Q&A (Summary) on the Corporate Strategy Meeting of the Sony Financial Group for Fiscal 2014

Date:	June 2, 2014, 15:30–17:00	
Respondents:	Katsumi Ihara	President, Representative Director of Sony Financial Holdings Inc. and Sony Life Insurance Co., Ltd.
	Hirotoshi Watanabe	Senior Managing Director, Member of the Board, Sony Financial Holdings, Inc.
	Hiroaki Kiyomiya	Executive Vice President, Sony Life Insurance Co., Ltd.
	Atsuo Niwa	President, Representative Director of Sony Assurance Inc.
	Shigeru Ishii	President, Representative Director of Sony Bank Inc.

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

[Q&A]

Q1. [SFH]

I have a question about shareholder returns. Your forecast dividend increases in FY2014 would raise the dividend payout ratio from the 20% level to the target range of 30–40%, but your target dividend payout ratio is based on income on the basis of J-GAAP, so viewed from the perspective of stock basis it still seems to fall short. Given that ratios on total shareholder return for U.S. life insurers are in the neighborhood of 70%, there seems to still be ample room to raise your dividend payout ratio further. Do you have any plans to change your dividend policy? The contribution of new policies to your MCEV growth rate is falling, so it seems that you should consider overall returns to shareholders. Is there any possibility that you will buy back your own shares?

A1.

First of all, we would like you to understand that over the past three years we have continuously increased dividends, and the current level is more than twice what it was before. Going forward, we plan to continue increasing dividends steadily, taking medium- to long-term profit growth and management conditions into consideration. In our mainstay life insurance business, we need to maintain sufficient long-term ability to pay. We also need to closely monitor domestic and overseas trends on solvency requirements. Given this situation, we do not believe that now is the time to rethink our dividend policy.

Regarding the question about buying back our own shares, as our share composition means that there are not much liquidity of our shares available for trading, we are not considering the option of returning profits to shareholders by buying back our own shares. Also, buying back shares for the purpose of shareholder returns is a temporary measure. We believe that steadily increasing dividends is a better way of expressing management's strong commitment toward the long term.

(Additional Q) Field tests related to the Financial Services Agency's solvency regulations based on economic value employ various methods for measuring interest rate risk. For reference, could you explain what areas you see as being difficult for your company? Also, if you are using the liquidity as a reason not to trade in your own company's shares, wouldn't it be possible for you to buy shares pro rata from your parent company, together with conducting a share split? Have you and Sony Corporation ever considered a scheme such as this for buying back your own shares?

A.

As we have indicated in the results disclosed for the fiscal year ended March 31, 2014, Sony Life revised the method it uses for managing yen interest rate risk to one of principal component analysis—a method it considers more appropriate. However, field testing may employ tests with a variety of stress assumptions, including methods that we have used in the past.

(In response to the question of whether SFH and Sony Corporation had considered share buybacks), our management structure is independent from that of Sony Corporation, and we determine shareholder returns based on our own management decisions.

Q2. [SFH]

Recently, it appears that your parent company—Sony Corporation—has been clearly putting out the message that its financial services segment is a core business for the Sony Group. What is the impact on management of the Sony Financial Group? Also, are there any plans to become actively involved in Sony Corporation's new business segments, such as the real estate business?

A2.

Fundamentally, our group and Sony Corporation are run in completely different value chains. There is no shared relationship between each chain. Furthermore, our management structures have very clearly established independence. Saying that the financial services segment is core to the Sony Group carries an element of the feeling that a desire Sony Life's founder, Akio Morita, had for the segment at the time it was established became reality. We are of course pleased to hear this, but please understand that any sort of actual business synergy or interface is extremely limited.

Q3. [Sony Life]

Your growth target for policy amount in force is 4% per year, but approximately what percentage of new policies are policy changes from other life insurers? Also, leading life insurers are experiencing a decline in their lapse rates. Is this decrease in lapse rates affecting Sony Life?

A3.

We do not keep statistics on the percentage of new policies that are policy changes from other life insurers.

Our current initiatives for acquiring new policies involve appointing more competent young Lifeplanner sales employees as sales office managers to recruit and train Lifeplanner sales employees, focusing thoroughly on need-based sales, and concentrating on properly proposing death protection to customers. Internally, we call this "getting back to basics," and we believe that this approach will contribute to new policy acquisition.

Also with the regard to the lapse rate, we believe that our level of around 4% is relatively low. We intend to maintain our lapse rate at around 4–5%, but we expect to acquire new policies so that the net increase would be positive even if our average lapse rate runs to around 6%.

Q4. [Sony Life]

What is the likelihood that you will maintain the trend toward increased recruiting of Lifeplanner sales employees?

A4.

For the past several years, we have proactively promoted competent Lifeplanner sales employees to positions as sales office managers responsible for recruiting and training Lifeplanner sales employees, and expanding this cadre has had the effect of boosting recruiting of Lifeplanner sales employees. Around half of new Lifeplanner sales employees have been introduced by other existing Lifeplanner sales employees, and this process leads to the recruiting of quality human resources. We believe that this approach is highly sustainable.

Q5. [Sony Life]

You expect Lifeplanner sales employees' productivity to continue increasing. I believe that Lifeplanner sales employees already have fairly high productivity; is there room to increase it?

A5.

In the past, Lifeplanner sales employees' productivity, including at AEGON Sony Life Insurance, increased through a senior marketing strategy and robust sales of savings-type products. Going forward, if in addition to these approaches we clearly refocus on selling death protection products in line with customers' needs, we believe that we should be able to enhance productivity even further.

Q6. [Sony Life]

Currently, the life insurance market is seeing an increase in sales through so-called nationwide shop-style independent agents. You have mentioned Sony Life's policy of "getting back to basics;" is there any relation between current market needs and the decision to return to your roots?

A6.

The advent of Abenomics has temporarily energized the market, and because certain of our savings-type products were highly competitive, these products have made up an increasing percentage of sales. For FY2014, internally we are reiterating the importance of selling death protection products taking a consulting-based approach, as we have done since the time of our establishment. This "getting back to basics" means emphasizing the Lifeplanner channel in such context.

Q7. [Sony Life]

Looking at recent product trends, sales of savings-type products are increasing, while sales of some medical insurance and nursing-care insurance products are down. Is this because the impact of competitors' product revisions and the increasing prevalence of comparison-based sales by independent agencies are showing up in lower new policy amount? Has it become more difficult to sell highly profitable products?

A7.

For the past year or two, Abenomics has prompted changes in the market environment that have made variable annuities more attractive, and because certain of our existing lump-sum payment products such as endowment and nursing-care insurance products were highly competitive, sales have tended to skew toward savings-type products. As we mentioned earlier, we are currently "getting back to basics" by focusing thoroughly on consulting-based sales approach and providing customers with death protection products. Many Lifeplanner sales employees are empathetic with this approach, which we expect to be effective.

Q8. [Sony Life]

Looking at Sony Life's risk amount based on economic value, the increase in the amount of insurance risk is higher than the rise in policy amount in force. Why did insurance risk rise so much during the one-year period of FY2013? Is your method of measuring insurance risk too stringent?

A8.

Sony Life discloses its method of measuring insurance risk. As of March 31, 2014, we have changed our method of measuring yen interest rate risk, but not our method of measuring insurance risk. Improvements in mortality and continuity rates when measuring insurance risk may cause insurance risk to increase. We believe that the increase is due to changes in these actuarial assumptions.

Q9. [Sony Assurance]

Sony Assurance has a lower combined ratio than the major insurers. I understand that your profitability is high, but your net loss ratio is almost the same as that of the major insurers. Would you say that your risk segmentation business model itself has fallen on tough times?

A9.

The main reason that the loss ratio for the major insurers has been improving over the past few years is that they have revised premiums earlier than us—on a nearly annual basis. The timing of our rate revisions has tended to lag behind that of the major insurers because price competition among the direct insurers is relatively stringent. The result of our revision of premiums appeared as the improvement of our loss ratio later than that of the major insurers, so when looking at the net loss ratio, currently the major insurers are at approximately the same level as we are. Consequently, we are not considering that the risk segmentation is the reason for that.

Q10. [Sony Assurance]
In FY2008, the E.I. loss ratio was around 60%, which was a competitive advantage compared with the net loss ratio for the major insurers. Do you foresee a return to that situation?
A10.
In FY2008, we were growing rapidly than the major insurers, so rather than comparing net loss ratios, we believed it was practical to compare our E.I. loss ratio with the major insurers' net loss ratio. Looking at our E.I. loss ratio, we were on a par with the relatively lower net loss ratios of the major insurers. We would like to return to this situation.

Q11. [Sony Assurance]
Sony Assurance's medium- to long-term product strategy is to "launch new products featuring progressive risk segmentation that competitors do not offer." What sort of risk segmentation are you thinking of? Also, what is the impact of such risk segmentation on Sony Assurance's operating performance?
A11.
We cannot discuss the details of new products, but we are putting together products that feature progressive risk segmentation. For instance, by employing risk segmentation for factors different from those used in the past, we intend to attract customers who didn't benefit from risk segmentation in the past that had relatively wide attributes. In other words, by selling new products we aim to expand our customer base and ensure profitability by attracting quality customers.

(Additional Q) There are many types of risk segmentation. Do you believe that in Japanese market you will continue to have a fair amount of leeway on risk segmentation going forward? Also, won't further risk segmentation reduce insurance premiums on renewal policies?
A.
By taking a new approach to risk segmentation, we aim to attract quality customers that we were unable to secure in the past. We do not believe that insurance premiums will decrease for this reason.

Q12. [Sony Assurance]
In terms of your stated objective to "accelerate expansion of our product lineup in the medical field," what sort of characteristics will you offer on your medical insurance products that will differentiate them from those being offered by your life insurance arm?
A12.
We cannot discuss the details of new products. Rather than segregating products as life and non-life, the type of medical insurance we are aiming for is a product that is easy to understand, with rational pricing, and that with agreements that can be concluded over the Internet. Compared with the typical sort of medical insurance that involves a face-to-face explanation prior to purchase, the sort of insurance we have in mind will be relatively easy to purchase.

(Additional Q) Will these "new business fields" that you are looking into in addition to automobile and medical insurance be ones in which insurance agreements can be entered into over the Internet?
A.
Specific contents are under consideration. In principle, we are looking at types of products for which policies can be entered into over the Internet.

Q13. [Sony Bank]
As one of your policies to strengthen and diversify product characteristics, you mention card loans and loan products targeting seniors. Why does it appear that your plans do not cause the loan balance to increase much as a percentage of the retail balance?

A13.

In principle, Sony Bank's mortgage loan product characteristics include ease of repayment and ease of maintenance after taking out a loan. This leads to higher repayment pressure on Sony Bank than on other bank's general mortgage loan, so new accumulations do not necessarily translate directly to increased balances. In addition, judging by our customers' characteristics, card loan balances are not growing explosively. For these reasons, at a glance loan balances do not appear to be increasing.