

FY2014 4Q Conference Call for Domestic Institutional Investors and Analysts

Q&A (Executive Summary)

Date: May 15, 2015, 16:30–17:15 (JST)
Respondents: Hirotooshi Watanabe, Senior Managing Director, Member of the Board,
Sony Financial Holdings, Inc.
Yuji Oosato, Executive Officer, 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.

Q1: [SFH]

You have raised your medium-term target for the dividend payout ratio to 40–50%. What period of time are you defining as “medium-term?” Also, what are the possibilities of this level being increased if you were to expand your capital or increase profitability?

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A1:

At this point, we have resolved to increase our target dividend payout ratio by 10 percentage points and decided on a dividend of ¥55 per share for FY2015. Our basic approach is to increase dividend amounts steadily as profits grow. Furthermore, we have raised our target payout ratio. This is all we have to say about further increases to our target dividend payout ratio at the moment.

Q2: [SFH]

Your forecast of consolidated financial results for FY2015 (for ordinary revenues of ¥1,300.0 billion and ordinary profit of ¥85.0 billion, not considering the effects of market fluctuations) are nearly the same level as the consolidated financial targets for FY2016 announced at last year’s corporate strategy meeting (ordinary revenues of ¥1,360.0 billion and ordinary profit of ¥86.0 billion). Does this mean that achieving your medium-term targets one year ahead of plan is now within your sights? At present, are you assuming that consolidated ordinary profit will outpace your medium-term CAGR target of 4%?

A2:

The operations of each of our businesses are expanding steadily. We will explain our medium-term earnings targets at the corporate strategy meeting on June 1, 2015. Our consolidated financial targets for FY2015 include gains on sale of bonds for extending asset duration. As a result, just from looking at the numbers it appears that we intend to meet our targets one year early. We will provide further details at our corporate strategy meeting.

Q3: [SFH]

I applaud you for your move to enhance shareholder returns. On the other hand, I would like to confirm whether you have adequate reserves given your insurance liabilities. My understanding is that in the past, Sony Life sold insurance products with high assumed interest rates. Other companies that sold these insurance products with high assumed interest rates provided additional policy reserves when pension benefits commenced or toward the end of premium payments. Won't Sony Life need to respond in a like manner?

A3:

In FY2014, we posted a positive spread amount of ¥13.0 billion, and due to the acquisition of new policies, our average assumed interest rate decreased. We expect to maintain a positive spread going forward. We do not see a need to provide additional policy reserves.

Q4: [SFH]

As insurance companies' business volume grows, additional amounts are needed to provided to reserves for policyholders. Is it possible to expand business operations and increase the target dividend payout ratio at the same time? Are you assuming that your timing to achieve the target dividend payout ratio of 50% will coincide with the timing when it becomes difficult to acquire new policies?

A4:

Our reasons for a target dividend payout ratio of 40–50% take into account profit fluctuations due to the accounting characteristics in the life insurance business. We aim for sustained profit growth, but significantly increasing new policy acquisitions means an increased cost burden during the initial period, which lowers profits. Also, statutory profit (Japanese GAAP) changes in line with market conditions. The dividend payout ratio varies as a result. For that reason, rather than raising our target payout ratio to 50%, we aim to steadily increase dividends while maintaining a payout ratio of 40–50%.

Q5: [Sony Life]

What percentage of annualized premiums from new policies did variable life insurance account for in 4Q of FY2014 (three months)? What is the status of sales for individual channels—in other words, the Lifeplanner channel and the Independent agent channel, and within the latter, “HOKEN NO MADOGUCHI GROUP INC.” and group that makes up the rest of the Independent agent channel? (Page 43 of the presentation materials)

A5:

During 4Q of FY2014 (three months), variable life insurance accounted for approximately 16% of annualized premiums from new policies. Looking at sales by sales channel for FY2014, the Lifeplanner channel performed particularly well. Within the Independent agent channel, shop-style outlets were somewhat depressed, but overall sales for the Independent agent channel were up 4% year on year.

Q6: [Sony Life]

How does the new business margin on variable life insurance compare with the product average?

A6:

We do not discuss the profitability of individual products, but the margin is lower than the average for all products.

Q7: [Sony Life]

What are your FY2015 forecasts for policy reserves for minimum guarantees on variable life insurance, positive spread amount and capital gains?

A7:

Our FY2015 forecast on policy reserves for minimum guarantees on variable life insurance is around ¥12.0 billion. Our market condition assumptions call for an investment yield of 3.5% on separate accounts. (In the general account, we believe stock prices and exchange rates will be flat, and we expect interest rates to rise by around the same amount as the forward rate.) We anticipate capital gains of approximately ¥8.0 billion due to the sale of bonds for extending asset duration.

Addition: We expect the positive spread to continue rising in FY2015.

Q8: [Sony Life]

You had capital gains of ¥10.7 billion in FY2014, but you only expect ¥8.0 billion in FY2015?

A8:

In FY2014, we posted around ¥8.0 billion gains on the sale of bonds from the sale of bonds for extending asset duration, plus gains on the sale of shares, REITs and other instruments. In FY2015, we expect to generate approximately the same amount on gains on the sale of bonds as in FY2014.

Q9: [Sony Life]

Looking at MCEV as of March 31, 2015, compared with the level as of December 31, 2014, approximately how much of the change came from inflation rate revisions and changes in assumptions related to life insurance?

A9:

The change in MCEV compared with the level as of December 31, 2014 was ¥88.0 billion. Of that amount, new business value including revaluation due to interest rate rises was around a positive ¥20.0 billion. The impact of economic assumptions was approximately positive ¥60.0 billion. Within the impact of economic assumptions, yen interest rate fluctuations accounted for a positive ¥25.0 billion, revisions to the tax system (a reduction in the corporate tax rate and the delayed implementation of a further consumption tax rise) a positive ¥23.0 billion, lower inflation rates a positive ¥6.3 billion, and the impact of stock price and exchange rate fluctuations a positive ¥3.0 billion. In addition, the change in assumptions includes approximately ¥10.0 billion in changes in assumptions related to life insurance.

Q10: [Sony Life]

What was the contribution of variable life insurance to new business value? Would it be correct to assume that their contribution is lower than for protection-type products such as whole life insurance?

A10:

Sony Life periodically looks at new business value to check product profitability. Because profitability in variable life insurance is somewhat low, we are considering premium rate revisions around February 2016.

Q11: [Sony Life]

What is the current status of new policy acquisition? Has the boom in variable life insurance sales cooled?

A11:

New policy amount in FY2014 was ¥4,770.0 billion, up 20% year on year. Looking at sales trends for FY2014, the new policy amount was low in April 2014, carrying forward the trend from FY2013, but turned favorable in May 2014. For that reason, the new policy amount for April 2015 was up 20% year on year, but is expected to decrease somewhat from May onward. At present, however, the status of new policy acquisition is positive. In sales of variable life insurance, more people buy policies when market conditions are good, but these numbers tend to decrease when conditions worsen. As of April 2015, sales were robust.

Q12: [Sony Assurance]

I infer that you posted a reserve for outstanding losses (involving people) in 4Q of FY2014, but should we assume a provision for reserve for outstanding losses involving people from FY2015 onward? Or do you believe that your level of provision through FY2014 is sufficient?

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A12:

We have already provided the necessary reserve for outstanding losses involving people in FY2014. From FY2015 onward, we do not anticipate a major increase in the provision for reserve for accidents that occurred in previous fiscal years.

Q13: [Sony Assurance]

Some direct non-life insurers and leading non-life insurers have announced reductions in premiums. What is Sony Assurance's policy on revising premium rates?

A13:

One of the leading non-life insurers has announced a 0.2% reduction in premiums, but other prominent non-life insurers are leaving their rates unchanged. Also, it will become difficult to lower premiums after the next consumption tax rate increase. We plan to maintain our current premiums for FY2015.