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Earnings Call

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Call Participants

EXECUTIVES

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President, Chairman & CEO

David Young

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Max Kristian Broden
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Virgil Raynard Miller
President of Aflac U.S.

ANALYSTS

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JPMorgan Chase & Co, Research Division

Joel Robert Hurwitz
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John Bakewell Barnidge
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Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Presentation

Operator

Good day, and welcome to the Aflac Inc. Second Quarter 2024 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

I'd now like to turn the conference over to David Young, Vice President of Investor and Rating Agency Relations. Please go ahead.

David Young

Good morning, and welcome. Thank you for joining us for Aflac Inc. Second Quarter Earnings Call. While I have your attention, I also want you to mark your calendars to join us for our financial analyst briefing at the New York Stock Exchange on December 3. Now this morning, Dan Amos, Chairman, CEO and President of Aflac Incorporated, will provide an overview of our results and operations in Japan and the United States. Then Max Broden, Executive Vice President and CFO of Aflac Incorporated, will provide an update on our financial results and current capital and liquidity. These topics are also addressed in the materials we posted with our earnings release and financial supplement on investors.aflac.com.

In addition, Max provided his quarterly video update, which also includes information about the outlook for 2024. We also posted under financials on the same site updated slides of investment details related to our commercial real estate and middle market loans.

For Q&A today, we're also joined by Virgil Miller, President of Aflac U.S.; Charles Lake, Chairman and Representative Director, President of Aflac International; Masatoshi Koide, President and Representative Director, Aflac Life Insurance Japan; and Brad Dyslin, Global Chief Investment Officer, President of Aflac Global Investments.

Before we begin, some statements in this teleconference are forward-looking within the meaning of federal securities laws. Although we believe these statements are reasonable, we can give no assurance that they'll prove to be accurate because they're prospective in nature. Actual results could differ materially from those we discuss today. We encourage you to look at our annual report on Form 10-K for some of the various risk factors that could materially impact our results. As I mentioned earlier, the earnings release is available on investors.aflac.com and includes reconciliations of certain non-U.S. GAAP measures.

I'll now hand the call over to Dan.

Daniel Paul Amos
President, Chairman & CEO

Thank you, David, and good morning, and we're glad you joined us. Aflac Incorporated delivered another quarter and 6 months of very solid earnings results. Net earnings per diluted share were $3.10 for the quarter and $4.64 for the first 6 months. On an adjusted basis, earnings per diluted share for the quarter were up 15.8% to $1.83, and for the first 6 months, we were up 11.5% to $3.49.

From a broad operational perspective, we've generated profitable growth in the United States and Japan, with new products and distribution strategies. We believe our strategy will continue to create long-term value for the shareholders. At the same time, we believe that the need for our products we offer is as strong or stronger than it has ever been before in both the United States and Japan.

Beginning with Japan, we've continued to focus on third sector products like our cancer insurance product called WINGS. As the new fiscal year began in Japan, we saw continued improvement in cancer insurance through the Japan Post channel. We've continued our strategy of introducing life insurance products, including Tsumitasu, which we launched on June 2. This product offers policyholders an asset formation component with nursing care option. It was designed to attract new and younger customers while also introducing opportunities to sell them our core third sector products. While still very early, we're pleased with how our agencies have sold this product, which drove a 4.5% sales increase for the second quarter.

Being where consumers want to buy insurance remains an important element of the growth strategy in Japan, our broad network of distribution channels, including agencies, alliance partners and banks, continually optimize our opportunities to help provide financial protection to the Japanese consumers. We'll continue to work hard to support each channel. Overall, Koide-san and his team have done a great job of turning around sales in Japan and delivering record profit margins for the quarter. I'm very pleased with their efforts.

Turning to the U.S. We achieved a 2% sales growth for the quarter, benefiting from good growth in group life, absence management and disability and individual voluntary benefits. This is a welcome result as we enter the second half of the year that tends to be the heaviest enrollment period. At the same time, we continue to focus on more profitable growth by exercising a stronger underwriting discipline. Additionally, we've increased benefits in certain policies to improve the value for the policyholder. We believe persistency will remain strong as customers realize the value of their policies and the related benefits. We've also continued our disciplined approach to expense management, which Max will address.

As we enter the second half of the year, we're continuing to focus on optimizing our dental and vision platform. Overall, I'm pleased with what Virgil and his team are doing to balance profitable growth, enhance the value proposition for the policyholders and curb the expense ratio. Their efforts contributed to the very strong pretax profit margin of 22.7% for the second quarter.

Now I'll turn to our ongoing commitment to prudent liquidity and capital management. Max has done a great job leading his team to take proactive steps in recent years to defend our cash flow and deployable capital against the weakening yen as well as establishing our reinsurance platform in Bermuda. We've been very pleased with our investment portfolio's performance as it continues to produce strong net investment income with minimal losses and impairments.

As an insurance company, our primary responsibility is to fulfill the promises we make to our policyholders while being responsive to the needs of our shareholders. We remain committed to maintaining strong capital ratios on behalf of the policyholders, where we balance this financial strength with tactical capital deployment. We intend to continue prudently managing our liquidity and capital to preserve the strength of our capital and cash flows. This supports both our dividend track record and tactical share repurchase.

We treasure our track record of 41 consecutive years of dividend growth and remain committed to extending it. I'm pleased that the Board set us on a path to continue this record when it increased the first quarter 2024 dividend, 19% to $0.50 and declared the second and third quarter dividends of $0.50. We repurchased a record $800 million in shares during the quarter and intend to continue our balanced tactical approach of investing in growth and driving long-term operating efficiencies.

Our management team, employees and sales distribution continue to be dedicated stewards of our business. Being there for the policyholders when they need us most, just as we promised, this underpins our goal of providing customers with the best value in the supplemental insurance products in the United States and Japan.

In November, we celebrate our 50th year of doing business in Japan. Additionally, in June, we celebrated our 50th year as a publicly traded company on the New York Stock Exchange. We're reminded that one thing has not changed since the founding in 1955, families and individuals still seek to protect themselves from financial hardships that not even the best health insurance covers. Today's complex health care environment has produced incredible medical advances that come with incredible cost. It's more important than ever to have that partner. We believe our approach to offering relevant products makes us that partner.

We believe in the underlying strength of our business and our potential for continued growth in Japan and the United States, 2 of the largest life insurance markets in the world. Aflac is well positioned as we work toward achieving our long-term growth, while also ensuring we deliver on our promise to our policyholders.

I'll now turn the program over to Max to cover in more detail the financial results. Max?

Max Kristian Broden

Executive VP & CFO

Thank you, Dan, and thank you for joining me as I provide a financial update on Aflac Incorporated results for the second quarter of 2024. For the quarter, adjusted earnings per diluted share increased 15.8% year-over-year to $1.83 with a $0.07 negative impact from FX in the quarter. In this quarter, remeasurement gains on reserves totaled $51 million and variable investment income ran $1 million above our long-term return expectations. We also received a make-whole payment, adding approximately $20 million or $0.03 per share to our adjusted earnings. Adjusted book value per share, including foreign currency translation gains and losses, increased 9.4% and the adjusted ROE was 14.3%, an acceptable spread to our cost of capital. Overall, we view these results in the quarter as solid.

Starting with our Japan segment. Net earned premiums for the quarter declined 5.7%. This decline reflects a JPY 7.4 billion negative impact from internal reinsurance transaction executed in the fourth quarter of 2023, and the JPY 4.8 billion negative impact from paid-up policies. In addition, there is a JPY 1.2 billion positive impact from deferred profit liability. Lapses were somewhat elevated, but within our expectations. At the same time, policies in force declined 2.4%.

Japan's total benefit ratio came in at 66.9% for the quarter, up 120 basis points year-over-year, and the third sector benefit ratio was 57.8%, up approximately 160 basis points year-over-year. We estimate the impact from remeasurement gains to be 140 basis points favorable to the benefit ratio in Q2 2024. Long-term experience trends as it relates to treatment of cancer and hospitalization continue to be in place, leading to continued favorable underwriting experience.

Persistency remained solid with a rate of 93.3%, which was down 50 basis points year-over-year. This change in persistency is in line with our expectations. Our expense ratio in Japan was 17.8%, down 170 basis points year-over-year, driven primarily by the expense allowance from reinsurance transactions and continued disciplined expense management. Adjusted net investment income in yen terms was up 28.4%, mainly by favorable impact from FX on U.S. dollar investments in yen terms, lower hedge costs, higher return on our alternatives portfolio compared to second quarter of 2023 and call income. The pretax margin for Japan in the quarter was 35.3%, up 490 basis points year-over-year, a very good result.

Turning to U.S. results. Net earned premium was up 2.1%. Persistency increased 50 basis points year-over-year to 78.7%. We're encouraged by early signs from our persistency efforts and will remain focused on driving profitable growth. Our total benefit ratio came in at 46.7%, 140 basis points higher than Q2 2023, driven by product mix and lower remeasurement gains than a year ago. We estimate that remeasurement gains impacted the benefit ratio by 170 basis points in the quarter. Claims utilization has rebounded from depressed levels during the pandemic and are now more in line with our long-term expectations. Our expense ratio in the U.S. was 36.9%, down 210 basis points year-over-year, primarily driven by platforms improving scale and stronger expense management. We tend to benefit from seasonality in the first half and would expect higher expenses in the second half.

Our growth initiatives, group life and disability, network dental and vision and direct-to-consumer increased our total expense ratio by 230 basis points. This is in line with our expectation, and we'd expect this impact to decrease going forward as these businesses grow to scale and improve their profitability.

Adjusted net investment income in the U.S. was up 7.4%, mainly driven by higher yields on both our alternatives and fixed rate portfolios. Profitability in the U.S. segment was solid with a pretax margin of 22.7%, also a very good result. Our total commercial real estate loan watch list stands at approximately $1 billion, with less than $300 million in process of foreclosure currently. As a result of these current loan valuation marks, we increased our CECL reserves associated with these loans by $14 million in this quarter net of charge-offs.

We had six loan foreclosures and moved nine properties into real estate owned. We continue to believe that the current distressed market does not reflect the true intrinsic economic value of our portfolio, which is why we're confident in our ability to take ownership of these assets, manage them through this cycle and maximize our recoveries. Our portfolio of first lien senior secured middle market loans continue to perform well, with losses below our expectations for this point in the cycle.

In our corporate segment, we recorded a pretax gain of $23 million. Adjusted net investment income was $39 million higher than last year, due to lower volume of tax credit investments at Aflac Inc. and higher volume of investable assets at Aflac REIT. These tax credit investments impacted a corporate net investment income line for U.S. GAAP purposes negatively by $30 million, with an associated credit to the tax line. The net impact to our bottom line was a positive $4 million in the quarter. To date, these investments are performing well and in line with the expectations.

We're continuing to build out our reinsurance platform, and I'm pleased with the outcome and performance. Our capital position remains strong, and we ended the quarter with an SMR above 1,100% in Japan. And our combined RBC while not finalized, we estimate to be greater than 650%. Unencumbered holding company liquidity stood at $4.1 billion, $2.3 billion above our minimum balance. These are strong capital ratios, which we actively monitor, stress and manage to withstand credit cycles as well as external shocks.

U.S. statutory impairments were a release of $7 million. And Japan FSA impairments were JPY 10.4 billion or roughly $67 million in the quarter. This is well within our expectations and with limited impact to both earnings and capital.

Adjusted leverage is 19.5% and below our leverage corridor of 20% to 25%. As we hold approximately 60% of our debt denominated in the yen, our leverage will fluctuate with movements in the yen/dollar rate. This is intentional and part of our enterprise hedging program protecting the economic value of Aflac Japan in U.S. dollar terms.

We repurchased $800 million of our own stock and paid dividends of $283 million in Q2, offering good relative IRR on these capital deployments. We'll continue to be flexible and tactical in how we manage the balance sheet and deploy capital in order to drive strong risk-adjusted ROE with a meaningful spread to our cost of capital. Thank you.
I'll now turn the call over to David.

Question and Answer

David Young

Thank you, Max. [Operator Instructions] We'll now take the first question.

Operator

[Operator Instructions] The first question today comes from Joel Hurwitz with Dowling & Partners. Please go ahead.

Joel Robert Hurwitz
Dowling & Partners Securities, LLC

So the new product launch in Japan that happened in June had very strong sales. I guess can you just talk about the targeted return on that, that first sector product and how it compares to the third sector product? And then what do you see is the cross-sell opportunity there?

Daniel Paul Amos
President, Chairman & CEO

Thank you. Max might take that.

Max Kristian Broden
Executive VP & CFO

Yes. Let me start on product profitability. So when we look at this product through a gap lens, it has at or higher GAAP margins than our core third sector business. And on an IRR basis, this is obviously lower than our third sector business because of the very significant new business strain associated with the higher reserves. But we've lined up reinsurance that we then expect on a post reinsurance basis, it brings us to very, very attractive returns as well, not too different from our core third sector business.

Joel Robert Hurwitz
Dowling & Partners Securities, LLC

Okay. And the cross-sell opportunity there with the third sector products?

Max Kristian Broden
Executive VP & CFO

I think it will evolve over time where, obviously, this product targets a younger clientele. That gives us the opportunity to build that relationship. And as we travel with that customer through their lifetime, we've an opportunity to then cross-sell both medical and cancer as well. So over time, I think there is a good opportunity for us to both get the Tsumitasu product to the younger clients, but then also over the lifetime, cross-sell cancer and medical to those new clients.

Daniel Paul Amos
President, Chairman & CEO

Thanks. Aflac Japan maybe able to explain this better, but it's important that I say it is, remember, with the TSUMITAS product, we're writing a younger group who may have less disposable income than does an older set of potential policyholders. And so whereas with the older we might offer the TSUMITAS product or another product and our supplemental third sector product. With this group, we'd start by putting in 1 product, which would be the TSUMITAS product. And then in a year or so later, follow up and add more. So it's different as we're building that policyholder base, which, of course, is one of the things we promised you we'd work towards doing. And Aflac Japan, we believe, is doing the right thing here for us.

Operator

The next question comes from Jimmy Bhullar with JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. First question just on the expense ratio in both the Japan and the U.S. businesses. I think it's the best it's been in the past several years. So wondering how much of that is sustainable and driven by expense savings or other actions versus maybe just being timing -- driven by the timing of discretionary and spending in advertising?

Max Kristian Broden
Executive VP & CFO

Thank you, Jimmy. Let me start with Japan. Obviously, 17.8% in the quarter is a very low number. We've a guidance range of 19% to 21%. And long term, I think that is the range that we'll operate within for the Japan segment. We tend to have some seasonality in Japan with the second half having a little bit higher overall spend. And I'd specifically call out that Aflac Japan turns 50 this year. So we'll have some promotional spend associated with that, including advertising and a lot of sales activities around that. So therefore, I'd expect that for the full year that we'd end up in the lower end of that 19% to 21% range.

For the U.S., we also have had very good expense control, especially in the first half. There are timing differences where I'd expect our spend would increase in the second half. And I'd also caution you to please keep in mind that the fourth quarter every year has the highest level of sales activity, with that comes expense spend as well. So our expense ratio in the fourth quarter tends to be the highest.

Over time, the U.S. still have a number of businesses that are not at scale. And therefore, we've -- we're running those businesses with expense overruns right now. This includes our Group Life and Disability business. It includes our Dental and Vision business and it includes our Direct-To-Consumer business, and to some extent, also our group [ZEB] platform.

As those businesses really reach that scale, then they'll come down in expense ratio, and we'll no longer have that expense overrun. So that means they're -- that there is downward pressure over time to our U.S. expense ratio. But we're very pleased with the expense management and expense control for the first half and in particular in the second quarter. But I'd caution you when you think about the full year, I still would expect those to be inside of the range of 38% to 40% for the expense ratio in the U.S.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then just maybe for Dan or the Japanese team, you talked a lot about competition in Japan on the last call. And it seems like as rates gone up in Japan, some of the companies have cut prices to adjust for that. But what are you seeing in the competitive environment? And is it any different than what you've seen in the last few months or over the past few years?

Daniel Paul Amos
President, Chairman & CEO

Yoshizumi, would you like to take that?

Koichiro Yoshizumi
Senior Managing Exec. Officer and Asst. to the Director of Sales & Marketing

[Interpreted] Thank you for the question. Good morning, everyone. I'm Yoshizumi. I'm in charge of sales in Japan.

So as you've mentioned, our competitors have entered the third sector market. And so the environment is totally different compared with maybe 5 years ago or 10 years ago. And their competitors that they're launching a very reasonable or low-priced products. However, in Aflac, our concept is to launch and sell products that have values to our customers and not just a lower product for the sake of lowering products -- lowering the prices, excuse me.

And as we enter into our 50th anniversary this year in Aflac Japan. And this is based on the history and the trust that we've from our customers in providing the appropriate insurance policies at all times by solely thinking about what is needed in each environment or at times because the illnesses change, the treatment methods change.

Now according to the data that's been publicized between April 2022 and March 2023. And Aflac is recording as the #1 most sold policy company in Japan in third sector products. We'll -- what well aim for is to continue to provide customers the most appropriate products for our customers so that we can maintain our #1 position. That's all for me.

Operator

The next question comes from John Barnidge with Piper Sandler.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

My first question is on distribution with the new first sector product in Japan. Your closest customer is an existing customer and one that doesn't have that product. I know the product was introduced in early June. Have you identified how much of the existing customer base is a target for this new product.

Daniel Paul Amos
President, Chairman & CEO

They're translating, give us 1 second. And Koichiro Yoshizumi, please?

Koichiro Yoshizumi
Senior Managing Exec. Officer and Asst. to the Director of Sales & Marketing

[Interpreted] This is Yoshizumi once again, let me continue to answer your question. We've a large number of existing customers, as you know. And our target customers are young and middle-aged customers. And the reason why I say our target is young and middle-aged customers is as follows.

Well, first of all, the Japanese government is really pushing and encouraging the Japanese citizens to go after asset accumulation products and the Japanese government is offering various systems so that the Japanese citizens can do that. And as a result of that, asset formation needs is heightening very strongly in Japan. And we've launched our new product in order to respond to that kind of asset accumulation needs in Japan. And this product is very well taken by the market and selling well, and it is increasing our sales.

And the reason why this product is attracting attention is because there are various options that would allow our customers to choose after they paid up their premiums. For example, after paying off the premiums, this policy can be converted to death benefit or nursing care benefit or the customer can receive cash value and use that cash as asset accumulation.

And as we go through these kind of discussions with our customers, there will be more touch points with our customers, and there will be more opportunities for our salespeople to talk to our customers about third sector products. We've already have this established sales pattern, and we've trained our sales agent to do so.

So our purpose is to increase our third sector sales by using this new product, TSUMITAS as a hook. Because we're the company that would increase sales by centering on third sector product sales. And our way of doing sales is to really ultimately sell third sector products by launching first sector product, and that is based on the needs of young and middle-aged customers at each times and period of time. That's all for me.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Very helpful. My follow-up on distribution, is the 50th anniversary plans mainly related to this product? Or is it broader? Could you talk about that?

Koichiro Yoshizumi
Senior Managing Exec. Officer and Asst. to the Director of Sales & Marketing

[Interpreted] This is again Yoshizumi. And as I just mentioned, it's not just about TSUMITAS, but since we're a company that mainly sell third sector products. So for example, for the 50th anniversary, we'll be selling -- pushing for cancer insurance sales. And in order to increase our touch points with our customers, we'll be having campaigns to offer gifts to our customers.

We also have a concierge service that no other competitor have. And so what we're planning to do is to appeal this concierge service in line with our 50th Anniversary through the website, TV commercial and video services. We've a large number of sales agents and agencies that only sell Aflac and have worked together with Aflac for the past 50 years. And these agents and the agencies are extremely pleased and happy about celebrating 50th anniversary. And there's a very big momentum for these sales agents and agencies to sell a large proportion of third sector products. We, as a sales team, would like to support these sales agencies at our maximum. That's all for me.

Operator

[Operator Instructions] The next question comes from Tom Gallagher with Evercore ISI.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

A couple of follow-up questions on the TSUMITAS product in Japan. In response to John's question, I just want to be clear, I'm assuming you're not selling this product, the TSUMITAS product to existing customers that already have third sector Aflac products. This would be all brand-new Aflac customers. Is that correct?

Daniel Paul Amos
President, Chairman & CEO

Correct. Our thrust is to write new customers. But if someone wants to buy, we certainly will sell it to them because as was mentioned by Max, the profit margin is very acceptable on this product. And so yes, we'll take anyone that wants to buy it. But it is not our push. We want the younger customers is what we're working towards.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

And Dan, do you have a -- are you keeping track of that to make sure this doesn't become a situation, where the sales force kind of monetizes the in-force customer base and does a lot of selling there because then obviously, that would limit the cross-sell opportunity.

Daniel Paul Amos
President, Chairman & CEO

Absolutely, we're. Now they can talk more about it. That just was cutting through the translation and Max can cover that a little bit more, too.

Max Kristian Broden
Executive VP & CFO

Tom, we track that closely. So we know what those numbers are. We'll not necessarily publish those publicly, but it's an important factor that we keep track of.

Operator

The next question comes from Nick Annitto with Wells Fargo.

Nicholas M. Annitto
Wells Fargo Securities, LLC, Research Division

I just wanted to touch on the U.S. a bit. I know sales came in a little light in the quarter relative to the full year guidance. So I just wanted to get your overall thoughts there on the confidence of hitting something in the guidance for the year.

Virgil Raynard Miller
President of Aflac U.S.

Yes. This is Virgil from the U.S. Let me say that I think the big thing -- the big takeaway is very strong quarter for the U.S. because of the balanced approach. You heard and you saw from -- heard from Max earlier, heard from Dan earlier, what we saw was an increase not just in sales of 2%, but we had an increase of 50 points in our premium persistency. We drove a higher benefit ratio. That was intentional, some intentional actions to put more value into the hands of our customers. We lowered our expense ratio and then that led to one of the highest pretax margins we've had in the U.S. in some years of 50 basis points and 22.7%.

My point on that is that we knew going into the quarter, we came up negative in Q1. Second quarter, I mentioned previously -- earlier that we've made a lot of changes to go to a more profitable business. That was really focus in our group [ZEB] business, formerly this Continental American business that we bought. We wanted to make sure that we're only bringing business that has higher benefits, where people are actually filing claims. And less churn.

So we knew that would have an impact. So this -- the 2% is actually right on target what I expected. But I'm expecting a stronger push in the second half of the year. A lot of that is seasonality, but it's also what Max mentioned earlier, some scale, we'll see from our buy to bills. We're going to see a stronger performance with the new products we bought with life and disability that we call PLADS. We're going to see better performance in the second half from all dental and vision property.

I mentioned before that we're making a huge investments to stabilize that platform. We also announced a partnership with SKYGEN that's bringing some operational excellence to the table with us to help manage that property. And so all in all, I'm expecting higher sales on the dental property, stronger push with PLADS and then continue with the -- what we've driven year-over-year with our veteran agents and with our broker partnerships, good performance from them, and we'll see a higher yield in the second half of the year.

Daniel Paul Amos
President, Chairman & CEO

And I just want to make a comment. I think that we've seen one of the best years and certainly one of the best quarters in the U.S. in terms of we've got a lot of balls in the air. And to realize that they brought up the loss ratio, they brought down the expense ratio, they've switched business. And our business is more complicated as we go into other products. They're training their people better. I just have kudos to Virgil and the team for the hard work they're doing. And I think long term, our U.S. operation is going to be a much stronger company because we're doing all the right things, I think we need to do to prepare us for the future.

So I'm -- the sales, yes, I want more than 2%, but I promise you that 2% that we had is much bigger than a normal 2% because it's cleaner, business is more profitable and it should compound as we move forward.

Nicholas M. Annitto
Wells Fargo Securities, LLC, Research Division

That's helpful. I guess sticking with the U.S., can you just touch on recruiting trends there? I know you said you still have a bit of a way to go to get back to pre-pandemic levels. So it would be just good to get your thoughts on the recovery there.

Virgil Raynard Miller
President of Aflac U.S.

Yes. In the first quarter, we came up negative on recruiting, came in with the second quarter though, very strong. I think we're over a 10% increase. I see us continuing that trend going forward in the second half. But what I mentioned, if you kind of go back and look pre-pandemic, and you look at where we're today, we're going for quality recruiting, we're going for better conversion rates and invest leading to the higher productivity.

You continue to see better productivity from what we're seeing with our agents, and that is really the bigger factor for us. Last year, we recruited over 10,000. I'd expect the same this year. We've got some national recruiting efforts going on right now across the country. What we really do is we leverage support from headquarters to drive our message and then we leverage what we call a nomination process, it's to local agents, local brokers going out telling people about the Aflac career path and bringing people in to listen to that story. And then we actually turn them into a recruit, and then ultimately trying to get them to be an average week of producers. I'm very pleased what we did in the second quarter. Some of those efforts will definitely continue in the third and fourth quarters also.

Operator

The next question comes from Tom Gallagher with Evercore ISI.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

I just had a TSUMITAS product follow-up question. Can you talk a little bit about how you think this rollout is going to go? Clearly, the June rollout seems to have been a big success. Would you expect this to become a much larger percentage of sales as you think about the rollout over the next couple of quarters here? How do you think third sector sales are going to hang in there because I think it's being sold through the same distribution as your third sector? So I'm just wondering while this gets rolled out, are we going to see a slowdown in third sector, how do you see that all playing out, I guess, over the near term, next couple of quarters?

Max Kristian Broden
Executive VP & CFO

Let me kick it off and then I'll hand it over to Yoshizumi-san for some more details. We do not have any explicit caps around this product. And the reason why, it's because it's producing very good returns for us, both from a profit margin standpoint and also from a total -- from an IRR standpoint, i.e., with a significant spread to our cost of capital. So we actually do want to sell quite a bit of this product.

That being said, this product is very much about how it can lift our third sector franchise. We still believe that we're a third sector company, and we want to make sure that we keep our exceptionally strong position in that marketplace as the #1 and third sector player in Japan. So that is the context of this product.

And Yoshizumi-san can help give you some more details in terms of the timing of the full rollout of the product.

Koichiro Yoshizumi
Senior Managing Exec. Officer and Asst. to the Director of Sales & Marketing

[Interpreted] Thank you. This is Yoshizumi, I'd like to answer your question. First of all, this product was launched on June 2, we've been able to record a very successful big sales. And the reason why we've been able to record such big sales at the beginning of its launch is because we mean our distribution channel has been fully prepared to really -- to sell this product, where we -- where they should be selling, how we should be selling, and that's what we've been working on since the beginning of the second quarter.

And the reason why this kind of preparation was needed was because -- and as our agents talked about TSUMITAS to the new customers, our agents really need to practice how to sell this product. And as a result, our agents did visit those customers that are easy for them to be talking to. And as a result, it made a big hit in the sales. And as a result of this full preparation for the June launch, we're not expecting the same level of sales from July and on.

But as a product to earn a certain level of volume, we're quite sure that this product will serve that kind of a role. And the big role that this product will play is to cross-sell third sector products. And it would be easier for our sales agents to talk about third sector products to their customers once they start talking about TSUMITAS. And that is the difference between other first sector products because TSUMITAS has its own feature that can make the sales agents easily talk about third sector products.

So what we're expecting is to have TSUMITAS sell to certain volume on its own, but on top of that, sell third sector products to a certain level as well. That's all for me.

Daniel Paul Amos
President, Chairman & CEO

This is Dan. I want to make a couple of comments. Number one is we normally don't show the first month, we show a 1/4 of whatever the new product is. It is not unusual to have a spike. What I've always said is when we introduce a new product, no matter what it is, you've a spike and then it levels off. We're in the spike period. And we've seen that with others. But it will come down, as he said, and we expect that. So just to keep that in mind.

The other thing is that the numbers were small numbers in the past. And so that also, as a percentage makes it look bigger than it normally is. But there's nothing here that makes me think that it's any different from other new products other than it's doing very well as a few of our products have. And we're excited about that and pleased that we were able to find a way to get the profit margins to acceptable levels. So we could do this. We've been wanting to do it, but we haven't been able to do it. And given Max's credit, he has been able to find a way to help do this, and we appreciate that very much on his part.

Max Kristian Broden
Executive VP & CFO

Tom, I want to address a question that you did not ask, but I think you wanted to ask. And that is how is this different from the WAYS sales that we had in the years, 2012 through 2014. And I'd characterize it, there are 3 main differences. The first one is that we'll do much more frequent repricing of new business for this product, and that's very important because this is a more interest rate-sensitive product than our core third sector business.

The other one is that we'll have a much more diligent management of the distribution channels. And the third piece is that we're now utilizing reinsurance to make sure that we can relieve some of that new business strain and get the IRRs higher. And if you take all of that together, that is what makes this different from the WAYS sales that we had -- that were very, very significant back in that time frame of 2012 through 2014.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Max, you stole my followup. That's was great, appreciate it.

Max Kristian Broden
Executive VP & CFO

Apparently it's teamwork.

Operator

The next question comes from Joel Hurwitz with Dowling & Partners.

Joel Robert Hurwitz
Dowling & Partners Securities, LLC

I just wanted to touch on net investment income in Japan and particularly the U.S. dollar portfolio. Even if I adjust for the make-whole in the slightly favorable [VII], it seemed to have a pretty sizable step-up in yield from the first quarter. Just any color on what drove that? And do you think that the -- I guess, the normalized NII level implied in Q2 is sustainable?

Bradley Eugene Dyslin
Executive VP, Global Chief Investment Officer & President of Aflac Global Investments

Joel, this is Brad Dyslin. Thank you for the question. We did have a very solid second quarter as you pointed out, and there were several things that drove that, that we do think are sustainable into the back half of the year. Besides the adjustments that you've highlighted, short rates remain very attractive, even with the Fed likely to cut sometime this fall. Short rates remain very, very attractive compared to historical levels, and that benefits us in a few ways, including our significant floating rate portfolio.

We also took some actions early in the year, some tactical things we did with the portfolio. We moved a few bonds around in our public portfolio to capture some yield opportunities. It was a pretty sizable switch trade. We also took advantage of some attractive spreads and accelerated deployment in our structured private credit portfolio. So we think the things that have carried us in the second quarter, these tailwinds are going to continue through the second half of the year. Now there are risks, of course, but we think we're pretty well positioned and should have a good second half.

Joel Robert Hurwitz
Dowling & Partners Securities, LLC

Very helpful. And then just I had one on U.S. persistency. So Max, you mentioned in your prepared remarks that you're encouraged by the early signs from some of the initiatives that you guys put in place. I guess just what are you seeing? And how much improvement do you guys think you can drive in persistency in the U.S.?

Max Kristian Broden
Executive VP & CFO

I'm not going to put an exact number on that, but I'd say that anything -- if you get even something like 100 basis points is meaningful when you over time translate that into the economic impact that would have from additional net earned premium. So it's something that we'll continue to drive over time.

The other thing I want you to be aware of is that, that persistency will jump around somewhat driven by mix of business. So our in-force in the U.S., it is gradually changing. So you're going to see more Group Life and Disability business as a proportion of our in-force, which clearly has a much, much higher persistency rate than our average.

And then also, the same thing applies to over time, our Dental and Vision business as well should have an improved persistency. So we're driving all the underlying businesses and the way they improve persistency, but then the mix impact will be an important component as well. So over time, what we're driving is both that business by business improved persistency and then obviously the mix impact as well. So we'll, over time, sort of call that out and give you some more colors on that as well.

Operator

This concludes our question-and-answer session. I'd like to turn the conference back over to David Young for any closing remarks.

David Young

Thank you, Betsy, and thank you all for joining us this morning. I hope you'll be able to join us on the morning at December 3 at the New York Stock Exchange or on our webcast for our financial analyst briefing. If you've any additional follow-ups, please reach out to the Investor and Rating Agency Relations team. We look forward to hearing from you. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]