FY2013 3Q Conference Call for Domestic Institutional Investors and Analysts
Q&A (Executive Summary)

Date: February 14, 2014, 16:00–16:50

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.
Sumio Mizoguchi, Executive Officer, Sony Bank Inc.

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

Q&A

Q1: [SFH]

You have revised upward your consolidated financial forecast for fiscal 2013. What is the likelihood you will raise current-year dividends further?

A1:

We have decided to increase dividends for fiscal 2013 from the ¥25 that we had forecast at the beginning of the fiscal year to ¥30 per share, we have no plans to increase the dividend further based on the current upward revision. We have not made any definite decisions for fiscal 2014 and thereafter, but we expect to raise dividends steadily in accordance with the business environment and profit expectations for the medium to long term.

Q2: [SFH]

The current upward revision in your consolidated financial forecast seems a bit conservative. Does this forecast take into account the negative impact of specific factors in 4Q (three months)?

A2:

The adjusted figures in our financial forecast are based on the financial market conditions as of the end of January 2014. There are no factors that we expect to have a negative impact on specific operations in 4Q (three months), but depending on market fluctuations up to the end of March 2014, Sony Life's provision of policy reserves for minimum guarantees for variable life insurance could have an impact on profits.

Q3: [Sony Life]

I understand that the increase in lump-sum payment endowment insurance is one factor behind the rise in annualized premiums from new policies in the first sector in 3Q (three months). Would you explain the reason behind the increase in sales of lump-sum payment endowment insurance and the sales outlook for 4Q (three months) and beyond?

A3:

We recommenced sales of lump-sum payment endowment insurance in May 2013, following the revision of insurance premium rates in some of Sony Life's products resulting from the revision of the discount rate used for calculating policy reserves. With premiums rising on products with lump-sum payments, such as nursing care insurance and educational endowment insurance, we assume that return of lump-sum payment endowment insurance seemed relatively more attractive for customers. In 4Q (three months), we do not anticipate the same sort of increase in sales of lump-sum payment endowment insurance as we enjoyed in 3Q (three months), because we have suspended sales of some products (such as products with 30-year maturities). Annualized premiums from new policies on this product are shown as a per-year premium amount, calculated by dividing the lump sum payment insurance premiums by 30 years.

Q4: [Sony Life]
Given its product characteristics, the surrender risk on lump-sum payment endowment insurance seems high. What is the reason for the sales push?
A4:
We recommenced sales of lump-sum payment endowment insurance in May 2013, following the above mentioned premium increase on some of Sony Life's products. However, taking into account such factors as sales trends and an early surrender risk, we have decided to discontinue sales of certain types of lump-sum payment endowment insurance products based on their profitability.

Q5: [Sony Life]
What is the recent status of sales of lump-sum payment endowment insurance and the new type of educational endowment insurance that you introduced in January 2014?
A5:
With regard to lump-sum payment endowment insurance, we have discontinued sales of certain products (such as those with 30-year maturities). As a result, these sales for 4Q (three months) have abated, returning to around the 2Q (three months) level. We cannot say for certain about the new type of educational endowment insurance, as sales began only recently, but in general sales appear to be in line with our expectations. Sales through December 2013 were approximately half of fiscal 2012 levels, but recently we have returned to near fiscal 2012 figures.

Q6: [Sony Life]
Is there any particular reason that the rate of increase in ordinary profit during 3Q (three months) outpaced that of the first half?
A6:
Because market conditions were better than we had anticipated, provision of policy reserves for minimum guarantees for variable life insurance decreased. Revenues from principal protected 30 year notes with Nikkei 225 index-linked coupons and private equity funds increased, prompting a rise in interest income and dividends.

Q7: [Sony Life]
Excluding the impacts of the positive spread, the revision of the discount rate used for calculating policy reserves and the provision of policy reserves for minimum guarantees for variable life insurance, core profit would be ¥20.5 billion in 1Q (three months), ¥16.9 billion in 2Q (three months) and ¥20.5 billion in 3Q (three months). Why is the figure for 2Q (three months) so low?
A7:
This is because insurance payments were high in 2Q (three months).

Q8: [Sony Life]
The impact of the revision in the discount rate used for calculating policy reserves for the three quarters (nine months) was ¥8.0 billion: ¥5.5 billion for 1Q (three months), ¥0.5 billion for 2Q (three months) and ¥2.0 billion for 3Q (three months). Why was the impact so large in 3Q (three months)?

A8:
This increase is a result of the significant increase in sales of lump-sum payment endowment insurance.

Q9: [Sony Life]
In your MCEV calculations as of December 31, 2013, approximately what was the market impact in comparison with your September 30, 2013 figures? Also, have there been any changes in your insurance assumptions?
A9:
Due to the combination of negative factors—the flattening out of interest rates—and positive factors—rising stock prices—the overall market impact on MCEV was not significant.
Insurance-related assumptions are incorporated into changes in the lapse and surrender rate, which we revise quarterly. Also, the new business margin is down due to the increase in sales of lump-sum payment endowment insurance, for which profitability is low.
(Additional Q: Are the revisions to the lapse and surrender rate that take into account changes in insurance-related assumptions have a positive effect on MCEV?)
The impact is positive, albeit slightly.

Q10: [Sony Life]
The new business margin is down; do you expect this figure to improve by March 31, 2014? What level do you expect for fiscal 2014?
A10:
Assuming that interest rates remain at the same levels as on December 31, 2013, excluding the impact of lump-sum payment endowment insurance we expect to be able to maintain the margin at around the low 6% level, approximately the same as on September 30, 2013. The actual new business margin is affected by interest rate levels, as it is calculated anew each quarter and takes interest rates and other factors into consideration.

Q11: [Sony Life]
The Financial Services Agency has proposed increasingly stringent regulations on personnel conducting solicitation on a commissioned basis, in an effort to tighten the management of insurance agency employees. How are more stringent regulations likely to affect Sony Life's operating performance?
A11:
Large-scale agencies, which depend on personnel conducting solicitation on a commissioned basis for majority of their businesses, account for around 20% of operating performance for the independent agent channel, so we would expect the impact to be limited.

Q12: [Sony Life]
Would it be accurate to assume that the independent agent channel accounts for 30% of Sony Life's overall operating performance? Also, what is the configuration of agencies within the independent agent channel?
A12:
There has been no signification change in Sony Life's overall dependence on the independent agent channel: 25–30%. Within the independent agent channel, large-scale agencies having personnel who conduct solicitation on a commissioned basis account for 20%, primarily shop-style agencies account for 30–40%, and the rest are different types of agencies.

Q13: [Sony Life]
The number of Lifeplanner sales employees is up by 46 compared with the level on December 31, 2012. How is this progress, given the target of more than 4,400 by March 31, 2016, indicated in your mid-term management plan?
A13:
Each year, the increase in the number of new recruits tends to be highest in 4Q (three months). We are progressing according to plan, and we expect to exceed the target level indicated in our mid-term management plan.

Q14: [Sony Assurance]
My understanding is that the introduction of a new bonus-malus system (non-fleet driver rating system) is resulting in a lower accident ratio and pushing up profit in the current term. To what degree do your forecasts for future fiscal years take into account the assumption that policyholders will make rational choices under the new system (holding down claims payments may cause premiums on policy renewals to fall in the next fiscal year)?
A14:
In the current fiscal year, the accident ratio is lower than we had expected, and a lower expense ratio is the reason for the increase in profit. If accidents decrease to the same extent in upcoming fiscal years, however, we would expect insurance premiums—which otherwise would increase—to decline. For this reason, the negative effect, including the impact on the rate of continuity, should be largest in the first year and gradually decrease from the second year onward. We expect to address this impact and respond to the consumption tax increase by revising premiums from April 2014.

Q15: [Sony Bank]
Compared with other recent entrants into the banking industry, your rate of deposit growth seems slow.
A15:
We provide a reasonable rate of interest to our customers, in line with our policy of offering interest that is near market rates. However, we do not attempt to attract deposits by reducing our spread against market rates. Rather, we are focused on profitability.