FY2017 Q2 Conference Call for Institutional Investors and Analysists

Q&A Executive Summary

Date: November 13, 2017, 15:00–15:35 (JST)

Respondents: Hiroaki Kiyomiya, Managing Director, Member of the Board, Sony Financial Holdings Inc.
Yuji Oosato, Executive Officer, Sony Life Insurance Co., Ltd.
Toru Hasegawa, Executive Officer, Sony Assurance Inc.
Sumio Mizoguchi, Senior Executive Officer, Sony Bank Inc.

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

Q1: [Sony Life]

Was the rise in interest rates the main reason for the increase in new business value in Q2 of FY2017 (three months), compared with Q1 of FY2017 (three months)? I assume the product mix was also a factor. Could you indicate approximate contributions from the rise in interest rates and the product mix?

A: The rise in interest rates and changes in the product mix each contributed around half. Yen interest rates are not up substantially compared with the level as of June 30, 2017, but the steepening of the yield curve had an impact, making a positive contribution. As to the impact of changes in the product mix, some long-term level-premium plan term life insurance sold before the premium rate revision, was recorded in April, which worsened the new business margin in Q1 of FY2017 (three months), but that impact disappeared in Q2 of FY2017 (three months).

Q2: [Sony Life]

"Sony Life's Capital Gains/Losses" on page 40 of the presentation materials indicates foreign exchange losses related to U.S. dollar-denominated insurance. Net foreign exchange losses have increased from Q1 of FY2017. Would it be correct to say that this is because of losses on an accounting basis? What is the impact on MCEV?

A: U.S. dollar-denominated assets have become larger than U.S. dollar-denominated liabilities, so we used derivatives as foreign exchange hedges. The cost of foreign exchange hedges is absorbed in the investment yield, so does not appear as accounting losses.

The impact of foreign exchange on MCEV was essentially neutral.

Q3: [Sony Life]

Page 12 of the presentation materials shows the provision of policy reserves for minimum guarantees for variable life insurance and gains (losses) on hedges of variable life insurance. Please explain the hedge error in Q2 of FY2017 (three months). Would you also please explain the impact of the hedge error on MCEV?

A: There was essentially no misalignment in hedges of variable life insurance during Q1 of FY2017 (three months). In Q2 of FY2017 (three months), gaps on individual stocks and index futures led to a loss of approximately ¥2.0 billion. The impact on MCEV was also negative.

Q4: [Sony Life]

I have a question about the loss resulting from a hedge error of around ¥2.0 billion. Measures were also introduced in FY2016 to reduce this hedge error. Please describe their effects at present and additional measures to address hedge errors.

A: In FY2016, we responded to the gap in hedges between the economic value basis and the accounting basis, and this gap essentially disappeared. Next fiscal year, we will aim to consider measures for reducing the gap between individual stocks and index futures.

Q5: [Sony Life]

Earlier, you described the impact of long-term level-premium plan term life insurance in Q1 of FY2017 (three months). New business value in Q2 of FY2017 (three months) was ensured more than ¥15.0 billion. Do you expect new business value to increase if new policy acquisition rises?

A: The impact of long-term level-premium plan term life insurance in Q1 of FY2017 (three months) was an extraordinary factor. That impact disappeared in Q2 of FY2017 (three months).

Assuming that interest rates do not move, the new business value should be stable in Q3. However, the standard life tables will also be revised in April 2018, so it is difficult to give a full-year forecast.

Q6: [Sony Life]

New business value was favorable in Q2 of FY2017 (three months), but new policy acquisition decreased. Did commissions to Lifeplanner sales employees fall in 1H of FY2017 (six months)?

A: In Q2 of FY2017 (three months), new policy acquisition was down substantially year on year in the independent agency channel; the decrease in the Lifeplanner channel was slight. Commissions to Lifeplanner sales employees and independent agencies are not paid in a lump sum when acquiring new policies, but are partly apportioned over the life of policies. For that reason, short-term fluctuations in new policy acquisitions do not immediately have a major impact on commissions.

Q7: [Sony Life]

Acquiring new policies in the independent agency channel appears difficult. What is the background for this?

A: As Sony Life raised insurance premiums in October 2016 and other companies raised their insurance premiums in April 2017, the revisions were neutral on the price competition front. However, getting independent agencies to again recommend Sony Life's products to customers rather than other companies' products they are used to selling will require independent agencies to better understand Sony Life's benefits. We are currently moving forward with activities in this area.

From Q3 of FY2017, we will further step up activities by independent agency supporters in an effort to recover new policy acquisition by the independent agency channel.

Q8: [Sony Life]

What is the status with regard to considering the acquisition of additional shares in ClearView Wealth Limited

(Australia)?

A: We have seconded members from Sony Life to the company and are building a partnership to mutually enhance corporate value, but we have nothing specific to say about additional acquisitions.

Q9: [Sony Life]

What is the market share of the top 10 companies in the independent agency channel at the Sony Life?

A: We do not disclose that data.

Q10: [Sony Assurance]

Regarding the upward revision in forecasts for full-year FY2017 and the fact that profits are higher than expected, what are your thoughts with respect to making a more proactive investment in marketing to gain share going forward or lowering premium rates?

A: During the first half, the loss ratio on automobile insurance was better than we had expected. Large insurers have already announced premium rate reductions, but measures that just reduce premium rates impact profits. We are considering the situation in terms of both profitability and competitiveness, including from a marketing perspective. However, we have not made any specific decisions so are not at the stage where we can discuss this. We will provide explanations as soon as we have made a decision.

Q11: [Sony Life, SFH]

I would like to ask about Sony Life's new business value forecast and its impact on the dividends at SFH. In 1H of FY2017 (six months), new business value was ¥29.4 billion. I understand that ¥60 billion on an annualized basis would be grounds for considering a dividend increase. Please explain the current status and second-half forecast for new policy sales and decision factors for a dividend increase.

A: In Q1 of FY2017 (three months), the going was difficult in both the Lifeplanner channel and the independent agency channel.

The Lifeplanner channel recovered year on year as we entered Q2 of FY2017 (three months). Sales activities have leveled off since the discontinuation of our contest, so in Q2 of FY2017 (three months) we were able to maintain the same activity level as in the previous year. From Q3 of FY2017, we will further step up activities.

However, in the independent agency channel, the situation has not changed significantly from Q1 of FY2017 (three months). Other companies revised their premium rates in April 2017, returning the competitive environment to its previous level on the pricing front. However, the situation fell short of independent agencies again selling Sony Life's products rather than those of other companies that they were used to selling. From Q3 of FY2017, we will step up activities by independent agency supporters to help them understand Sony Life's benefits and recommend our products. As a result, we aim to secure a level of sales equivalent to last year's.

New business value was ¥12.2 billion in Q1 of FY2017 (three months) and ¥17.2 billion in Q2 of FY2017 (three months), resulting in ¥29.4 billion for 1H of FY2017 (six months). We expect to reach our initial target of ¥60 billion. As factors for deciding dividends, we focus on adjusted profit. If we are able to reach around ¥60 billion, we would consider a dividend increase. However, whether new business value exceeds ¥60 billion will not be the only deciding factor. In making a decision, we will also look at the ability to maintain this level over the medium to long term and take into consideration performance in the non-life insurance and banking businesses.

Q12: [SFH]

When determining dividends, isn't the ability to ensure stable new business value of ¥60 billion the most important factor? Won't this be included in price reductions on first-sector products due to April 2018 revisions to the standard life tables?

A: Our policy is to pay stable dividends; we do not make decisions based on temporary increases in new business value. We will take next fiscal year's revisions to the standard life tables into consideration when deciding dividends.