FY2012 Conference Call for Domestic Institutional Investors and Analysts
Q&A (Executive Summary)

Date: May 20, 2013, 18:00–19:00

Respondents: Hirotoshi Watanabe, Senior Managing Director, Member of the Board, Sony Financial Holdings, Inc.
Mitsuhiro Koizumi, Director, Member of the Board, Sony Life Insurance Co., Ltd.
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Note: The original content has been revised, sorted appropriately and edited for ease of understanding.

Q&A

Q1: [Sony Life]
The impact of the lower interest rates on Sony Life's MCEV as of March 31, 2013, was lower than expected. Since the end of December 2012, interest rates have fallen and the yield curve has flattened. The interest rate sensitivity that you have disclosed only incorporates the parallel shift as interest rates have declined. What should we understand the impact of flattening interest rates to be?

A1:
First of all, MCEV as of March 31, 2013 increased overall. This was because we have been steadily acquiring new policies and reduced interest rate risk with its ALM initiatives even though we were in a lower interest rate environment. In response to your question, when verifying the sensitivity that we disclosed in our full report as of March 31, 2012, you can verify the impact not only of the lower interest rates but also the impact of their flattening out. We can explain this in further detail following the release of our full report, which is scheduled on May 27. (*)

(Additional question: If interest rates were to instead begin to steepen at some point in the future, wouldn't you then be able to anticipate a substantial increase?)
Because the current flattening out has clearly had a negative impact, if the trend in ultralong-term interest rates were to reverse, with rates rising and the curve steepening, we should experience somewhat of a positive impact.

(Additional question: Approximately how much of the negative impact on MCEV as of March 31, 2013 is attributable to the flattening of the interest rate yield curve?)
We will provide further details after with release the full report on May 27. (*)

(Additional question: Knowing the breakdown of the risk amount based on economic value would be useful in making an investment decision. What is your policy on disclosing this information?)
We believe that disclosing the details of risk amounts will aid your understanding and help you to better understand our company. We are forward-looking about disclosing this information in the future.

(Additional question: Has there been some change in the use of the risk-free rate (the way of making interest rate assumptions) after the 40th year that Sony Life uses to calculate MCEV?
There has been no change.

(* Supplementary explanation) We do not conduct reconciliation analysis and make sensitivity calculations based solely on changes in the shape of the yield curve (whether it flattens or steepens). When making estimates on interest rate sensitivity based on the assumption of a parallel shift, the results are relatively similar to calculations made using 40-year interest rates.

Q2: [Sony Life]
For MCEV, how much was the negative impact for the full year on your rise in the break-even inflation rate using Japanese government bonds (JGBs) indexed to the consumer price index (CPI)?
A2:
Around thirty-some billion yen.

Q3: [Sony Life]
For MCEV, I understand that you use the break-even inflation rate. Would it be true to assume that in your MCEV calculations you reflect anticipated costs associated with future inflation?
A3:
That is correct. We incorporate assumptions about future inflation-related costs into MCEV.

Q4: [Sony Life]
Would you please confirm the changes you have made in your insurance-related assumptions with regard to MCEV?
A4：
Each year we revise our insurance-related assumptions based on our operating performance, and we have made these revisions this year, as well. Also, the mortality rate and rate of continuity are trending in positive directions, which we believe will have a positive impact of approximately ¥50 billion.

Q5: [Sony Life]
According to Sony Life's typical new policy acquisition trends, seasonality is lower in 4Q (three months) than 3Q (three months). Was a rush in business ahead of your rate revisions behind the current increase in 4Q? If so, would 4Q results have been up year on year if the amount corresponding to this rush were excluded?
A5:
The rate revision was one reason for the 4Q results, as was an increase in new policy acquisitions. It is difficult to quantify the impact of the rush with any degree of certainty, as the figures differ depending on the type of product being considered. That being said, if we make an estimate that excludes products for which the assumed interest rate has changed because of premium increases, on a new policy amount basis the figure was up around 10% year on year. Specifically, we saw an increase in family income insurance and other such products that are sold in the course of regular consulting for death protection-type products, so even if the 4Q rush had been absent, performance would have continued to increase very steadily.
(Additional question: You indicate that performance would have been up steadily even excluding the possibility of a rush. Is this due to a recent increase in the number of Lifeplanner sales employees?)
Yes, it is partly because of an increase in the number of Lifeplanner sales employees, but I believe that customer awareness of insurance products has also risen substantially due to press reports indicating that "life insurance premiums are rising." In this environment, I believe that our efforts to respond to customers by consulting with them on new policies and providing thorough after-sales follow-up services led to a rise in the new policy amount, even excluding the impact of a rush.

Q6: [Sony Life]
I understand that product revisions made in response to revisions in the discount rate for calculating policy reserves placed a higher burden on the provision for policy reserves, putting downward pressure on profits, but will having a higher provision for policy reserves from the outset of policies feed through to higher legal earnings in the future?

A6:
Indeed. Going forward, they should contribute to profit throughout the policy period.

Q7: [Sony Life]
Sony Life's number of Lifeplanner sales employees is running below the target stated in your medium-term management plan announced one year ago. How would you evaluate the number of personnel as of March 31, 2013? Also, what are your recruiting plans and expected number of employees for FY2013?
A7:
We have been steadily increasing our recruiting over the past several years. In FY2012, we hired 370, which was quite an increase compared with around FY2010. The reason that the number of Lifeplanner sales employees as of March 31, 2013, was 4,119 (i.e. not up significantly from the end of the previous fiscal year) despite increased recruiting was a substantial rise in the number of resignations, at around 300. Sony Life has embarked on a policy that emphasizes recruiting and training, and we are steadily increasing the number of sales office managers, so in FY2013 we expect to recruit more people than we did in FY2012. At the same time, we expect the number of resignations to be around 300, in line with the figures for FY2012. I believe that we should be able to continue steadily increasing the number of Lifeplanner sales employees. Whether we will revise the medium-term target we set one year ago of having in place 4,400 Lifeplanner sales employees by March 31, 2015, is something we will explain at the corporate strategy meeting scheduled for next month.

Q8: [Sony Assurance]
What are your expectations for the current fiscal year regarding the earned/incurred loss ratio?
A8：
In FY2012, the loss ratio on automobile insurance rose through 3Q, owing to an increase in the unit cost of insurance claims, but in 4Q (three months) the ratio was down approximately 4 percentage points year on year. The loss ratio appears to be trending downward, which was also the case in April 2013. This indicates that the rate of increase in the number of accidents has stabilized at a level lower than the rate of growth in insurance premiums and that the unit cost of insurance claims has stopped rising. We also attribute this result to raising premiums in November 2012 and April 2013.
In FY2013, we plan to review premiums and introduce the measures that we have already described. Consequently, we expect the earned/incurred loss ratio for FY2013 to be approximately 3 percentage points below the figure for FY2012.

Q9: [Sony Assurance]
Doesn't the earned/incurred loss ratio suggest that the rise in SG&A expenses is greater than the increase in your top line, creating reverse leverage on costs? Even if you place advertisements, I don't believe this would lead to an increase in your top line. Please outline your competitive environment vis-à-vis other direct insurers that are running aggressive ad campaigns.
A9：
There is no change in competition among direct insurers; we compete on the basis of price and advertising volume. Because Sony Assurance was ahead of the curve in raising premiums on automobile insurance in November 2012 and April 2013, we have been facing an uphill battle on the price competition front. Although it is unclear exactly what other companies will do, our FY2013 estimates incorporate an increase in insurance premiums of around 5%. A higher burden of depreciation and amortization expenses accompanying system upgrades has been the main reason for the rise in our expense ratio over the past two years or so.

Q10: [Sony Assurance]
In 4Q, you saw a decrease in the number of accident claims received, and the upward trend in the unit cost of insurance claims was not present as it has been in the past, but your reserve for outstanding claims increased and your earned/incurred loss ratio worsened. What is the relationship between these facts?
A10:
Rather than the actual number of accidents having fallen in 4Q, the rate of increase in the number of accidents was lower than the rate of growth in the number of in-force policies. The unit cost of insurance claims has stopped rising, but it remains high and is not falling. The main reason for the increase in the reserve for outstanding claims was progress on finalized loss amounts on accidents involving people, leading to an increase in the IBNR reserve. We believe the figure was also affected by a tendency toward longer claims.
(Additional question: Will the situation improve this fiscal year?)
The unit cost of insurance claims has stopped rising since 4Q, and we expect this trend to continue. The effect of higher premiums should generate improvements this fiscal year.

Q11: [SFH]
SFH's forecast of consolidated financial results for FY2013 explained that the main factors reducing consolidated ordinary profit totaled around ¥15.0 billion. Could you provide some idea of the breakdown among the primary reasons, namely an increase in the provision of policy reserves related to minimum guarantees on variable life insurance and the impact of a revision in the discount rate for calculating policy reserves?
A11:
Each of these factors is responsible for approximately half the amount.

Q12: [SFH]
I would like to confirm your thoughts regarding the dividend forecast for FY2013. You have indicated that your medium-term target for the dividend payout ratio is 30–40% of consolidated net income, but in your current forecast the ratio is less than 30%. If consolidated net income is higher than your forecast, maintaining a per-share dividend of ¥25 means that you would fall even further below your dividend target. I would like to know your thoughts on determining your per-share dividend.
A12：
Our target is a dividend payout ratio of 30–40% over the medium to long term. At present, we are forecasting a dividend of ¥25 per share, the same level as for FY2012. However, we will make the decision about FY2013 dividends by taking into overall account factors such as our operating performance and the economic environment
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