential and Structural Risks in Pet Insurance
— Regarding "Insurance for Insurance" —
Our Relationship with Pets — On the Essential Demand for Pets —

While advances in science and technology enrich our lives, they are also noted for potentially weakening human-to-human connections. Pets provide people with unconditional love and emotional stability, functioning as "power plants for our hearts" within the social structure. The strength of pet demand—which may exist in inverse correlation to the various anxieties modern society faces—may be a structural factor underpinning the resilience of pet-related

spending even during economic fluctuations. This demand may also serve as an effective component within investment portfolios.
At the same time, pet healthcare faces the structural risk of rising medical costs. Addressing this risk is both the subject of this document and a structural challenge that our Group recognizes as requiring sustained attention.

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1. Growth Potential of Pet Insurance

(1) Demand remains steady

① Demand for pet insurance = "Anxiety about future medical expense burdens"
② Demand for advanced veterinary care continues to grow
③ However, advanced medical care tends to be high-cost and may become a structural risk factor that worsens the profitability of pet insurance

(2) Status of Anicom Insurance (new policies / renewals)

(3) Status of competitors, etc.

① Nearly all competitors have shown deteriorating profitability soon after market entry
→ This may indicate the presence of a structural issue.
② Secondary channels tend to attract policyholders who already perceive high risk
= More prone to adverse selection
→ This makes more advanced underwriting (UW) necessary.
③ Anicom Insurance places relatively greater emphasis on primary channels (pet shops / breeders)
(i) These channels tend to involve less adverse selection, and make it easier to ensure continuity in the pet's living environment and health information. They also facilitate support for appropriate pet care and husbandry, which helps build long-term relationships with policyholders and may result in higher lifetime value (LTV).
(ii) Historically, the most profitable segment—advanced medical care—has tended to flow externally. This area may have a significant impact on the income/expense and risk structure of pet insurance. The separation of advanced medical care from insurance, and reliance on external providers, may itself have constituted a structural risk. Internal circulation may ultimately contribute to strengthening the sustainable earnings base of the Group.
④ Underwriting must be conducted according to risk. Even within the same breed, risk may vary depending on the level of genetic diversity.
Pet insurance inherently deals with biological risks.
⑤ Risks determined by "destiny" (genetic diversity) may also be influenced by daily-life efforts.

2. The Need to Address Structural Risks

(1) Risks that may affect Anicom Insurance's income and expenses

① Medical costs are rising year by year

② Advanced medical care may increase risk

i. Trends in unit costs for outpatient visits, hospital stays, and surgeries

ii. Life expectancy is increasing

iii. Longevity may lead to increased medical-cost risk

(2) Relationship between technological advancement and risk

① In many insurance lines, technological advancement contributes to risk reduction (e.g., improved seismic performance in earthquake insurance; improved handling stability in auto and aviation insurance)

② In medical insurance, technological advancement may contribute to risk increases

i. Technological progress increases treatable diseases and promotes longevity

ii. Greater longevity may lead to an increase in diseases with higher treatment difficulty

iii. Consequently, medical costs may structurally increase

③ In pet insurance, these risks may materialize sooner

Pets' lifespans are approximately one-fifth to one-tenth those of humans; therefore, structural medical-cost inflation risks driven by technological advancement may "hit" sooner, making proactive response important.

(3) Medical insurance must inevitably cover advanced medical care

① Excluding it from coverage contradicts medical insurance needs

② Premium increases may heighten the risk of further adverse selection

(4) Fundamentally, medical insurance exists only because healthcare exists

① The disconnect between insurance and healthcare is the structural root cause

② Advanced animal medical care itself may be branded, mechanized, standardized, and AI-enabled—and, through internal circulation, may function as a substantive hedge for pet insurance

(5) Portfolio effectiveness

① Based on benchmarking leading advanced animal medical care providers and examining μ (expected value), σ (risk), and ρ (correlation with pet insurance): relative to the Anicom Group, μ may be higher, σ may be relatively lower, and correlation may be low.

→ It may therefore be highly effective as a business-portfolio component.

② Potential for advanced animal medical care to function as "Insurance for Insurance"

Advanced animal medical care initiatives may function not merely as internalization or business diversification, but as a substantive hedge—"Insurance for Insurance"—by preventing the high-cost medical expense risk inherent in pet insurance from flowing externally and instead enabling internal circulation.

* In auto and aviation insurance, risks themselves are already transforming due to automation, and responses are urgently required. Likewise, in medical insurance, risks may transform as procedures such as surgery become increasingly automated.

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3. Implementation Status of "Insurance for Insurance"

1. Sales performance
2. Distribution by medical specialty / geographic dispersion / referral routes
3. Expansion of partner hospitals

Part 2: Toward Further Revenue Expansion

— Addressing New Lifestyle Diseases in Pets —

1. Room for Further Improvement in Insurance Payouts

— Status of payouts for undetermined causes —

2. Occurrence of age-related diseases in younger pets

"Many diseases of undetermined cause and a high prevalence of age-related conditions from a young age"

- These patterns have historically been considered more common in purebreds and recognized as genetic factors; however, similar patterns may also occur in mixed breeds.
- Immune deficiency or immune exhaustion may be involved.

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3. New lifestyle imbalances in pets

(1) Asymmetry in immune maturation environments between humans and pets

Humans: eat diverse foods and go outdoors

vs.

Pets: eat monotonous diets and go outdoors infrequently

(2) Possibility that monotonous eating habits in pets relate to immune immaturity

① Vaccines: "Remembering the enemy (×)" may occur via

- An irregular route (not via the mouth)
- An inflammatory response
  → This may be more readily identified and remembered as "enemy (×)."
  (Vaccines often cause pain and swelling.)

② Food: How "regular-route" recognition may differ

- A regular route
- Typically without inflammation
  → Although food is not "self," it may be recognized as "necessary / friendly" and should be tolerated—identified and remembered as "○."

③ However, when even food enters via an irregular route (e.g., wounds)

- It may be recognized together with inflammation,
  so it may be identified and remembered as "enemy (×)," potentially leading to food allergies.
- Even if it is not marked as "×," if it is not recognized as "○,"
  → The immune system may be forced into constant surveillance
  → Consuming limited immune resources
  → Potentially reducing capacity to respond to conditions such as cancer.

(3) The digestive tract as a major arena of immune activity

A vast number of microorganisms exist in the digestive tract; continuously fighting all of them is difficult.

→Therefore, the body may tolerate microorganisms that do not adversely affect the host, using their competitive exclusion dynamics to build its own immune environment.

→In this context, the ability to identify and tolerate "ally" microorganisms may support immune function.

→ One indicator of immune maturity may be the degree of tolerance toward resident gut bacteria that may be considered allies.

High diversity of the gut microbiota may serve as a partial indicator of immune maturity.

(4) Association between gut microbiota diversity and mortality / various conditions

① Mortality

② Association with various conditions (vomiting, diarrhea, bloody stools, cancer, kidney disease, heart disease)

(5) Periodontal disease and systemic risk

Periodontal disease may cause chronic low-grade inflammation and may increase the risk of systemic diseases.

① Periodontal disease–associated bacteria and mortality

② Association between periodontal disease–associated bacteria and various conditions (vomiting, diarrhea, bloody stools, cancer, kidney disease, heart disease)

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4. Toward Implementing "Insurance for Insurance"

— Making the obvious obvious —

(1) Our bodies are made from what we eat

① Relationship between pet food and oxidation (= aging)

Pet food is often fed over extended periods after opening (e.g., one month).

→It is often coated in fat to enhance palatability.

→Fat oxidizes easily when exposed to oxygen; oxidation relates to aging.

Therefore, individually packaged, freshly opened food may be possible.

**Oxidative stress is one factor related to aging.*

② Monotonous protein sources

Pet food often relies on "chicken, wheat, and corn" for economic reasons. Long-term consumption of a monotonous protein source may increase allergy risk and may hinder immune maturation.

→ New pet food using diverse ingredients may be possible.

(2) Periodontal disease as an infectious driver

① In the wild, every meal provided oral care

② Periodontal disease forms biofilms (bacterial habitats and barriers). These may persist not only in the oral cavity but may also flow into the digestive tract via saliva, potentially affecting gut immunity.

③ As with humans, oral care is important.

We will not flee from a future of rising medical costs.
Instead, we will confront the systemic risks of healthcare itself.

The detailed version will be disclosed at a later date.