Conference Call on FY2009 Consolidated Operating Results for Domestic Institutional Investors and Analysts 2009
Q&A (Executive Summary)

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Note: The original content has been revised and edited for ease of understanding.

Q&A

Q1.

Sony Life's MCEV (preliminary) has improved substantially compared with March 31, 2009. Taking into account the lengthening of asset durations, the interest rate sensitivity of MCEV should have been significantly lower than on March 31, 2009. Could you provide specific guidance indicating approximately how much interest rate sensitivity has fallen?

A1. (Sony Life)

We plan to explain Sony Life's sensitivity on May 28 (Friday), when we also announce the full disclosure of the company's MCEV as of March 31, 2010. We would like you to wait until then.

However, as you indicated, it is true that interest rate movements contribute to the current increase in MCEV (preliminary). Other contributions came from the changes in Sony Life's asset management policy that we announced on March 15 and the accumulation of new business value in FY2009. Other factors to take into consideration are improvements in the non-hedgeable risks and the frictional costs, resulting from interest rate movements.

Q2.

I would like to confirm Sony Life's approach in forecasting new business value as it relates to MCEV. I understand that annualized premiums from new policies rose in Q4 of FY2009 because of strong sales of new products launched in November 2009. As a result, the figure for Q4 was more than one-quarter of the annual total. Do you expect these sales to remain strong in FY2010?

A2. (Sony Life)

In FY2009, we began offering cancer hospitalization insurance in April, and in November we launched family income insurance (with a discount rider for nonsmokers and other people in excellent health). Solid sales of these products, as well as favorable sales of living benefit protection insurance, gave a major boost to annualized premiums from new policies. Although we cannot say anything for certain about FY2010, basically we expect this trend to continue. We also expect to launch new products in the second half of FY2010, and the resulting change in the new product mix will probably impact MCEV.

Q3.

Sony Life's lapse and surrender rate increased as a result of the new products launched in November 2009. How much of a negative impact did this have on EV? Once sales flatten out, do you expect the lapse and surrender rate to return to its former levels?

A3. (Sony Life)

The lapse and surrender rate increased because some policyholders switched over to the family income insurance (including a discount rider for nonsmokers and other people in excellent health) that launched in November 2009. However, compared with the FY2008 level, the cancelation situation for some products where lapse and surrender rate worsened as a result of the economic malaise improved in FY2009. Absent any major changes in the economic environment, we expected to see the (overall) improvement continue in FY2010.

We expect the lapse and surrender rate to continue increasing for some time, owing to strong sales of family income insurance and switchovers by some policyholders, but we cannot say definitely when the rate will decrease. A flattening out of switchover demand and a decrease in the lapse and surrender rate should have a positive impact on MCEV.

Q4.

In the life insurance business, the negative spread continues to improve, and I believe that if you look at Q4 of FY2009 on its own, the spread was actually positive. I understand that you are forecasting a decrease in the negative spread for FY2010, as well, but as the spread in Q4 of FY2009 was positive (on a quarterly basis), do you expect it to go negative again in the next quarter (Q1 of FY2010)?

Also, you expect core profit to decline in FY2010. Do you forecast a decline in core profit even though the negative spread is decreasing, due to your expectations of falling mortality and expense margins?

A4. (Sony Life)

The positive spread that you pointed out for Q4 of FY2009 was the result of accounting for a large amount of gains from redemption of securities during the quarter.

However, as we continue to purchase ultralong-term bonds and switch out bonds with short terms remaining to maturity, interest income and dividends will increase steadily, causing the negative spread to trend downward. Also, declines in the assumed interest rate in tandem with the new policy amount accumulation, in line with the asset management policy mentioned earlier, is another factor to reduce the negative spread.

Decreases in the mortality margin and the expense margin are not the reason we forecast a decline in core profit for FY2010. We expect that the new policy amount will continue increasing steadily and that the policy amount in force will rise, so we believe the mortality margin will remain relatively stable. One reason behind our forecast for a decline in core profit is that we expect the provision for policy reserve related to the minimum guarantee on variable life insurance to increase in comparison to FY2009. In addition, in FY2009 insurance claims and other payments were lower than is typical. Assuming that these payments will return to typical levels in FY2010 is one reason we expect core profit to fall. We are not assuming that the mortality margin or the expense margin will worsen.

Q5.
In the banking business, why have net fees and commissions gone negative?

A5. (Sony Bank)
Fees and commissions on investment trusts and foreign exchange margin transactions, which are included in net fees and commissions, were flat year on year. The main reason net fees and commissions went negative is that the cost of insurance premiums we paid for group credit life insurance went up as a result of a growing balance of mortgage loans we handle.

Q6.
Does this mean that, structurally, your cost burden increases as the balance of mortgage loans you handle rises?

A6. (Sony Bank)
The structure is such that the portion of premiums paid for the group credit life insurance in net fees and commissions increases as the balance of mortgage loans we handle goes up. However, the corresponding increase in interest income on mortgage loans absorbs the increasing cost burden for group credit life insurance premiums, which creates a net positive profit on mortgage loan business.

Looking at net fees and commissions, in FY2009 fees and commissions on investment trusts and foreign exchange margin transactions were relatively flat year on year, so the burden from group credit life insurance was relatively higher because of the increase in the balance of mortgage loans.

Q7.
In the life insurance business, to what extent did strong sales of your new (launched in November 2009) family income insurance product (discount rider for nonsmokers and other people in excellent health) cause policyholders to switch out of their existing policy agreements?

A7. (Sony Life)
In FY2009, the new policy amount for family income insurance was ¥2 trillion. Of that amount, around 20% came from policyholders making a switch from their existing policies.

Q8.
How much impact will Sony Life's new asset management and dividend policies in certain products (announced on March 15, 2010) have on future product sales?

On interest-sensitive whole life insurance (IS whole life insurance), I expect that the minimum guarantee will drop eventually to a 2% yield, but can you give me some idea of timing?

To what level do you expect dividends on semi-participating insurance to fall?

A8. (Sony Life)
We sell IS whole life insurance not because yields are high but because it is a type of whole life insurance. We provide these policies for policyholders who are not attracted by products on which they continue to pay premiums but that have low rates of interest. On these policies, if interest rates trend upward in the future and this is reflected in investment results, that profit is returned to policyholders by adding income on top of whole life insurance.

It would be incorrect to assume that we provide these products because they deliver high yields or that they are linked with the current change in our asset management policy of lowering yields. For that reason, we do not expect these to have any impact on future product sales.

Our thoughts on semi-participating insurance are basically the same. Dividends are not our main reason for offering these policies. Accordingly, we do not believe that our new asset management policy and changes in dividend policies will affect future product sales.

Q9.

I understand that for IS whole life insurance and semi-participating insurance, policyholder sensitivity to yields and dividends is low. Assuming this to be the case, why until now have you invested not in Japanese government bonds but in risk assets, such as convertible bonds and stocks? Ultimately, doesn’t this mean that you have been selling products for which the company bears the burden of risk while return accrues to policyholders?

Were products that offered high yields and dividends not attractive?

A9. (Sony Life)

If you look only at the results, in the 1990s and 2000s, stock prices fell and interest rates were low and stable. However, when those products were developed, the Japanese economy was in an expansionary phase that was generally expected to continue. The typical product development approach involved structuring a portfolio containing risk assets and returning profits to customers if investment results were good.

However, upon reflection of the true meaning of insurance products, given the economic fluctuations over the past decade, as well as regulatory trends toward insurers, we came to the understanding that stability was the key to providing life insurance to customers over a long period.

Q10.

I understand that the asset duration of your life insurance business has lengthened to 17.6 years. Do you plan to extend the duration further? Will you continue to follow a policy of acquiring ultralong-term bonds for holding to maturity?

A10. (Sony Life)

Our liabilities have duration of approximately 30 years, so we will continue to extend our asset duration accordingly. That being said, in the future we will not continue the practice of solely acquiring bonds for holding to maturity. We will consider various investment alternatives.

Q11.

In the life insurance business, what would your lapse and surrender rate have been if you ignored the effect of policyholders switching to the family income insurance rider that you launched in November 2009?

A11. (Sony Life)

We haven’t made any detailed calculations of that figure, but I would estimate that in that case the current overall lapse and surrender rate of 7.2% would fall to around 6.5%.

Q12.

Sony Life announced a change in its asset management policy (on March 15, 2010, in certain products). Do you plan to never change this policy again? Under what conditions might you change the policy?

A12. (Sony Life)

In principle, we plan to continue with the new policy. Customers' attitudes are changing. The number of customers subscribing to variable life insurance was high when the investment environment was good, but in the current investment climate sales of variable life insurance are relatively low. The trend is away from choosing risky products. Our decision would also depend on a shift in customers' product preferences, but unless market conditions change significantly, we will continue with our new policy of stable investment and stable dividends.

Q13.

I have heard that Sony Financial Holdings (SFH) was targeting a change to a new management structure. Do you plan to change management periodically in the future? Your press release uses the phrase "strengthen Group management." Are you referring here to the SFH Group only, or do you mean the Sony Group?

A13. (SFH)

Simply stated, the objective of our new management structure is to change generations. As a financial institution, we have relationships with supervisory administrative agencies in place, as well as trust-based relationships with our customers, so we aren't making any sudden management changes. In order to respond to general consumers' needs based on their standpoint without sticking to common practice in the finance industry, it is important to appoint a new president who has an objective view of the business that may not be noticed by a person with long experience in a financial business. We also believe that it is important to change management periodically to some extent.

The "group" in the press release refers to the SFH Group.

Q14.

In the life insurance business section of the presentation materials, there is a difference in the year-on-year change between "core profit" on page 10 and "negative spread" on page 11. If you exclude the negative spread from core profit and compare the figures, the difference was ¥59.3 billion as of March 31, 2009, and ¥76.0 billion as of March 31, 2010. What is the main reason for this ¥16.7 billion increase?

A14. (Sony Life)

Core profit includes other insurance-related income and expenses besides the negative spread. As negative spread is only one component of core profit, their differences cannot be compared directly in this way. One reason for the increase, however, is that the provision for policy reserve related to the minimum guarantee on variable life insurance was lower. Another reason is that the amount of insurance claims and other payments itself was slightly lower than for a typical year. We do not disclose the amounts of individual revenue sources, so I hope this explanation will be sufficient.

Q15.

SFH forecast the same dividend payment amount again this time. What are the chances that you will increase dividends in the future?

A15. (SFH)

Each of the companies in the SFH Group is in its growth phase, so our basic policy is to maintain sufficient internal reserves sufficient to fund growth. We plan to maintain this dividend policy for the foreseeable future.

In FY2008, Sony Life posted an impairment loss of approximately ¥45.0 billion as a result of the Lehman shock, which necessitated the reversal of approximately ¥40.0 billion in reserves (¥21.2 from the reserve for price fluctuations and ¥19.0 billion from the contingency reserve) that had been accumulated in past years. The company does not currently face any issues with regard to soundness, but we want to preserve enough capital to ensure soundness in response to potential regulatory changes.

As for Sony Bank, we believe it will be necessary to secure a certain level of capital in accordance with an expansion in its business operations to fund its future growth, if it happens like the case in the first half of the year before last when its deposit balance were expanding.