

FY2015 1Q Conference Call for Domestic Institutional Investors and Analysts

Q&A Executive Summary

Date: August 7, 2015, 16:00–16:40 (JST)
Respondents: Hiroaki Kiyomiya, 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: [Sony Life]

After subtracting the positive spread and adjusting for the provision of policy reserves for minimum guarantees for variable life insurance, core profit in 1Q of FY2015 is lower than in 1Q of FY2014.

Why is this?

A:

The reasons were that insurance claims paid increased and the burden of insurance acquisition costs rose due to favorable new policy acquisition. Relatively high insurance claims paid were concentrated on 1Q of FY2015, but we see this as a temporary factor.

Q2: [Sony Life]

Given that in 1Q of FY2015 the provision of policy reserves for minimum guarantees for variable life insurance was ¥6.6 billion and losses on hedges of variable life insurance were ¥1.9 billion, would it be accurate to say that the real impact on profit of provision of policy reserves for minimum guarantees was ¥6.6 billion plus ¥1.9 billion? In other words, is any profit against these hedged losses included in the ¥6.6 billion provision of policy reserves for minimum guarantees for variable life insurance?

A:

Your reasoning is correct.

Favorable sales of new policies was the major reason for the ¥6.6 billion provision of policy reserves for minimum guarantees for variable life insurance. With regard to hedging, as we do not hedge on foreign stocks and the like, we are not completely hedged against market price fluctuations.

Q3: [Sony Life]

What is Sony Life's outlook for new policies from 2Q of FY2015? Are sales of variable life insurance already being restrained by the funding limits to go into effect from August? Also, how are sales of

products other than variable life insurance?

A:

Of the fund limitations to go into effect on variable life insurance from August 2015, of the eight funds, limitations are being imposed on the concentrated enrollment in funds having high volatility. In addition, we are planning to revise premium rates for variable life insurance in 4Q of FY2015, which should improve profitability. As no limits were placed on new variable life insurance policies through July 2015, sales of variable life insurance were favorable in 1Q of FY2015 and through July in 2Q. In reaction to this situation, we expect the variable life insurance sales volume to decrease from August. With regard to other products, since FY2014 we have undertaken initiatives to reinforce death protection, so we do not expect variable life insurance sales from August onward to have a substantially negative impact on overall performance.

(Additional Q: Compared with the three months of 1Q of 2015, what is the possibility of a spike in new policies of variable life insurance in July?)

Sales in the month of July 2015 did not exceed those during the three months of 1Q.

Q4: [Sony Life]

Family income insurance was favorable; by approximately what percent did its new policy amount increase? Also, what was the reason for the increased sales of family income insurance?

A:

The new policy amount for family income insurance rose 22% year on year. We began selling new types of the products in October 2014, and we see the increase as evidence that customers gave high marks to these products' characteristics. These sales also had a synergistic effect with our efforts to reinforce death protection, which commenced in FY2014.

Q5: [Sony Life]

Why did operating expenses increase year on year?

A: The main reason was higher commissions in line with favorable new policy acquisition.

Q6: [Sony Life]

What was the background for your recording of gains on sale of securities? Was this partly a move to net out the increased burden from the provision of policy reserves for variable life insurance?

A:

The gains on sale of securities in 1Q of FY2015 were a result of shifting our holdings of Japanese government bonds (JGBs), as we proactively transferred our holdings of JGBs which durations had shortened to ultralong-term bonds. We think of this move as separate from the increased burden of provision of policy reserves for variable life insurance.

Q7: [Sony Life]

If sales of variable life insurance continue according to your current expectations, will you need to realize some gains on sales of securities to achieve your forecast results for full-year FY2015?

A:

We expect sales of variable life insurance to slow from August onward, but this is not certain. In 1Q of FY2015, sales of variable life insurance were higher than we had anticipated, and we expect a backlash from 2Q onward. At present, we do not expect the sales volume of variable life insurance exceeds our forecast for FY2015, so we maintain our full-year forecasts unchanged.

On the other hand, in FY2015 we plan to post around ¥8.0 billion in gains on the sale of bonds. However, JGB liquidity is currently better than when we formulated this plan around January–February of 2015. We think of the increased burden of provision of policy reserve for variable life insurance as a different item from gains on the sale of bonds, but considering the proactive shifting of our bond holdings as a positive factor, at this point our forecasts for FY2015 remain unchanged.

Q8: [Sony Life]

As of June 30, 2015, your new business margin had fallen to 3.2%. What specifically was the impact of a change in the product mix?

A:

A rise in interest rates was a positive factor, but the new business margin declined due to a change in the product mix. The majority of this change in the product mix was reflected in positive sales of variable life insurance. In this regard, due to our measures to counter fund limitations and premium rate revisions, we do not expect the new business margin to fall below current levels.

(Additional Q: What sort of market correlation will the new business margin have going forward?)

As we have introduced countermeasures to limit the flow of cash into highly volatile funds to some degree, we expect volatility to fall and the new business margin to rise.

Q9: [Sony Life]

Around what percentages of the new business margin are accounted for by variable life insurance and family income insurance? How does 1Q of FY2015 compare with 1Q of FY2014?

A:

In 1Q of FY2015, based on annualized premiums, variable life insurance accounted for around 20% and family income insurance for approximately 5%. In 1Q of FY2014, these figures were approximately 10% for variable life insurance and slightly below 5% for family income insurance. I will refrain from commenting on the profitability of individual products.

Q10: [Sony Life]

When calculating ESR, what are your current assumptions for the risk weighting of JGBs?

A:

We consider the credit risk of JGBs to be zero, but we do count their interest rate fluctuation risk.

Q11: [Sony Assurance]

Could you please explain provisions and reversals of reserve for outstanding losses in 1Q of FY2015 and 1Q of FY2014?

A:

Affected by the impact of natural disaster (snow disaster) in 4Q of FY2013, the reversal of reserve for outstanding losses increased in 1Q of FY2014. As we experienced no major natural disasters in 4Q of FY2014, the reversal amount decreased in 1Q of FY2015. Looking at the overall situation with regard to the reserve for outstanding losses, whereas the accident ratio had been trending downward in FY2014, in 1Q of FY2015 this decline halted and has remained steady. As a result, the balance in the reserve for outstanding losses is up slightly.

(Additional Q: Adjusted ordinary profit decreased ¥0.6 billion. Considering that the reversal of reserve for outstanding losses in 1Q of FY2014 inverted insurance claims paid and had no effect on adjusted ordinary profit, would it be correct to understand that rather than the reserve for outstanding losses, the major reason for the decrease in adjusted ordinary profit was the rise in operating expenses?)

That is correct.

Q12: [Sony Assurance]

How are sales of your new product, the “Gentle Driving Cash-Back Plan?” What is the status of your current marketing efforts?

A:

We will refrain from commenting on specific sales figures. We had initially considered the younger segment to be the target for this product, but as we rolled out our advertising campaign, centered on newspapers, the age of policyholders grew higher than we had expected. As a result, we are shifting our current advertising to media other than newspapers in an aim to acquire younger policyholders.