Q&A of Corporate Strategy Meeting for Fiscal 2019 (Summary)

Date: May 30, 2019 (Thursday), 3:30–5:00 p.m. (JST)
Respondents: Shigeru Ishii, President, Representative Director of Sony Financial Holdings Inc.
Hiroaki Kiyomiya, Managing Director, Member of the Board of Sony Financial Holdings Inc.
Tomoo Hagimoto, President, Representative Director of Sony Life Insurance Co., Ltd.
Atsuo Niwa, President, Representative Director of Sony Assurance Inc.
Yuichiro Sumimoto, President, Representative Director of Sony Bank Inc.

*Respondents' positions are as of the date of the meeting.

Note: The questions and answers have been paraphrased, edited, and sorted for easier understanding.

[Q&A]

Q1: [SFH] What will be changed by the transition to the new management regime?

A: As intended by Sony Corporation, SFH has kept its independence as a listed company, and there will be no change in that. Going forward, opinions of shareholders and other stakeholders will be reflected more. SFH will reinforce its alliance with Sony Corporation to build a win-win relationship, starting from the joint work in data analysis. Specifically, customer behavior analysis at Sony Assurance is successfully producing results.

Q2: [SFH]

While building a stronger relationship with Sony Corporation, in which areas do you expect synergies will emerge as a result of linking the technology of Sony Corporation and the data and know-how of the financial business?

A: Our current collaboration with Sony Corporation is mostly in a field involving the know-how of artificial intelligence (AI) and data analysis of the R&D center. This is a starting point to intensify our collaboration. We began sharing our technologies and issues through events jointly organized by the Group companies as described in the reference materials.

Q3: [SFH]

Are you having specific discussions about letting the Sony Financial Group use and monetize the Sony Group's technologies, such as the expertise in genetic analysis and game platform utilization of Sony Corporation?

A: Our full-scale collaboration with Sony Corporation has just started, so it is too early a stage to make an evaluation; however, it is already yielding some results in data analysis areas. One example is in the field of telematics insurance, where Sony Assurance moves forward in a collaboration with Sony Corporation. Another example is a taxi-hailing service, S. Ride, launched by the joint venture "Minnano Taxi," in which Sony Corporation and Sony Payment Services are involved. Genetic analysis is yet another area we want to collaborate in some way. However, making good use of game platforms is difficult given the scale differences.

Q4: [SFH]

At the corporate strategy meeting of Sony Corporation, I learned that Mr. Yoshida is urging the employees to consider why the Sony Group has the financial services business. In this light, what does President Ishii think is the reason why the Group has the financial services business, the life insurance business in particular?

A: Conversations with Mr. Yoshida made me aware of the high expectations being placed on the financial services business. The financial services business, including life insurance, is contributing to the Sony Group with its stable profits. While Mr. Yoshida is promoting direct-to-consumer services, Sony Life has already materialized the goal of getting closer to customers with its Lifeplanner sales employees making customers familiar with Sony. Both Mr. Yoshida and Mr. Totoki are well versed in the financial services business and have a good grasp of the actual situation, which, in my understanding, prompted Mr. Yoshida to act that way.

Q5: [SFH]

Are you having discussions with Sony Corporation about dividend policies?

A: We do not directly discuss them with Sony Corporation. SFH maintains its independence and determines dividend policies on its own.

Q6: [SFH]

According to your explanation about dividends until the last year, if the consolidated adjusted ROE is 5% or more, you will raise the dividend by 2.5 yen, and if the ratio tops 7%, you will consider a further increase in dividends. At the teleconference to announce the fiscal 2018 financial results, you said that you would consider conditions for raising dividends in a little more flexible manner. Why is that?

A: Our dividend policy has not changed since last year. Please consider that the comment was in line with our medium-term dividend policy of making comprehensive decisions by factoring in other conditions as well.

Q7: [SFH and Sony Life]

Please explain your thoughts about the interest rate fluctuation risk for the economic solvency ratio (ESR) concerning your capital policy. I presume that SFH does not use ESR in its dividend policy in consideration of the interest rate fluctuation risk. I mean ESR tends to plummet when interest rates drop, significantly affected by its interest rate sensitivity. In the meantime, given the current interest rate environment, reducing the interest rate sensitivity means fixing margins at low levels. Do you intend to reduce the interest rate sensitivity in such environment? If so, what kind of approaches are you taking?

A: Within the risk management framework of Sony Life, its interest rate risk has not yet been reduced sufficiently. We will continue our efforts to gradually reduce the interest rate risk for a while. We will hedge the interest rate risk by purchasing ultra-long-term bonds with newly acquired fund, as well as reduce the interest rate risk of the existing assets. We continue to regard the consolidated adjusted ROE as our basic guideline index for dividends, and treat ESR separately.

Q8: [Sony Life]

The ESR in fiscal 2018 increased despite the lower interest rate environment due partly to the use of Ultimate Forward Rate (UFR) in my view. What are the thoughts of the management on the numbers, including numbers without using UFR, although this has no direct bearing on your capital policy?

A: We use ESR without UFR as an internal management indicator at Sony Life for risk control and product development. The ESR rose despite falling interest rates in fiscal 2018, because of the larger unrealized capital gains on real estate and the revised insurance assumptions, pushing up MCEV more than expected.

Q9: [SFH and Sony Life]

Speaking about the progress toward the medium-term targets for fiscal 2020, you expect the SFG's ordinary profit to surpass the target and the US-GAAP-based operating income to be in line with the target. Why would the gap between the statutory-accounting-based profit and the US-GAAP-based profit shrink? Will a higher-than-expected ordinary profit lead to increased dividends, as you take into account the statutory profit besides the consolidated adjusted ROE as the basis for raising dividends?

A: We forecast that ordinary profit would exceed the initial expectation and US-GAAP-based operating income would meet the initial expectation, largely because of fluctuations in the profits of Sony Life. When the scope of business expands, profit naturally increases under US GAAP, as US GAAP evens out the recording of profits. However, under the statutory accounting, increase in the number of new policies pushes down the profit in a single fiscal year. In fiscal 2019, ordinary profit would exceed the initial projection due to temporary decrease in the number of new policies, and the effect would remain in fiscal 2020. An increase in ordinary profit is a positive factor in considering dividends, as it increases the source of dividends.

Q10: [Sony Life]

According to your explanation, the new policy amount will temporarily decrease in fiscal 2019, but you aim to increase it again in fiscal 2020 by taking action in the second half of the year. Do you have any specific plans for that?

A: We are considering various measures to be taken by Sony Life. A good starting point is the corporate business. There is no change in our strategy under the new tax system, which is to meet the needs of corporations and solve problems based on consultations. Going forward, we will promptly upgrade product lineups after the revision of the tax system and will continue reinforcing our sales support regime. Concerning the Lifeplanner channel, we will also strive to enhance productivity through the process evaluation introduced in this fiscal year and the thoroughgoing implementation of strict recruitment selection and training.

Q11: [Sony Life]

Are there obvious differences in talents and aptitudes between Lifeplanner sales employees who were hired after the careful screening by the new standard and those hired by the old standard?

A: Our thoroughgoing implementation of the strict recruitment selection process and initial education realized the higher rate of implementing Life Planning Support Service (LiPSS) and higher quality in consulting sales by new employees. Consequently, the productivity of work in the initial stage and within three years became higher.

Q12: [Sony Life]

Given the ongoing lower interest rates in the United States and hedging costs staying at higher levels, I think it is difficult to invest in hedged foreign bonds. Do you intend to expand investment in US-dollar-denominated assets by investing in hedged foreign bonds? Are you changing the investment policies?

A: We do not invest the money coming from yen-denominated insurance policies in hedged foreign bonds. Sony Life, based on the asset liability management (ALM) principle, has invested in US-dollar-denominated bonds to match the liabilities of the insurance denominated in the same currency. While not changing this investment policy, we will also consider investing in US-dollar-denominated corporate bonds under appropriate risk control. Furthermore, we are also considering investing in foreign bonds as new risk assets by the amount of the decrease on the risk asset book caused by our gradual sales of stocks.

Q13: [Sony Life]

Sony Life will convert AEGON Sony Life Insurance (ASLIC) into a wholly-owned subsidiary. Haven't you considered selling the stake to a third party? Which know-how within the SFG can be used to turn the business around? For this money-losing company, you will pay 1.5 times of PBR or more. In case of posting a gain on step acquisition, you will continue to bear the cost of goodwill amortization. In the meantime, the Aegon side will post a capital gain on this sale. As a holding company, why did you think the conversion into a wholly-owned subsidiary was the best option? Please tell me how you, including outside directors, reached this decision.

A. All possibilities, including divestment, have gone through the scrutiny of Sony Life and the SFH's board of directors. Our discussions led to a decision that, above all else, from the perspective of protecting customers, the appropriate course of action is to let Sony Life, which conducts the life insurance business in Japan, fulfill its duties. About a half of the customers of ASLIC are also the customers of the Lifeplanners of Sony Life. We also considered the employees of ASLIC and the relationships with banks that handle the products of ASLIC. By converting ASLIC into a wholly-owned subsidiary, we aim to improve its operational efficiency with quicker decision-making and mutual utilization of employees to improve profitability soon. In addition, know-how about variable annuities, which have been acquired through the joint venture, will be utilized in the medium-term product strategy of Sony Life.

The acquisition price of 16 billion yen was derived from calculations conducted by Sony Life based on MCEV, and was evaluated by our financial advisers. We think the price is reasonable.

The amount to be posted as a gain on step acquisition is currently being discussed with the audit corporation, and so we cannot comment on it at this stage. Let us explain when we get to know its impact on the financial results.
Based on our belief that the conversion of ASLIC into a wholly-owned subsidiary can eventually drive the growth of the Group, we also obtained the agreement of the outside directors at the SFH's board meeting.

Q14: [Sony Assurance]
Sony Assurance has an overwhelming strong brand, which should give an advantage in customer acquisition. Concerning nonlife insurance customers who are switching from policies offered by agents to direct-buy insurance, how much share does Sony Assurance have?
A: Among directly selling insurance companies, we believe our share is the largest, but we do not have specific numbers.

Q15: [Sony Assurance]
Previously, you accepted customers from American Home. Are you considering accepting customers from companies that are leaving the market? Are you expecting that, in the challenging environment for other companies, there will be companies from which you may be able to accept customers?
A: Besides organic growth, we are open to other possibilities, such as accepting customers from companies that are leaving and growing through mergers and acquisitions. At present, though, no specific company comes to our mind for automobile insurance.