FY2018 1Q Conference Call for Institutional Investors and Analysists

Q&A Executive Summary

Date: August 9, 2018, 15:30–16:15 (JST)

Respondents: Hiroaki Kiyomiya, Managing Director, Member of the Board, Sony Financial Holdings Inc.
Eigo Nasu, Executive Officer, Sony Life Insurance Co., Ltd.
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Note: The original content has been revised, sorted appropriately and edited for ease of understanding.

Q1: [Sony Life]

During FY18.1Q (3M), all three business outpaced your expectations for ordinary profit. I understand the factors in play in the non-life insurance business, but can you provide a factors and amounts that made the life insurance business exceeded your initial expectations. You had assumed that the contribution to profits of the accumulation of policy amount in force this fiscal year would account for an increase of around ¥6.0 billion. Was progress better than expected? Were you able to book capital gains earlier than anticipated?

A: A major factor which progress was better than expected was on gains on sale of securities. Of the ¥6.0 billion we had forecast for the full year, we booked ¥3.2 billion in FY18.1Q. Progress on the contribution to profits of the accumulation of policy amount in force was as we have indicated. Also, gains (losses) on hedges of variable life insurance were more positive than we had expected. The shift in period on gains on sale of securities and the temporary impact of market conditions were the reasons progress was faster than expected.

Q2: [Sony Life]

The new policy amount was high in FY18.1Q, but surrenders also increased. In the past, annualized premiums from insurance in force on individual life insurance (excluding individual annuities) have grown at around 5% year on year. What is the background for the current leveling off to around 2.6% growth?

A: The main reason for the rise in surrenders was the revision in premium rates on family income insurance. As the new policy amount of the products for which we revised premium rates was approximately double the surrender amount, policy amount in force was robust, rising 4.6% year on year. Given the low-interest-rate environment, the weight of sales is shifting from savings-type products to protection-type products, it tends to rise policy amount in force than annualized premiums.

Q3: [Sony Life]

The new business margin improved from 6.1% in FY17.4Q (3M) to 7.1% in FY18.1Q (3M). Last fiscal year, you revised your methodology for measuring insurance risks, so I understand the revision doesn't have any impact on the improvement. I had assumed that this fiscal year's price reductions on such products as family income insurance would cause the margin to fall. Why did the margin improve?

A: We revised our methodology for measuring insurance risks at the end of last fiscal year, so the change in methodology would not have affected FY17.4Q (3M). Of the reasons our new business margin improved by 1 percentage points, the change in measuring methodology accounted for +0.7 percentage points. The remainder was attributable to changes in the product mix and other factors.

Q4: [Sony Life]

Didn't the price reduction on family income insurance affect the new business margin?

A: The new business margin on family income insurance did decrease due to the revision in premium rates, but the volume of new business in family income insurance grew substantially, which caused the overall margin for new business to grow.

Q5: [Sony Life]

Could you break down the changes in MCEV as of June 30, 2018, in terms of interest rates and other factors?

A: MCEV was down approximately ¥40.0 billion from the end of last fiscal year. Breaking this down, the major factors were dividends paid, which had a ¥26.3 billion negative impact; an increase in new business value, which had a ¥21.9 billion positive impact; a decrease in yen interest rates and the flattening of the yield curve, which had a ¥20.0 billion negative impact; and the surrender rate, which had a ¥18.0 billion negative impact. Rather than an increase in surrenders, the impact of the surrender rate was mainly due to a decrease in the surrender rate on long-term protection-type products (whole life insurance and other insurance products on which value of existing business are negative).

Q6: [Sony Life]

How does the gain on sale of securities Sony Life recorded in FY18.1Q compare in terms of progress with your expectations for the full year?

A: As we had forecast ¥6.0 billion for the full year, and the figure for 1Q was ¥3.2 billion, the rate of progress was approximately 50%.

Q7: [Sony Life]

On page 12 of the presentation materials, the "Others" category under core profit increased by ¥2.7 billion, from ¥20.6 billion in FY17.4Q (3M) to ¥23.3 billion in FY18.1Q (3M). Why was that?

A: The main reason was a steady accumulation of policy amount in force.

Q8: [Sony Life]

Page 32 of the presentation materials shows the composition by product of annualized premiums from new policies. What sort of product mix are you aiming for, going forward, compared with the product composition in FY18.1Q?

A: As the product mix depends on customer needs, the company does not set product portfolio targets. In FY18.2Q, we expect the ratio of medical insurance to increase in line with our launch of new medical insurance.

Q9: [Sony Life]

I have a question regarding consolidated adjusted ROE, shown on page 45 of the presentation materials. I believe this includes the impact of Sony Life's revision of the methodology for measuring insurance risks, but approximately how much did this impact on core ROEV of 1.6% in FY18.1Q (3M)?

A: Our assumptions for calculating core ROEV are pre-revision for FY17 and post-revision for FY18. In FY18.1Q, the revision had a positive impact of around 0.7 percentage points on the new business margin. Accordingly, the numerator increased but the denominator also grew. Our understanding, therefore, is that the impact of the revision on core ROEV was essentially nil.

Q10: [Sony Assurance]

Ordinary revenues on automobile insurance rose approximately 6% year on year. Direct premiums written also improved significantly. Why was that?

A: In FY18.1Q, direct premiums written were stronger than our expectations. Among positive factors, we think our various marketing measures are going well. Earned premiums grew more than expected, and, insurance payments per claim including the provision for reserve for outstanding losses and claims, decreased, causing the E.I. loss ratio to fall. As a result, the figure was better than we had anticipated. The expense ratio was also lower than we had expected.

Q11: [Sony Assurance]

What is the background for Sony Assurance's decrease in insurance payments per claim including the provision for reserve for outstanding losses and claims? Do you expect this figure to keep trending downward?

A: In FY18.1Q, the number of accidents and insurance claims paid expanded in line with an increase in policy amount in force, but insurance payments per claim fell, causing the E.I.-based loss ratio to decline. Insurance payments per claim in terms of net losses paid, excluding the provision for reserve for outstanding losses and claims, were down slightly year on year. At the beginning of the fiscal year, we had expected the loss ratio to be up somewhat year on year, but this figure fell in FY18.1Q. No specific factors were in play behind the decline in the payment per claim, so we cannot tell whether this trend will continue.

Q12: [Sony Assurance]

Your competitors are stepping up discounts and other campaigns. As a direct insurer, how do you view the competitive situation? Major non-life insurers lowered premiums in January 2018. What has been the impact?

A: We are not seeing any major changes in our policy acquisition or policy outflows due to rate reductions and discounts by large non-life insurers and direct insurers, so they are having no impact at the moment. We also began offering ASV discounts in April. We will continue to consider revisions and timing of insurance premium rates in response to revisions in the reference loss cost rates.

Q13: [Sony Assurance]

What will be the amount of insurance claims paid due to the heavy rains in July 2018?

A: Overall, it will be around ¥0.4 billion. Our losses were essentially all on automobile insurance (vehicle insurance).

Q14: [Sony Assurance]

What are the development status and launch timing on the telematics products you are developing in collaboration with Yahoo Japan Corporation and the Sony Group?

A: With Yahoo Japan and Sony, we are jointly developing PHYD-type telematics products based on smartphones and the Yahoo! Car Navigation app. At present, we conducted monitor testing and accumulated driving behavior data. Going forward, we will develop algorithms and make other moves toward commercialization. At this stage, we are unable to discuss launch timing.

Q15: [SFH]

In FY18.1Q, profit attributable to owners of the parent was nearly 40% of your forecast figure for the full year. Do you expect to return to a normal pace from FY18.2Q onward?

A: In the life insurance business, we recorded gains on sale of securities earlier than expected. In the non-life insurance business, profit tends to be high in 1Q. Profit was slightly higher than we had anticipated, but as nine months remain until the end of the fiscal year, we maintain our forecast.

Q16: [SFH]

Please explain the background for Sony Corporation increasing its holdings of SFH's shares following the FY2017 earnings results announcement.

A: That decision is up to Sony Corporation. Our relationship will remain unchanged.

Q17: [SFH]

If Sony Corporation continues to increase its holdings of SFH's shares, would it be accurate to assume you would be delisted?

A: It is the basic policy of Sony Corporation and SFH for SFH to remain listed.