FY2013 2Q Conference Call for Domestic Institutional Investors and Analysts
Q&A (Executive Summary)

Date: November 15, 2013, 16:30–17:20

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

Q&A

Q1: [SFH]

SFH's forecast of consolidated results for FY2013 indicated an upward revision in full-year results for the non-life insurance and banking businesses, but no revision for the Group on a consolidated basis. Why was that?

A1:

These figures reflect a favorable market environment for the first half of FY2013. We do not expect the climate to be as favorable in the second half as it was in the first. In the life insurance business, we expect income to be at the same level as we forecast at the beginning of the fiscal year, so at present we do not consider it prudent to revise our full-year forecast for the Group as a whole.

Q2: [Sony Life]

Why are operating expenses up 4% year on year?

A2:

This increase reflects a steady growth in policy amount in force, and higher commissions paid to Lifeplanner sales employees in line with increased sales of variable annuities offered by AEGON Sony Life.

Q3: [Sony Life]

The impact of an increase in the provision of policy reserves resulting from a revision of the discount rate used to calculate this reserve was ¥5.5 billion for 1Q of FY2013 and ¥6.0 billion for the first half—meaning that the figure for 2Q was ¥0.5 billion. What level do you expect from 3Q onward?

A3:

We believe that the impact in 3Q will remain approximately the same as in 2Q. For the full year, we expect the impact to be in line with our initial forecast of ¥7.0–8.0 billion.

Q4: [Sony Life]

How are the recent trends in Sony Life's new policy amount?

A4:

We are currently running at around 90% of our level for the same period last year. By product, annualized premiums and policy numbers are down for educational endowment insurance, affected by the April 2013 revision of insurance premium rates. Also, family income insurance is down on a policy amount basis. We plan to launch a new type of educational endowment insurance in January 2014, so we expect the figures to turn around in the second half.

(Additional question: What is the situation with regard to death-protection products?)
Family income insurance was down slightly. In whole life insurance, the revision of insurance premium rates has affected sales of fixed-rate whole life insurance, but sales of variable life insurance (whole life type) and U.S. dollar denominated whole life insurance are compensating for this decline. Sales of whole-life nursing care insurance with lump-sum payments were favorable in FY2012, but since the revision of insurance premium rates endowment insurance and AEGON Sony Life's variable annuities have compensated.

Q5: [Sony Life]
At your corporate strategy meeting in June 2013, you indicated that the relative share of sales for Lifeplanner sales employees and independent agent channel was 75%:25%. What is the situation now?
A5:
The ratio is largely unchanged. The independent agent channel was a little below 30% for the first half of FY2013.

Q6: [Sony Life]
Your new business margin (page 33 of the presentation materials) is down from 6.5% (June 30, 2013 (three months)) to 6.3% (September 30, 2013 (six months)). How does this margin look if you exclude the impact of lower interest rates?
A6:
Excluding the impact of lower interest rates, the new business margin is up.
(Additional question: Specifically, how much of an impact are interest rates having?)
We estimate that the decline in interest rates is having a negative impact of approximately 0.5 percentage point. Conversely, the impact of the revision of insurance premium rates and other changes in the product structure are boosting the margin slightly.

Q7: [Sony Life]
The lapse and surrender rate has improved; doesn't this affect new business value?
A7:
New business value is not greatly affected.

Q8: [Sony Life]
Looking at the key performance figures based on U.S. GAAP provided for reference, Sony Life's operating income has decreased from ¥40.4 billion in 1Q to ¥37.2 billion in 2Q. Why is this?
A8:
We do not analyze differences between 1Q and 2Q. As our performance in 2Q exceeded our expectations, we do not consider there to be any major problem. The difference may be due to a decrease in income from insurance premiums in 2Q.

Q9: [Sony Life]
Given that interest rates are falling, will you change your policy of investing in ultralong-term Japanese government bonds?
A9:
Our investment policy remains unchanged.

Q10: [Sony Assurance]

The earned/incurred loss ratio on automobile insurance improved 7.4 percentage points compared with the same period of the previous fiscal year. What were the reasons for this major change? Also, drawing down the reserve for outstanding losses contributed to the improvement in the earned/incurred loss ratio; how should we view the situation for the second half?

A10:

Provisions for reserve for outstanding losses were numerous in the first half of FY2012, and the figure returned to its typical level in the first half of FY2013. In the second half of FY2013, we expect the figure to be approximately the same level as in the second half of FY2012. Every fiscal year, the loss ratio is typically higher in the second half than the first half, so we expect the ratio to be a few percentage points higher than in the first half.

(Additional question: For the full year, would it be correct to assume that the figure will be a few percentage points lower than in the preceding fiscal year?)

In the first half, the net loss ratio improved 2.4 percentage points compared with the first half of the preceding fiscal year. In the second half, in addition to this improvement we also expect a slightly stronger impact from the revision in automobile insurance premiums, so the figure should improve a little more for the full fiscal year.

Q11: [Sony Assurance]

It seems that the introduction of a new bonus-malus system (non-fleet driver rating system) would reduce the number of claims, but what is the current status on payouts, for accidents involving people and those involving automobiles?

A11:

Accidents involving automobiles are running at about 9 percentage points lower than in the first half of the previous fiscal year, both in terms of number of policies and policy amount. The number of accidents involving people is up slightly, reflecting a rise in the number of in-force policies. Accidents involving people will not be affected by the introduction of a bonus-malus system (non-fleet driver rating system).

(Additional question: Looking at FY2014 onward in relation to holding down claims, what degree of negative impact do you expect on income from insurance premiums? Also, what are your thoughts on the impact of the consumption tax hike?

The number of automobile accidents in FY2013 is running lower than we had expected, and we expect this reality to be reflected in average insurance premiums for FY2014. Also factoring in the impact of the consumption tax hike, looking at the situation from the standpoint of income versus expenses, we expect we will have to revise insurance premium rates, but at present we cannot discuss the timing or degree of these revisions.

Q12: [Sony Assurance]

You have increased the Internet discount amount on new policies from ¥5,000 to ¥8,000. Won't this move put pressure on your efforts to hold down operating expenses as the campaign expands? Having improved the loss ratio, are you now planning to invest in advertising and promotion and go out in search of a greater market share?

A12:

Increasing the Internet discount amount on new policies stems from a revision in a rider; this is not a campaign. The move reduces premiums, but as it affects only new policies and those are affected only in the first year, we do not expect this change to have any major impact on profits. Concerning advertising and promotion from FY2014 onward, we do not expect to increase these activities because of any improvement in the loss ratio. Instead, we will make our decisions based on the overall balance of revenues and profits.

Q13: [SFH]

Please discuss SFH’s acquisition of Senior Enterprise to a wholly owned subsidiary in the context of entering the nursing care business. What do you expect to be the scale of SFH’s nursing care business going forward?

A13:

Senior Enterprise provides high-quality services. The company’s staffing is in a ratio of 2:1, providing devoted nursing care, and nurses are on staff around the clock. Its strength lies in the smooth operation of its nursing medical care. Numerous events of various types are available, and its initiatives are unique. We understand that the company is highly regarded by outside institutions for the quality of its nursing care services.

With regard to SFH’s scale of operations in the nursing care business, we are using Sony Assurance and Sony Bank as our benchmarks for scale of income and speed of growth. Each of these companies was generating ordinary profit of several billion yen within 10 years of establishment.

Q14: [SFH]

I understand that the provision of a cashless insurance service (in-kind benefits) via an alliance partner is under consideration. Does your current entry into the nursing care business take these trends into consideration?

A14:

At the moment, Senior Enterprise operates only one facility (32 rooms), so offering in-kind benefits would be difficult, but we will take customers needs and legal systems into consideration as we open new homes.