FY2010 Conference Call for Domestic Institutional Investors and Analysts Q&A (Executive Summary)

Date: May 20, 2011, 17:00–18:00
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Mitsuhiro Koizumi, Director, Sony Life Insurance Co., Ltd.
Atsuo Niwa, Executive Officer, Sony Assurance Inc.
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Note: The original content has been revised appropriately and edited for ease of understanding.

Q&A

Q1.

In Sony Life's preliminary MCEV, the value of existing business—calculated by using the JGB yield rather than the interest swap rate—was up ¥47.6 billion from March 31, 2010. Did the steepening of yields on 30–40-year JGBs in 4Q (three-month period) of FY2010 have a major impact on the increase (as compared with using the interest swap rate)?

A1. [Sony Life]

This appears to be the case; further details will be provided in the May 27 MCEV announcement.

Q2.

As of March 31, 2011, Sony Life's asset duration was 18.5 years, but the annual report only indicates a lump-sum figure for assets with balance with remaining period over 10 years. Please indicate your balance of bonds with balance with remaining period over 10 years in 10-year groups: 10–20 years and 20–30 years.

A2. [Sony Life]

We segment durations by insurance product. We work to match products with long (liability-side) durations with 30–40-year bonds (on the asset side). To match products with shorter durations (such as semi-participating insurance with policyholder dividends every five years and educational endowment insurance), we invest in such instruments as 20-year bonds. Therefore, we are unable to provide information on durations categorized in this way.

Q3.

Sony Life's number of Lifeplanner sales employees as of March 31, 2011, was down in comparison with March 31, 2010, but up from the December 31, 2010, figure. Was there some particular reason for your recruiting activity during the three months of 4Q FY2010? Should we expect the downward trend in the number of Lifeplanner sales employees to continue into FY2011?

A3. [Sony Life]

Our recruiting activity has not changed. The number of Lifeplanner sales employees who join the company is higher in some months than in others, and this number is typically high in January. We believe that to be the reason. We are not making a point of reducing the number of Lifeplanner sales employees. The number is down as a result of our strict recruitment standards, but our proactive stance on recruiting remains unchanged, so we would expect the number to increase in the future.

Q4.
In FY2010, Sony Life posted a net capital gain of ¥23.8 billion, but as no such gain is expected for FY2011, the consolidated operating performance forecast for the life insurance business in FY2011 calls for consolidated ordinary profit of ¥53.0 billion.

The reasons for changes in FY2010—insurance claims and other payments owing to disaster, the increase in provision for policy reserve related to the minimum guarantee for variable life insurance, and an additional provision for policy reserves due to changes in actuarial assumptions on some third-sector products—are likely to improve in FY2011. Taking into account these factors, plus a decrease in the negative spread, I would expect consolidated ordinary profit in FY2011 to be better. What are the reasons for your conservative outlook?

A4. [Sony Life]
Excluding net capital gains, consolidated ordinary profit in FY2010 was approximately ¥48.0 billion.

In FY2011, the negative effects on the consolidated ordinary profit, such as insurance claims and other payments owing to disaster from the East Japan Earthquake, and increases in the provision for policy reserves owing to changes in the actuarial assumptions on some third-sector products should be absent. For FY2011, we anticipate consolidated ordinary profit of ¥53.0 billion due to the following reasons. 1) an expected increase in insurance claims and other payments (excluding disaster from the East Japan Earthquake), 2) no major improvement expected in FY2011 in the provision for policy reserves associated with the minimum guarantee on variable life insurance, 3) an expected increase in provision for policy reserves, owing to a rise in new policy acquisition, and an improvement in the persistency rate (lower laps) and, 4) an expected slight increase in operating expenses owing to such factors as the cost of delivering notices to customers in relation to the disaster from the East Japan Earthquake.

(Additional question: Why do you expect an improvement in the persistency rate will have a negative effect on profits?
This is because when lapses decrease, the provision for policy reserve grows slightly.

Q5.
I understand that the contingency reserve accumulates by more than ¥3.0 billion each year. How will changes in the legal requirements affect the amount of accumulation in FY2011? Also, how will your accumulation of the reserve for price fluctuations be affected?

A5. [Sony Life]
We will accumulate funds in the contingency reserve in line with legal standards, and in FY2011 we believe this amount will be as much as ¥1.0 billion higher than in FY2010.

We reversed the reserve for price fluctuations at one point during the Lehman shock. However, based on the previous standards in FY2011 the reserve for price fluctuations will rise to maximum limits, making it several billion yen higher than in FY2010.

(Additional question: Will your accumulation of reserve for price fluctuations then begin to decrease from FY2012?)
We will consider accumulation in the reserve for price fluctuations from FY2012 onward in the context of the new legal standards.

Q6.

What is the financial forecast for AEGON Sony Life Insurance in FY2011? When will the company move into the black?

A6. [Sony Life]

Given that the market for variable annuities is shrinking, we do not anticipate a recovery due to a surge in sales. Losses are expected to continue in FY2011. We cannot say for certain when the company will move into the black on an annual basis, but we intend to achieve this objective within 10 years (following the start of sales). We will review this target in light of market and sales conditions.

Q7.

On page 9 of the presentation materials, Sony Life's FY2010 annualized premiums from new policies are up from FY2009 on a cumulative basis for the fiscal year, but the figure for 4Q of FY2010 was slightly lower than in 4Q of FY2009 as well as than in 3Q of FY2010. Was this due to the impact of the disaster or was some other factor in play?

A7. [Sony Life]

Sony Life's sales tend to increase in 1Q and 3Q of each year (owing to campaigns and other measures). For this reason, 3Q figures will typically be higher than those for 4Q of the same year.

FY2009 figures were influenced by the November 2009 launch of a new product, a discount rider for nonsmokers and others in excellent health for family income insurance, which is life insurance with disability benefit, as well as cancer hospitalization insurance. This caused higher increases in annualized premiums from new policies in 4Q FY2009. Figures for 4Q FY2010 are down against that baseline.

Q8.

If you have figures on hand for annualized premiums from new policies in April 2011, please share them.

A8. [Sony Life]

We cannot provide specific figures, but on a sales basis the numbers were slightly lower than in April 2010.

This was due to the fact that sales of the family income insurance, which is life insurance with disability benefit, and cancer hospitalization insurance remained robust in April 2010. In FY2011, strong sales of nursing-care insurance, term life insurance and living benefit insurance resulted in changes in the product mix from the previous period.

Q9.

In FY2010, Sony Assurance's E.I. loss ratio was worse in 4Q than in the first nine months of the year.My understanding was that the E.I. loss ratio would worsen less in the second half than it had in the first half of FY2010. Why did the E.I. loss ratio increase in 4Q FY2010?

A9. [Sony Assurance]

In 1H FY2010, a rise in the number of accidents and the accident ratio (the number of accidents divided by the number of in-force policies) was high. The rise in the number of accidents and the accident ratio began to ease as we entered 3Q FY2010, and dropped after entering 4Q FY2010. The reason that the E.I. loss ratio worsened in 4Q FY2010 despite this situation was that the provision for reserve for outstanding losses is included in the E.I. loss ratio calculation. Through the year-end revision of reserve for outstanding losses at the end of the fiscal year, number of the accidents involving human injury increased in particular (high accumulations of reserve for outstanding losses). The amount of reserve for outstanding losses for the FY2010 exceeded our average levels.

Q10.

The FY2011 financial results forecast for Sony Assurance on page 30 of the presentation materials indicated an "increase in the expense ratio in line with the expansion of business operations." Is this a product of higher loss adjustment expenses or an increase in underwriting staff? What is the reason for the higher expense ratio?

A10. [Sony Assurance]

Loss adjustment expenses are expected to rise in FY2011 as a result of an increase in car accidents, but as loss adjustment expenses are only one component of the loss ratio, they are not included in the forecast expense ratio for FY2011.

Rather, the operating expenses we expect to increase are infrastructure expenses such as those to rebuild backbone systems and higher personnel expenses in line with the reinforcement of corporate systems.

(Additional question: Does infrastructure development refer to investment in systems to acquire new policies?)

Not only for new policy acquisitions, this spending will also go toward a major renovation centering on web systems.

Q11.

Sony Assurance's FY2011 financial results forecast calls for ordinary revenues of ¥80.4 billion and ordinary profit of ¥2.6 billion. From these figures, we can infer that the combined ratio employing the E.I. loss ratio is approximately 95%, but can you provide some guidance on the E.I. loss ratio and expense ratio breakdown?

A11. [Sony Assurance]

In FY2011, we expect the accident ratio not to increase from the current level, owing to the leveling off of the increase in customer driving distances, relatively higher gasoline prices and the discontinuation of ETC discounts on expressway tolls. Furthermore, the revision in automobile insurance premiums introduced in February 2011 should also cause the E.I. loss ratio to improve. As a result, in FY2011 we expect the E.I. loss ratio to decrease in comparison to FY2010.

As indicated earlier, in FY2011 we expect the expense ratio to be slightly increase than in FY2010.

Q12.

In 4Q FY2010, Sony Assurance's loss ratio increased as a result of a revision of reserve for outstanding losses. But wouldn't accidents due to snow cause the loss ratio to increase?

Also, what are recent trends regarding the receipt of accident reports?

A12. [Sony Assurance]

The year-end revision of reserve for outstanding losses had a major influence on the 4Q FY2010 increase in the loss ratio, but snow had no particular impact. Also, the 4Q FY2010 increase in the accident ratio was lower than in the 3Q FY2010 and in the same period of the previous year.

Looking at trends through April 2011, the accident ratio is down.

Q13.

Sony Bank's deposit balance and loans are increasing, but the capital adequacy ratio is falling. At this stage, the capital adequacy ratio appears sufficient, but considering the bank's pace of growth, won't the capital adequacy ratio fall to 7–8%? What sort of capital financing are you considering?

A13. [Sony Bank]

We will expand risk assets, focusing on mortgage loans, to lower the capital adequacy ratio. We believe that Sony Bank's capital adequacy ratio of around 10% and Tier 1 ratio of approximately 8% demonstrate soundness, but over the medium term capital reinforcement will be necessary. At the moment, Sony Bank's Tier 2 capital is very few, but this will need to be considered when deciding how to bolster capital.

Q14.

SFH's consolidated financial results forecast for FY2011 does not indicate net capital gains in the neighborhood of the ¥23.8 billion that Sony Life posted in FY2010, so profits are down. Is it safe to assume that falling profit forecasts are unlikely from FY2012 onward?

A14. [SFH]

At present, the life insurance business constitutes the biggest portion of SFH's consolidated operating results. Performance may fluctuate in the non-life insurance and banking businesses, which are in their growth periods, but overall SFH's consolidated performance should trend upward, in line with Sony Life's increases in policies in force and new policy amount.