Q&A (Summary) on the Corporate Strategy Meeting of the Sony Financial Group for Fiscal 2015

Date:	June 1, 2015, 15:30–17:00 (JST)	
Respondents:	Katsumi Ihara	President, Representative Director of Sony Financial Holdings Inc.
	Tomoo Hagimoto	President, Representative Director of Sony Life Insurance Co., Ltd.
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Note: The original content has been revised and edited for ease of understanding.

[Q&A]

Q1: [Sony Life]

With regard to actively promoting Lifeplanner sales employees to office managers and increasing the number of newly recruited Lifeplanner sales employees, won't changes in the compensation system and the promotion of excellent Lifeplanner sales employees to office managers cause a temporary rise in costs and decrease in new policies?

A1:

We believe that creating an environment that allows excellent Lifeplanner sales employees to aim for managerial positions will be an important factor in boosting their competitive edge. To achieve this, we have been developing an environment that encourages Lifeplanner sales employees to become office managers, including through training, systems and products. Compensation is one aspect of the measures we are implementing to enable Lifeplanner sales employees to shine as office managers.

As excellent Lifeplanner sales employees become office managers, we plan to increase recruiting of Lifeplanner sales employees who wish to work with excellent office managers. Through this cycle, over the past two years we put in place the foundations for recruiting more than 400 people per year.

In FY2015, already nearly 100 Lifeplanner sales employees have expressed intent to aim for office manager positions. Although there may be concerns of policy acquisition figures dipping temporarily, on average office managers recruit two or more people, so we should be able to catch up from this short-term glitch and create a stable cycle of recruiting excellent Lifeplanner sales employees.

Q2: [Sony Life]

At the major life insurers, office managers are typically general managers. What is Sony Life's reason for putting Lifeplanner sales employees in these positions?

A2:

Recruiting Lifeplanner sales employees, who are entrepreneurs, involves lifestyle changes for the newly employed who were successful in the previous positions and may have families. Therefore, both the employer and the employed need to be prepared for the change. To achieve this, in appointing Lifeplanner sales employees rather than general managers as office managers, we believe that leveraging each employee's individuality and developing team strength are of topmost importance. At this stage, we are not considering appointing general managers as office managers.

Q3: [Sony Life]

Surely not all excellent Lifeplanner sales employees will become excellent office managers. How will they be evaluated as office managers?

A3:

When deciding to become Lifeplanner sales employees, employees have the option of deciding whether, after a certain number of years and a certain degree of success, to opt for the Lifeplanner course, in which they pursue a professional career as Lifeplanner sales employees, or a multicareer course. In this second course, they aim to become office managers, branch managers, etc. This decision is not only based on the individual's wishes and sales performance during their career as Lifeplanner sales employees, but also based on thorough assessment that takes into account the appropriate characteristics as office managers. Numerous office managers who have emerged through this process are currently producing results, so we will proceed with the recruiting of additional Lifeplanner sales employees.

Q4: [Sony Life]

You have identified a first phase and a second phase for recruiting Lifeplanner sales employees and aggressively promoting them to office managers. Over the medium to long term, how many phases does this plan have, and what are the next phases?

A4:

We want to increase the number of Lifeplanner sales employees to 5,000, if possible, to 10,000 in the future. Part of the first phase was the "distant promise project" that we introduced in FY2014, which concentrated on providing death protection. Currently, Sony Life accounts for around 5–6% of new policy amount in the life insurance industry. We believe we can increase this level to 10% or more. The second phase, from FY2015, takes this idea a step further. In addition to revising qualifications and evaluations for Lifeplanner sales employees, all managers undergo sales training for death protection products.

Also, given that numerous women are active in society, we will focus on enhancing the content of protection targeting women. In the third phase, which begins in FY2016, this concept will go into operation in both the Lifeplanner channel and the independent agent channel.

Q5：[Sony Life]

Some ultralarge independent agencies like those in the *Hoken no Madoguchi Group*, and agencies under new systems which generate company premium income with commissions of more than ¥1 billion. Currently, how many agencies of this sort exist, based on annualized premiums from new policies? Is there any possibility of making capital investments in independent agencies?

A5:

Sony Life is not considering making any direct capital investment in independent agencies.

Systems in the independent agency sector are currently evolving. As shown in page 11 of the presentation materials, Sony Life is making a strong effort to make preparations in response to the regulatory environment and meet the duty to prepare systems, duty to understand intent and duty to provide information. To this end, we are providing support to each of our Partners (independent agencies). By providing our Partners with management and sales support in this manner, we are creating deeper trust-based relationships. By developing empathy with our business model, we are taking advantage of the opportunity to further increase Sony Life's competitive advantage in the independent agency sector.

We do not disclose percentages for individual independent agencies.

Q6: [Sony Life]

Page 13 of the presentation materials introduces senior as one of the initiatives in growth domains. What sales channels and other specifics do you have in mind?

A6:

Although we tend to be strong in the family segment, our approach by young Lifeplanner sales employees to the senior segment has been a little weak, so we have not made as much progress in this area as we had expected. Demand for inheritance measures has risen in line with the January 2015 revisions to the inheritance tax law. We have expanded our lineup of products to coincide with this timing, with the Lump-Sum Payment Whole Life Insurance (No-notification Type) we launched in May 2015. We are also undertaking a senior strategy named the "long life = happiness project." Through this project, we aim to cultivate the market by focusing on veteran Lifeplanner sales employees and Partners (independent agencies), who find it easier to approach the senior segment. We consider this strategy important in terms of meeting our medium-term target of having a policy amount in force of more than ¥50 trillion by 2020, and we believe ample room for growth exists.

Q7: [Sony Life]

You see ample opportunity for growth in corporate insurance. What percentage of corporate insurance sales are currently accounted for by the Lifeplanner channel and the independent agent channel? Also, how do you expect to increase these sales going forward?

A7:

Corporate insurance currently accounts for around 25% of the company's total, and we aim to increase this figure to approximately 30% by FY2017. Lifeplanner sales employees and independent agents each account for about the same sales percentage for corporate insurance, at around 25%. To increase the number of Lifeplanner sales employees and independent agents who handle corporate insurance, we are taking such measures as establishing a specialized department, conducting training and enhancing our tools. Going forward, we aim to increase the number of new policies through these initiatives, in addition to the sales increase in death protection products for individual customers.

Q8: [Sony Life]

If the revisions to the life tables indicating an increase in average longevity are reflected, what is the likelihood that insurance premium rates on death protection products will be revised, lowering profitability?

A8:

Adjustments to life tables and rates of occurrence have been a constant feature throughout the long history of life insurance. What is most important to product profitability is how sales and marketing capabilities are established with regard to product characteristics. Given our weighting toward death protection, our policy is that while we may see profitability affected temporarily by revisions to the life tables, ultimately we will overcome this effect by strengthening competitiveness.

Q9: [Sony Life]

Other life insurance companies are holding back on purchases of long-term bonds. Don't you face any risk in continuing to purchase ultralong-term bonds?

A9:

We do not believe other effective asset investment methods are available as an alternative to ultralong-term bonds (to match ultralong-term liabilities, centered on death protection) for reducing interest rate risk. Therefore, our asset investment policy remains unchanged.

Q10: [Sony Life]

Looking at the balance of new business value against annualized premiums from new policies for one of other life insurance companies with non-life origins that disclose MCEV, Sony Life's EV margin appears to be somewhat low. Can't Sony Life change its product mix to create additional value?

A10:

Providing death protection is Sony Life's current pillar of business. To supplement this business, we introduced new products in autumn of 2014, which have contributed to the increase in new policy amount. The provision of death protection is Sony Life's basic advantage. Currently, there is a growing awareness within the company of “getting back to basics.” Considering stable corporate growth over the long term, this initiative is showing success as a result of properly ensuring a mortality margin.

Regarding comparison with other companies, a difference in new business margin reflects how each company focuses on selling medical insurance. Management is aware of and has discussed this issue, and we will provide an explanation when the timing is appropriate.

Q11: [SFH, Sony Life]

I assume that the decision to increase the dividend payout ratio is based on the expectation that you will be able to maintain stable ESR to a certain degree. Past trends suggest that insurance risk rises at a faster pace than EV. Going forward, assuming that the interest rate environment remains the same in the final year of your mid-term management plan, I would like to know whether ESR will increase or decrease. In other words, what is the relationship between this factor and dividend payouts?

A11:

Regarding the relationship between MCEV and risk amount based on economic value, we hedge interest rate risk to some degree, but insurance risk also has been affected by interest rate fluctuations. As a result, risk amount tends to increase faster than MCEV when interest rates are falling. Assuming, therefore, that interest rates remain flat or rise gradually, the relationship between MCEV and risk amount should not change substantially, so we should be able to maintain at current levels. When determining dividend amounts, rather than making a decision based on the dividend payout ratio we take into account the financial soundness of our individual companies. Sony Life’s ESR is an extremely important indicator of financial soundness. For example, ESR dropping below 150% would mean a substantial decline in interest rates, but decisions on dividend amounts would take this factor into consideration. It is therefore difficult to imagine dividends increasing if ESR fell below 150%.

Q12: [SFH, Sony Life]

Would it be correct to assume that you plan to maintain ESR at above 150%? At the same time, what are your thoughts on surplus capital above this amount?

A12:

We have not set any upper limit for ESR. As a holding company, we take a host of factors into consideration comprehensively when deciding dividends. Sony Life’s ESR is not a single decision factor.

Q13: [Sony Assurance]

Is Sony Assurance’s new product, the Gentle Driving Cash-Back Plan, attracting new customers?

A13:

Gentle Driving Cash-Back Plan automobile insurance has only recently gone on sale, so it is too early to make any definitive statements.

Q14: [SFH]

Listening to the current discussion about Group presidents and the mid-term plan, it seems that the individual operating companies are becoming more independent, but talk about synergies within the Group is being toned down. What are your thoughts on this topic, including the relationship between this factor and executive appointments?

A14:

Rather than increasing the independence of individual operating companies, going forward we are aiming to strengthen relations between companies within the Group. For example, one fundamental opportunity for synergies is to leverage Lifeplanner sales employees’ customer network to other businesses. In line with this thinking, Lifeplanner sales employees currently open Sony Bank’s accounts and handle its mortgage loans, and have been effective in handling automobile insurance for Sony Assurance. Going forward, Lifeplanner sales employees should also be able to introduce the nursing care business to their customers. Although outside the Sony Financial Group, we may begin to see some synergies with Sony Real Estate. In this sense, we are working to strengthen relations among our businesses. Various reasons exist for the timing of changes in top management, but rather than increasing the independence of individual businesses, we are always looking to appoint the top management best suited to the overall Group. This includes passing on power to the next generation.