FY2013 Q1 Conference Call for Domestic Institutional Investors and Analysts
Q&A (Executive Summary)

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Respondents: Hirotoshi Watanabe, Senior Managing Director, Member of the Board, Sony Financial Holdings, Inc.
Hiroaki Kiyomiya, Executive Vice President, Sony Life Insurance Co., Ltd.
Takayuki Ishii, Executive Officer, Sony Assurance Inc.
Koji Tanaka, Executive Officer, Sony Bank Inc.

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

Q&A

Q1: [Sony Life]

How does your new policy amount on individual life insurance in June and July 2013 compare with the same months a year ago?

A1:

New policy amount for the total of individual life insurance and individual annuities bottomed out in June at less than 90% of its level a year earlier. Now that we have moved into 2Q, this level is above 90% of the figure a year ago.

(Additional question: Does the new policy amount for April 2013 include policies that were not concluded in time to be recorded in March?)

Yes, those are included. They also include a last-minute demand toward interest-rate sensitive whole life insurance prior to the revision of insurance premium rates introduced in May.

Q2: [Sony Life]

At the FY2012 results announcement, you explained that the impact from an increase in provision of policy reserves resulting from the revision of discount rate used for calculating policy reserves would be around ¥7.5 billion for FY2013 as a whole. During 1Q of FY2013, this impact was ¥5.5 billion; what do you expect it to be for the full fiscal year?

A2:

The ¥5.5 billion represents the majority of the impact from interest-rate sensitive whole life insurance, most of which settled into 1Q. Our expectations for FY2013 as a whole are in line with our initial estimate of ¥7.0–8.0 billion.

Q3: [Sony Life]

Your mid-term management plan set a target of 4,400 for the number of Lifeplanner sales employees as of March 31, 2016. Does this figure include people working on a fixed-term contract basis after retirement? Looking at the breakdown for the number of Lifeplanner sales employees on page 14 of the presentation materials, it appears that the number of people working on a fixed-term contract basis is increasing, but the number of regular Lifeplanner sales employees is decreasing. Do you expect this trend to continue?

A3:

We expect the number of Lifeplanner sales employees aged 60 or more gradually to increase, and our target of 4,400 by March 31, 2016, includes those working on a fixed-term contract basis. Our recruitment is proceeding according to plan.

(Additional question: To reach that 4,400 figure, you will need to increase the number of Lifeplanner sales employees by 273 people, compared with the level as of June 30, 2013. Going forward, do you expect the proportion of Lifeplanner sales employees on fixed-term contracts to increase? Also, how does the productivity of Lifeplanner sales employees on fixed-term contracts basis compare with that of regular Lifeplanner sales employees?)

As the number of Lifeplanner sales employees aged 60 or over increases, they will make up an increasing proportion of the total. In order to become a Lifeplanner on a fixed-term contract basis, the person must first satisfy certain performance standards, so their productivity should not change significantly.

Q4: [Sony Life]

Would you please elaborate on the AEGON Sony Life Insurance sales channel, which is delivering favorable sales of individual variable annuities, and its risk management methods?

A4:

In the AEGON Sony Life Insurance sales channel, both Sony Life's Lifeplanner sales employees and over-the-counter sales through banks are performing solidly. To hedge risks attributable to insurance liabilities featured with minimum guarantee to policyholders, it cedes reinsurance to a joint venture reinsurance company Sony Life has set up with AEGON.

Q5: [Sony Life]

Due to the impact of the revision of discount rate used for calculating policy reserves, Sony Life did not launch new products in the previous fiscal year. In FY2013, are you planning to introduce any new products other than U.S. dollar denominated insurance?

A5:

We began offering U.S. dollar denominated insurance products in May 2013, and we plan to introduce other new products in the second half. We are not yet ready to comment on the content of these new products.

Q6: [Sony Life]

How are sales of the U.S. dollar denominated insurance products introduced in May 2013?

A6:

Sales started out slightly below our expectations, but as it has only been two months since they were launched, we do not believe this is any cause for particular concern.

Q7: [Sony Life]

What is your FY2013 sales target for the U.S. dollar denominated insurance products you introduced in May 2013? Also, the foreign exchange commissions on Sony Life's U.S. dollar denominated insurance products are substantially lower than those of other companies. How much is the level of new business margin for the products?

A7:

Sony Life takes a needs-based sales approach through consulting. We do not set specific sales targets for certain types of insurance products. For reference, though, several years from now we expect these products to account for slightly less than 10% of the annual new policy amount.

As to the level of new business margin, the margin on these products is slightly higher than yen-denominated insurance products.

Q8: [Sony Life]

The new business margin for the year ended March 31, 2013 (12 months) was 3.5%, but for the three-month period ended June 30, 2013, the margin had increased to 6.5%. I understand this change to be the result mainly of both an increase in ultralong-term interest rates and the impact of the revision of insurance premium rates on some of your products in or after April 2013. What is the relative weight of these effects?

A8:

Both an increase in ultralong-term interest rates and the revision of insurance premium rates had approximately the same amount of impact on the change in the new business margin.

Q9: [Sony Life]

Bond durations were slightly shorter in 3 months as of June 30, 2013. What was the reason for this?

A9:

Our basic stance on purchasing ultralong-term bonds remains unchanged. Interest rates as of June 30, 2013, were higher than rates as of March 31, 2013, and this calculation results in slightly shorter bond durations.

Q10: [Sony Assurance]

Were macro factors behind the decrease in the car accident ratio, or were the reasons specific to your company? Also, what is the status with regard to unit insurance claim amounts?

A10:

The car accident ratio reflects a falling number of car accidents and our figures generally reflect the overall trend throughout the non-life insurance industry,. Sony Assurance is seeing a year-on-year increase in the number of accidents as the number of policies rises. Excluding the impact of growth in the number of policies, the number of accidents has been on a downward trend since February 2013.

Unit insurance claim amounts are up slightly because the number of payouts on accidents with low unit insurance claim amounts is down and the unit cost of parts is increasing. There is no meaningful change in unit insurance claim amounts on accidents involving people.

(Additional question: Is the decrease in payouts for accidents involving low unit insurance claim amounts the result of your April 2013 introduction of the new non-fleet driver rating system?)

We cannot say for certain, but this does appear to be one reason.

Q11: [SFH]

At your corporate strategy meeting in June, you explained that your year-end dividend forecast for FY2013 was ¥25 per share. Why did you revise your per-share dividend forecast upward in August?

A11:

At the time of the corporate strategy meeting, we left the dividend forecast unchanged because we need to confirm the interest rate environment and our progress on operating performance since the impact of Bank of Japan measures announced in April on ultra-long term interest rate trends was unclear. . Our decision for the current forecast is based on several factors including 1Q performance trends, extending from that, our outlook for the fiscal year and the confirmation that interest rate trends have stabilized.

Q12: [SFH]

Given that your target dividend payout ratio is 40%, it seems to me that you still have some leeway to increase dividends further. Do such factors as future interest rate trends mean that you might slow your pace of dividend increases?

A12:

We show the payout ratio as a guide. We will continue to take into account several factors including interest rate trends and the operating environment when determining future shareholder returns.