FY2014 1Q Conference Call for Domestic Institutional Investors and Analysts
Q&A (Executive Summary)

Date: August 8, 2014, 15:30–16:00

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Hiroaki Kiyomiya, Executive Vice President, 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]

You explained that, as of May 2014, your full-term core profit forecast for FY2014 was flat. In the first quarter of FY2014, core profit was up 22.1% year on year. Why was this?

A:

In the first quarter of FY2014, the year-on-year change was due mainly to the absence of the temporary negative impact from the revision of the discount rate used for calculating policy reserves on interest-rate sensitive whole life insurance that was present in the same period of the preceding fiscal year. Even though core profit was up 22.1% year on year in the first quarter, it was moving essentially according to our expectations of the full-year figure.

Q2: [Sony Life]

How will costs related to the safety confirmation survey for seniors and the payment of insurance claims affect operating performance for FY2014? Also, how will performance be affected if survey results show that insured parties have already died?

A:

Policyholders aged 70 and above account for around 3% of policies in force (approximately 180,000 policies), and the number drops off significantly for people aged 90 or more.

With regard to confirming the safety of seniors, this is typically covered by the after-sales follow-up services that Lifeplanner sales employees conduct as a standard part of their sales activities. Although we believe the survey should be also conducted on policies Lifeplanners are unable to confirm, we do not expect the survey to involve major expenses.

To the question of the payment of insurance claims in the event that insured parties have died, although we do not have a confirmed monetary figure, we do not expect operating performance to be significantly affected.

Q3: [Sony Life]

Why did the new business margin fall from 6.5% as of June 30, 2013, to 5.5% as of June 30, 2014? Also,

what was the reason for the improvement from 5.2% as of March 31, 2014, to 5.5% as of June 30, 2014?

A:

The reason for the decline in comparison with June 30, 2013, was largely due to the decline in 40-year Japanese government bond (JGB) yields. Another factor was the overflowed policies accounted in the beginning of FY2014 due to rush in the end of FY2013 to conclude policies ahead of the revision in insurance premium rates. Regarding the improvement from March 31, 2014, although yields on 40-year JGBs did not change significantly, sharply higher sales of lump-sum payment endowment insurance and the overflowed policies ahead of the rate revision—factors that lower the margin—were absent in the first quarter of FY2014. Meanwhile, negative factors included the application to new policies of both increased consumption taxes as well as differences in the effective corporate tax rate.

Q4: [Sony Life]

What was the reason that interest rate risk increased from ¥180.9 billion as of March 31, 2014 to ¥202.8 billion as of June 30, 2014?

A:

From March 31, 2014, we revised the methodology for measuring interest rate risks. The previous methodology measured the shock by dropping interest rates by at least 1% for all maturities (parallel shift). Under the new method, principal component analysis, yield curve changes are disaggregated into three components, parallel shift, flattening (twist) and changing curvature (butterfly), and the yield curve is shocked by each component, to capture the risk of yield curve changes more precisely.

Comparing March 31, 2014 and June 30, 2014, changes in the shape of the yield curve prompted a rise in interest rate risk. Concretely, yields on 10-year and 20-year JGBs fell. This factor, steepening of the yield curve, increased the risk that the curve would flatten.

Q5: [Sony Life]

I would like to hear how the purchase of the site under Sony Corporation's headquarters building will affect operating performance. From FY2015, the site rent will fall by ¥2.0 billion per year, which I understand to have a positive effect on Sony Life's income. In FY2014, however, the site rent will drop by ¥1.2 billion, but the temporary costs of acquiring the site will be ¥1.1 billion, so would it be correct to assume that the acquisition will have no impact on this year's operating performance? Also, one benefit of owning both the site and the building is that they would be easier to sell as a package. Is a sale being considered?

A:

Due to the effect of the real estate acquisition tax in FY2014, the acquisition will have little impact on performance for the year. Your understanding is generally correct with regard to FY2015.

We believe that owning both the site and the building presents a variety of attractive options. At this stage, we are not considering a sale. Rather, we consider this worth while holding as a valid real estate investment property.

Q6: [Sony Assurance]

Your earned/incurred loss ratio again improved substantially. Other than rate increases and fewer accidents owing to the introduction of a new bonus-malus system (non-fleet driver rating system), what was the relationship with changes in the distances policyholders drove?

A:

The most important factor behind the decline in the earned/incurred loss ratio was the introduction of a new bonus-malus system. There is generally a thought to be a strong correlative/causal relationship between driving distances and accident rates. Recently, even though driving distances were down somewhat, we haven't seen a major effect. We do not believe this led to a significant downward impact on the earned/incurred loss ratio.

Q7: [Sony Assurance]

What was the expense ratio within the combined ratio, excluding the effect of the consumption tax hike? Do you expect the expense ratio to increase going forward?

A:

Although the consumption tax hike did have an effect, increases in system-related expenses were the principal reason for a year-on-year increase of 0.6 percentage point in the expense ratio. Excluding the impact of the consumption tax hike, the ratio would have been around 0.4 percentage point. Our initial forecasts take into account the expectation that the expense ratio will be up year on year in FY2014.

Q8: [Sony Bank]

Customer assets as of June 30, 2014 were a little down compared with their level on March 31, 2014 in this quarter. What is the likelihood you will introduce campaigns offering beneficial interest rates? If so, to what degree have these costs been taken into account?

A:

The main reason for the decline in deposits is a decrease in yen deposits. We have made it an ongoing strategy not to go overboard on deposit interest rates to expand our operations, and that policy has not changed as of June 30, 2014. For six-month and one-year time deposits, during our 2013 winter campaign we offered 0.25%, followed by the 0.2% level for our 2014 summer campaign. Other banks are offering higher rates of 0.3–0.4% to attract deposits. At this stage, we are not considering this sort of approach for fund-raise.