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Earnings Call

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Call Participants

EXECUTIVES

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Chairman & CEO

David Young

Frederick John Crawford
President & COO

James Todd Daniels
Executive VP, Director & CFO of Aflac Life Insurance Japan

Koichiro Yoshizumi
EVP of Sales & Mrkt. and Director of Sales, Mrkt., Alliance Strategy - Aflac Life Insurance Japan

Masatoshi Koide
President, CEO & Representative Director

Max Kristian Broden
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Virgil Raynard Miller
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Wesley Collin Carmichael
Wells Fargo Securities, LLC, Research Division

Presentation

Operator

Good morning and welcome to the Aflac Inc. Second Quarter 2023 Earnings Call. [Operator Instructions] Please note that this event is being recorded today. I would now like to turn the conference over to David Young, Vice President of Investor Relations. Please go ahead.

David Young

Thank you, Joe. Good morning and welcome. This morning, we will be hearing remarks about the quarter related to our operations in Japan and the United States from Dan Amos, Chairman and CEO of Aflac Incorporated. Fred Crawford, President and COO of Aflac Incorporated, will touch briefly on conditions in the quarter and discuss key initiatives; and Brad Dyslin, Global Chief Investment Officer, President of Aflac Global Investments, will provide an update on the investments.

Yesterday, after the close, we posted our earnings release and financial supplement to investors.aflac.com. We also posted under financials on the same site updated slides of investment details related to our commercial real estate and middle market loans. In addition, Max Broden, Executive Vice President and CFO of Aflac Incorporated, provided his quarterly video update, addressing our financial results and current capital and liquidity. Max will also be joining us for the Q&A segment of this call, along with the following members of our executive management in the U.S.: Virgil Miller, President of Aflac U.S.; Al Riggieri, Global Chief Risk Officer and Chief Actuary; June Howard, Chief Accounting Officer; and Steve Beaver, CFO of Aflac U.S. We are also joined by members of our executive management team from Aflac Life Insurance Japan; Charles Lake, Chairman and Representative Director, President of Aflac International; Masatoshi Koide, President and Representative Director; Todd Daniels, Director and CFO; Koichiro Yoshizumi, Executive Vice President and Director of Sales and Marketing and Alliance Strategy.

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 will prove to be accurate because they are 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. Dan?

Daniel Paul Amos
Chairman & CEO

Thank you, David and good morning. Glad you joined us. Reflecting on the second quarter of 2023, our management team, employees and sales distribution have continued to work tirelessly as dedicated stewards of our business. This has allowed us to be there for the policyholders when they need us most, just as we promised.

Aflac Incorporated delivered very strong earnings for both the quarter and the first 6 months. We remain actively focused on numerous initiatives in the United States and Japan around new products, distribution strategies to set the stage for future growth.

Looking at the operation in Japan, we have continued our rollout of our WINGS cancer insurance and refreshed WAYS and child endowment policies. By introducing new refreshed products, we position our distribution channels for success as Japan makes great strides in recovering from the pandemic.

I am very pleased with our new sales premium increase of a 26.6% increase in Japan. This reflects a 60% increase in cancer insurance sales versus the second quarter of 2022 and a significant contributor from Japan Post Company and Japan Post Insurance, which began selling our new cancer product in early April.

I'm also pleased to see improvements in our sales through agencies and our other strategic alliance, Daido Life and Dai-ichi Life. We also continue to gain new customers through WAYS and child endowment while also increasing opportunities to sell our third sector products, which Fred will address in a moment.

Thus far, our product strategy has served us well and I'm encouraged by our progress as we prepare for the anticipated mid-September launch of our new medical product. In addition to our products, we know how important it is for us to be where the customers want to buy insurance. Our extensive network of distribution channels, including agencies, alliance partners and banks allow us more opportunities to help provide financial protection to Japanese consumers as we are working hard to support each channel.

Turning to the U.S. I remain encouraged by the continued productivity improvements of our agents and the contribution from growth initiatives. We continue to see success in our efforts to reengage our veteran associates. At the same time, we are seeing strong growth through brokers.

I'm very excited at our cancer protection assurance policy, which provides enhanced benefits at no additional cost. We know that when people experience the value of our products, it increases persistency, which benefits our policyholders and lowers our expenses. I believe that the need for the products and solutions we offer is strong or stronger than it has ever been before in both Japan and the United States.

We are leveraging every opportunity and avenue to share this message with consumers. As always, we are committed to prudent liquidity and capital management. We continue to generate strong investment results while remaining in a defensive position as we monitor evolving economic conditions.

In addition, we have taken proactive steps in recent years to defend cash flow and deployable capital against the weakening yen. We remain committed to extending our track record of annual dividend increases, supported by the strength of our capital and cash flows. At the same time, we remain in the market repurchasing shares with a tactical approach focused on integrating the growth investments we have made in our platform to improve our strength and leadership position.

Overall, I think we can say that it's been a very strong quarter, especially with the vast number of factors that are in our favor. Aflac Japan had a strong quarter of sales as we executed product and distribution strategy. Aflac U.S. continued to build on its momentum as it nears pre-pandemic sales level.

Pretax profit margins remained very strong in Japan at 30.4% and in the U.S. at 22.2%, whereas our capital ratios remained very strong and our quarterly share repurchase was like last quarter, one of the biggest in the company's history.

So with that, I'll turn the program over to Fred. Fred?

Frederick John Crawford
President & COO

Thank you, Dan. Let me begin by briefly commenting on conditions in Japan. As Dan commented on, our revised cancer product, which we refer to as WINGS, is doing well, now introduced in the Japan Post Group. Having rolled out WINGS in Japan Post, we are now at full strength with this refreshed product in all channels. Our entire cancer platform, including in-force policyholders is now supported by our [indiscernible] cancer consultation services.

This platform provides concierge care to cancer policyholders connecting them with noninsurance services. In dialogue with key alliance and distribution partners, we continue to receive feedback that this platform is a differentiator in the marketplace. From a data perspective, our market research has shown a positive and meaningful impact to our Net Promoter Scores.

The sale of WAYS and child endowment continues to deliver on our strategy of attracting younger and new policyholders, along with cross-sell performance. Since the launch of our refreshed WAYS product, approximately 80% of sales are to younger customers below the age of 50. This cohort of younger buyers has driven a concurrent third sector sales rate of approximately 50%.

Looking forward, we anticipate launching our new medical product mid-September. As mentioned last quarter, this product design has been simplified to appeal to both younger policyholders with basic needs and older or existing policyholders who desire upgrade in coverage.

As we move through the natural product renewal cycles, we believe simplifying our products is key to driving sales productivity, attracting new and younger policyholders and lowering our operating costs.

Turning to operations. We are pleased with our expense ratio traveling below 20% in the first half of the year and in the face of continued revenue pressure. We are actively working to increase digital adoption, focused on new business applications, customer self-service and claims. As we look forward, we anticipate increased levels of investment to drive digital adoption with the goal of remaining competitive by lowering our long-term operating expenses on a per policy basis.

Turning to the U.S. Our second quarter results followed a similar pattern as the first quarter with individual dental and vision, group life and disability and consumer markets, all contributing to sales growth. Group voluntary sales has been down modestly from a strong 2022. However, we remain encouraged by the level of quoting activity that we believe positions us for a stronger second half of the year.

Our growth platforms of dental and vision, group life and disability and consumer markets are beginning to have a more material impact on performance. In aggregate, sales produced by these platforms are up over 50%, albeit, of a smaller and building base. With the build largely behind us, we are focused on driving scale, stabilizing new platforms and leveraging our ability to bundle core voluntary products as we work with brokers on larger groups.

We are absorbing a pace of investment in growth platforms that pressures our expense ratio but naturally precedes revenue development. This is particularly the case in our group life and disability business, which is more capital intensive. As we settle into operating these platforms, we are also refining our approach to drive expense efficiencies and a long-term path to profitability. In some cases, making decisions around business we choose to exit and opportunities we aggressively pursue.

Last quarter, we commented on our renewed focus on product development in the U.S. Our refreshed cancer product is up roughly 23% and still in the early stages of rollout. Of all the critical illnesses, cancer remains the most frequent and devastating to families and their financial security and we have high expectations for this product.

Last week, we announced a new group voluntary term life product which is part of an important effort to increase our overall worksite life sales. We have lagged in terms of life sales and see this product line as an area where we have market share opportunity.

Like cancer insurance, this is a product that should contribute to improved persistency. We are pleased to see a return to earned premium growth in the U.S. and modest recovery in persistency. We continue to drive utilization through wellness campaigns and benefit endorsements to in-force policies with the objective of improved sales, persistency and driving core revenue growth.

Now let me pause. And I'm going to turn the call over to Brad Dyslin, to bring you current on the health of our investment portfolio with a focus on the loan book. Brad?

Bradley Eugene Dyslin
Deputy Global CIO, Senior MD, Global Head of Credit & Strategic Investment Opportunities

Thank you, Fred. During last quarter's call, we provided an update on our loan portfolios with a special focus on our middle market direct lending and real estate mortgage holdings. I am pleased to report that both of these portfolios continue to perform in line with the expectations we shared last quarter.

Let me start with commercial real estate. As a reminder, most of our exposure is to transitional properties, where we make short-term floating rate loans to facilitate the asset's repositioning in the local market. TRE comprises $6.4 billion or about 3/4 of our total $8.1 billion commercial mortgage loan portfolio, with the balance held in more traditional longer-term fixed rate loans.

Our commercial real estate loan watch list has remained constant at approximately $900 million and consists almost entirely of TRE office properties. The workout process for these loans is complex and negotiations with the properties' owner tend to be very fluid, a dynamic we follow very closely. As a result, our foreclosure watch list gets updated relatively frequently as negotiations with the property owner ebb and flow. However, the total value of these loans has also remained relatively stable with only a modest increase from first quarter.

As we mentioned last quarter, when the loan foreclosure is likely to occur, we must mark the carrying value of our loan to the fair market value of the underlying property assets. With our average loan-to-value of 65%, this accounting process resulted in a small $11 million of additional reserves in the quarter.

This brings the total amount of additional reserves recognized in the first half of the year to $21 million, which represents about 26 basis points of our $8.1 billion total commercial real estate portfolio. And as the result of property value declines generally in the range of 25% to 40%, price drops that are in line with those of the financial crisis.

If you simply apply a 40% price decline across our entire $900 million watch list, we would expect very manageable additional reserves of $50 million. Once the property goes into foreclosure proceedings, we no longer accrue interest on the loan but instead realize the net operating income from the property. Given the transitional nature of these properties, we will see a decline in net investment income from this change.

When considering overall investment performance, we do not expect this to have a material impact to enterprise NII. While we are not immune from the industry pressure in commercial real estate, we remain confident in the quality of the properties supporting our loans. Our strong capital position and ample liquidity allow us to be a patient investor as we manage through the downturn to maximize our overall economics.

I am pleased to report our portfolio of loans to middle-market companies continues to perform well and is exceeding our expectations for credit losses at this point in the cycle. Recall this is our primary outlet for below investment grade exposure and was purposely built with a quality bias to perform well during difficult periods for credit. Our strategy of allowing only modest levels of first lien leverage on growing companies in noncyclical industries owned by supportive sponsors is delivering strong risk-adjusted returns.

Finally, you may have seen the announcement last month that Varagon Capital is being acquired by Man Group, a leading U.K. alternatives asset manager. As part of this transaction, as was announced, we are exiting our equity position in Varagon but will remain a major client. We generated strong returns on this strategic investment realizing over 3x our invested capital in addition to solid performance on the $3 billion of middle market loans Varagon has managed for us the last 3-plus years.

Varagon has proven to be a great partner and terrific investor and we are excited about their future as part of the Man Group. Our relationship with Varagon and our other current strategic equity partners is a valuable part of our strategy for accessing certain specialized private asset classes that have a strategic role in our portfolio.

We continue to invest significant amounts in these high value-add forms of private credit. We look forward to continuing to execute on this strategy and creating additional value through an ownership presence in these important asset classes.

Let me turn it back to Fred.

Frederick John Crawford
President & COO

Thank you, Brad. As Brad noted, we followed a disciplined approach that began with building out our external manager program that matured into taking a minority interest in select managers. These investments have produced strong returns and we intend to expand upon this strategy as opportunities present themselves.

Market conditions remain volatile as both the U.S. and Japan economies go through a period of transition. Last week featured moves by both the Fed and the BoJ, the U.S. is looking to calm down inflation and avoid recession, while Japan continues to maintain its ultra-loose monetary policy as the economic and inflationary uncertainty remain high.

As Max noted in his recorded comments, through investment strategy, hedging and capital engineering, we have greatly reduced our enterprise economic exposure to movements in the yen. In addition, our low asset leverage places us in a naturally strong position to absorb weak or volatile economic conditions and maintain capital deployment plans.

I'll now turn it back to David to take us to Q&A. David?

David Young
Thank you, Fred. [Operator Instructions] And Joe, we will now take that first question.

Question and Answer

Operator

Our first question will come from Tom Gallagher with Evercore ISI.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

It was encouraging to see the growth in Japanese sales. I guess the question I have related to it is 2 parts. One is, how do you see the contribution from Japan Post building out? Is that continued gradual slow ramp? Or do you -- are you seeing any signs of stronger acceleration there?

And then I guess the follow-up is, while there were good sales, the overall top line in terms of earned premium was a bit soft. So can you talk about your expectations for earned premium and what's weighing on that and not allowing the sales improvement to necessarily translate?

Frederick John Crawford
President & COO

Let me start by making just a couple of comments and then I'll hand off to some of the folks around the table to contribute. Tom, this is Fred. First, on sales results in Japan Post in the quarter. We -- as you may know or may remember, based on our alliance, we don't comment on some of the specific results coming out of those channels. But what we certainly can say is that the launch of the cancer product in the quarter was the majority contributor to the increase in cancer sales that you saw in our results. For example, in the first quarter, without being launched in Japan Post, our sales were up in cancer around 25% or so. And as Dan mentioned in his comments, in the second quarter, we were up around 60% and you can safely assume the majority contributor of that was from Japan Post.

Your question then is, what about continuation. And our view is that there is still a much more runway in Japan Post over the long term, predominantly as they build efficiency in their distribution channel and more and more agents take on the cancer product and begin producing. So we do think that there's a continuation of upside in Japan Post. However, it is also the case that commonly right when you launch the product, you'll have an immediate jump in sales in the early months, followed by a calming down. But let me just turn to Yoshizumi-san and/or Koide-san, if they'd like to comment or add any color beyond what I just said.

Koichiro Yoshizumi
EVP of Sales & Mrkt. and Director of Sales, Mrkt., Alliance Strategy - Aflac Life Insurance Japan

[Interpreted] This is Yoshizumi. So let me answer your question regarding, JP. Well, let me mention about the new products launched in the Japan Post channel. The cancer product in the Japan Post channel was launched in April. And towards this April timing, we have been conducting trainings to the Japan Post company, the postal company as well as Japan Post Insurance since January throughout their entire nationwide post offices. And we do believe the steady increase of sales by the Japan Post has -- is a result of us conducting these kind of trainings as well as offering our support to them directly after the launch of the product.

And since the second quarter between Japan -- the Japan Post and Aflac, we have been confirming each layer or each level of sales process at the management level and we'll be managing these processes at each level. And what that means is that we will try to identify where the issues are at each management level and we are checking those items on a monthly basis and we are also offering solutions to these issues and solving them on a monthly basis. As a result of all of these, we do believe that cancer sales will gradually increase going forward as well. That's all for me.

Frederick John Crawford
President & COO

And then Tom, your second question was related to revenue in Japan and how to think about it. Obviously, having to take into account both our reinsurance agreement and paid-up policies. So I'll ask Todd to address that.

James Todd Daniels
Executive VP, Director & CFO of Aflac Life Insurance Japan

Yes, real quick. I think that one thing to remember, when we went to LDTI accounting, we had to move our deferred profit liability from the benefits line to the earned premium line and that's going to create a little bit of noise in that. It's not going to be as stable as it was before. But as Fred said, the reinsurance transaction that we entered into at the beginning of the year caused about JPY 8 billion reduction in earned premium in the quarter. The paid-up impact is also still there and that was again about JPY 8 billion. When you normalize for those 2 factors and considering the DPL, we're still in the right -- in the middle of the range that we gave for guidance for earned premium at approximately minus 1.9%.

Max Kristian Broden
Executive VP & CFO

And Tom, I would just add as well, if you look at it long term, for us to sort of get to a level where we are replacing the business that is falling off, i.e., get to an earned premium growth of 0, we need to essentially get back for all distribution channels to prepandemic levels in terms of production and also have the Japan Post channel get back to a restored production level.

Operator

And our next question will come from Alex Scott with Goldman Sachs.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had for you is on some of the comments that were made in the remarks video that you all post. It was mentioned that the actual to expecteds are continuing to run favorable and what you're seeing in the claims activity and the benefit ratios. And I was just interested what the updated view is on whether that's temporary, associated with utilization levels, potentially being temporarily depressed versus maybe something that you guys have just seen longer term and that you potentially need to adjust in your long-term assumptions?

Daniel Paul Amos
Chairman & CEO

This is Dan. I'll kind of mention that and let the actuaries, if they want to go into more details, Todd or whoever. But it has continued to run at a lower rate than we have anticipated year after year after year. And we have tried to counter that with different things from increased benefits on certain policies when a new one came out. But for some reason, you're seeing more and more trends to do -- well, we know why, outpatient treatments and things of that nature as we're seeing changes take place, we have to adapt accordingly. But some of the policyholders don't change over policies. And that's something that we continue to monitor and encourage people to do. If you specifically want to talk about U.S., that's a great example. The wellness benefit hadn't been used as much. So we have really encouraged that. We're seeing that improvement and we feel like that will be reflected in a positive manner. I think Virgil might touch on that if he's around to say something. Virgil?

Virgil Raynard Miller
President of Aflac U.S.

Thank you, Dan. Yes, utilization continues to be our focus in the U.S. We have launched a series of wellness campaigns, really driving our policyholders to leverage the coverage. I think Fred or Dan mentioned that we've seen over a 22% increase in wellness utilization during that time period, which started about the first quarter of the year. we're going to continue to do that. Our main thing is to drive and demonstrate value. We know that the average American has less than $1,000 in savings out there. So there's a benefit to them to make sure they're prepared for any unexpected medical event and also getting regular checkups will help anyone that gets diagnosed with some catastrophic disease like cancer, it helps them, of course, be able to get the right treatment and save their lives. So we're going to continue to push on that and I expect us to see continued improvement going forward.

Max Kristian Broden
Executive VP & CFO

And Alex, just to sort of add in terms of utilization. If you think about, U.S. is absolutely out of the pandemic now and you should expect the utilization to sort of get back to sort of a normal level at this point. I think we're still a little bit of a -- where we should expect some rebound on utilization but definitely, the vast majority of the benefits that we offer should run at more normal levels at this point. So what we're doing, as Dan and Virgil alluded to, we are enhancing our products for that because we have not seen utilization bounce back to pre-pandemic levels.

And so why is that? Well, there are some fundamental differences that have happened during the pandemic. There's definitely less usage of emergency rooms that we see in the data, greater use of local facilities. Greater use of outpatient services rather than in-hospital services. All of this leads to lower claims utilization overall for us. If you go to Japan, we continue to see the long-term trends of shorter hospitalization stays, especially as it relates to cancer. We have seen first diagnosis, i.e., diagnosis of cancer bounce back to more normal levels but the surgeries and hospitalization trends are still pretty muted. And we believe that, that's more driven by greater use of outpatient services as well in Japan as well because we see that increase. Overall, the net effect of this is that it leads to a lower benefit ratio overall for us if these trends continue to stay in place.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. Very helpful. A follow-up I had is just on Japanese interest rates. I was interested in just how it affects your strategy in terms of, if you all are thinking through different products that you may emphasize more in a higher rate environment as well as on the investment side, choices you're making between USD investing and yen investing?

Frederick John Crawford
President & COO

I'll let Brad comment on the asset allocation question. I think relative to the business model, as you may know from some of our previous comments, we continue to work on what we would call -- what we call internally our asset formation product strategy in Japan. That's most notably surrounding the WAYS product and refreshment and refinement to the WAYS product, training and development around that product and working with customers and then, of course, an emphasis on cross-selling. What we've also mentioned, Alex, in the past, is that not only has a recent recovery, I'll put recovery in quotes, of course, but recovery in rates in Japan help with supporting those types of products.

Also importantly, is building out our reinsurance strategy because there's no question reinsurance is going to play into the long-term viability of those types of products and maintaining economic value as a company. So yes, some rise in rates is supportive of asset formation products and we pay attention to that. But as you can see, there's a long way to go before we would characterize the rate environment as supportive of strong profitability in those products. You still need some heavy engineering, you absolutely are in that business for the cross-sell experience and bringing younger policyholders into the fold that we can cross-sell into the future. Brad, comments on...

Bradley Eugene Dyslin
Deputy Global CIO, Senior MD, Global Head of Credit & Strategic Investment Opportunities

Sure. In terms of investment activity, the rise in yen rates is certainly welcome news. It's been a long time since we've had these kind of levels. But one of the biggest issues we face in Japan is finding attractive spread products and that remains our biggest challenge. We continue to take advantage of those opportunities when we can find them. We have been relatively successful in finding yen credit where we can get an acceptable level of pickup over JGB yields for what we think is a pretty acceptable level of risk. And although rates are definitely -- the rise in rates is definitely welcome, it still pales in comparison to what we're able to get in some of the dollar assets. So we'll continue to always be active there but you shouldn't expect to see a big wholesale change in strategy, at least not yet.

Operator

Our next question will come from Suneet Kamath with Jefferies.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

I wanted to go back to some of the comments that you're making on utilization, both in Japan and the U.S. It seems like things are moving in the right direction. My question is, how quickly do these benefits get reflected in your financial statements under this kind of remeasurement concept in LDTI? My thought was, historically, these impacts would take a while to kind of feather in but I'm wondering if under LDTI, does this get reflected in your financials much faster?

Max Kristian Broden
Executive VP & CFO

Suneet, they definitely come into our financials faster than they've done historically and it's because we rerun these remeasurements each quarter and reset the net premium ratio for our forward reserves. So therefore, you get it into the results much quicker.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

And I guess, where are we with that now? I mean are we kind of -- should we expect some of these benefits that you saw here in 2Q to persist going forward? Or is it more you've baked in these lower utilization trends. And so going forward, we need to see them decline even more to get incremental benefits?

Max Kristian Broden
Executive VP & CFO

We true up our reserves for a recent experience and to our best estimate. And then going forward, what that means is that, for you to get lower reserves in the future, you need to have an improved trend. If the utilization stays at this level, our reserves are adequate. If you were to have worsening trends, the opposite would then occur.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

That makes sense. And then my follow-up is just on persistency in Japan. I just noticed it fell below 94%, which is something we haven't seen in a while. Just wondering if you could unpack that a little bit. Is this lapse reissue related to the new cancer product? Or is there something else going on?

Frederick John Crawford
President & COO

I'll ask Todd to comment on it but you pretty much answered your own question. It has a lot to do with the introduction of cancer and natural replacement activity. Todd?

James Todd Daniels
Executive VP, Director & CFO of Aflac Life Insurance Japan

Yes. I think that we saw a lower lapse and reissue rate during the quarter than we did first quarter. And that's typical as we launch a new product, we expect that to wane over time, with the product being launched in the Japan Post channel. We did have some lapse and reissue activity during the quarter but it's within our expectation and it's still running somewhere around 50%.

Max Kristian Broden

Executive VP & CFO

And Suneet, when you naturally have sales running lower than lapses, by definition, the age of the block increases. And when you have an older and more mature block, you're going to get higher lapses from it as well.

Frederick John Crawford
President & COO

One thing that I really like to add when we have this conversation, particularly spending some time in Japan and with the team is, we proactively promote the notion of an existing policyholder with an older cancer policy, replacing their policy if it's in their best interest, if it serves them economically and from a benefit and overall quality of coverage perspective. And we do that because it's good for the customer but we also do it because it brings that customer into our shops and allows for face-to-face interaction between our distribution partners and their clients and that often leads to cross-sell activity with the individual. But also cross-sell activity with their family members as the agents have a chance to engage. And so please realize that we don't actually look to avoid or curtail lapse and reissue activity. It's actually part of the strategy and it's particularly important on the cancer side, as you can imagine.

Daniel Paul Amos
Chairman & CEO

Look, to the next question. I'd like -- because we have Koide here from Japan, being President of Aflac's Japan, I just think it's important for him to say a couple of words because we had such a stellar performance with sales in banks. So Koide, would you just -- I'll ask the question, tell us how things are going in Japan.

Masatoshi Koide
President, CEO & Representative Director

[Interpreted] As our sales results show, the cancer insurance product that we launched newly in August last year called, WINGS, is going extremely well. We now sell this cancer WINGS through all channels because we had somewhat a progressive launch of this product starting August last year with our associates. And then in January this year, Dai-ichi Life and bank channel has introduced it. And then in April of this year, the Japan Post has launched its product.

Well, all distribution channel sales has been very active surrounding this new cancer product. Because of the new product launch, it is obviously the case that things will become very active. But at the same time, the Japanese society, the economic activities have recovered during the same time. So with these 2 factors, I think the product has done extremely well.

And our cancer -- new product competitiveness has increased as well. As Fred mentioned earlier, we now have this support service called Elisa [indiscernible] cancer consultation service, which is somewhat of a concierge service for our customers. And by having this integrated with our cancer product, it is also pushing the sales as well.

We are also preparing to launch a new medical product with very good competitiveness in September. So as a result of all these things that are going well, all our employees in Aflac Japan as well as our salespeople in our distribution channel, of all channels are extremely motivated to do more sales.

Operator

Our next question will come from Wes Carmichael with Wells Fargo.

Wesley Collin Carmichael
Wells Fargo Securities, LLC, Research Division

Hoping you could just talk a little bit about the lapse and persistency trends in Aflac U.S. It looks like it's improving a bit. But maybe you could help us, what's your expectations for -- how that should trend from here? And maybe any impact on the expense ratios. I think that's been a little bit elevated by lapses.

Virgil Raynard Miller
President of Aflac U.S.

This is Virgil. Let me first say that I'm pleased with the stabilization that you see, that's occurring in our persistency rate. So this quarter, we came in at 78.2%. It's about 10 basis points higher than last year. I mentioned in Q1, we have done quite a few conservative efforts to go after this. We have stood up, what I call, the [offense] of the persistency, which is really a team of data scientists that spend 24 hours a day looking at different efforts that we can really do. So I think that you're going to see even more to come from that. Today, what you heard me say earlier is mainly about driving utilization. We're really pushing out campaigns with wellness. What we did in Q1 and Q2 was more of a shotgun approach reminding everyone that has those benefits within those policies to go out and file those wellness claims, which you'll see us doing going forward now is more of a, what I would call, a more strategic or surgical attack, which is around event-driven notifications.

For example, if someone recently got married or they have a birthday, we would be reaching out to them and remind them to utilize those benefits that we have. Overall, you saw that the persistency plus the 6.4% increase we had in U.S. sales drove to higher earned premiums for us. The earned premium rate was up about 2.2% and that's really what's helping right now, the growth, is what's happened to balance off our expense ratios. We still see higher expenses right now with our investments and our growth initiatives. But those growth initiatives, again contributed to about 4% to 8% growth in the second quarter toward our revenue.

Let me just ask Steve Beaver, our CFO in the U.S. if he wants to comment any further.

Steven Kent Beaver
Senior VP & CFO of Aflac U.S.

I would just add that, remember, that the activity around driving persistency takes time to emerge in that 12-month rolling metric. But we do expect, like Max said in his video, to help us bend that curve and lower the expense ratio going forward.

Max Kristian Broden
Executive VP & CFO

And whilst the impact on the second quarter expense ratio from higher-than-normal [de-commoditization] was about 50 basis points.

Wesley Collin Carmichael
Wells Fargo Securities, LLC, Research Division

Got it. Very helpful. And then on -- I just wanted to kind of clarify maybe a follow-up to Tom's question but on net earned premium growth in Japan, I think it was impacted by 260 basis points related to the reinsurance transaction and some lapses. I just want to clarify, for the rest of 2023, do you think that roughly 6-ish percent decline is reasonable for the full year and then it kind of moves back into that 1.5% to 2% -- 2.5% decline in 2024. Just wanted your thoughts around that.

Max Kristian Broden
Executive VP & CFO

So the impact from reinsurance will continue throughout the year and I would expect it to be running up at that level. The impact from paid-up and the DPL impact was rather high in this quarter. It's going to be quite a volatile number overall. But I would just note that it was -- we deem it to be quite high this quarter.

Operator

Our next question will come from Jimmy Bhullar with JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, just a question on the upcoming launch of the medical product in mid-September. Should we assume that going into that sales of medical policies will be depressed as agents are sort of waiting for the new product to be rolled out? Or is that already in your numbers in 2Q as well?

Frederick John Crawford
President & COO

Well, we have our team here in Japan comment on that. So Yoshizumi-san, the question is, is there a natural pullback in medical when there's anticipation of a new medical product to come later in the year?

Koichiro Yoshizumi
EVP of Sales & Mrkt. and Director of Sales, Mrkt., Alliance Strategy - Aflac Life Insurance Japan

[Interpreted] Fred, thank you. I'll answer the question. So since we are selling our products in multichannel, let me start out with the associates channel. In the associates channel, as we launch our medical product soon, what I need to talk about is the cancer product that we launched in August last year. And since the cancer product will have gone around a cycle of a year, that sales will go down. But then, when we look at other channels that only sell cancer products such as the Japan Post channel, Dai-ichi Life channel and Daido Life, it will not have been a year since they launched new cancer WINGS and there should not be any impact on medical insurance, sorry, there should not be any impact on cancer sales from the medical launch.

Daniel Paul Amos
Chairman & CEO

Let me just make a comment. This is Dan. Is that anytime we come out with a new product, it always has some impact. So we're taking that as being a standard, no matter what. If it's a new cancer, it affects medical, if it's a new medical, it's cancer because everyone goes to the easiest thing to sell. And so something new and sparkly always looks better. So that's going to always happen. But the variation can be such. But all in all, that's part of the system. That's why we're constantly having to upgrade, is because we have to show -- the competitors come out with new things, we have to come out with new things. But because it isn't actual expenses but fixed cost, we have to do this.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

And then as you think of longer term, the alliance with the Post, what's your view on the likelihood of that being expanded beyond just cancer? Or do you think it's unlikely given that they've already got other providers for some of the other products?

Daniel Paul Amos
Chairman & CEO

Well, I don't think you ever say never. And you also remember that they're our largest shareholder. Those are positive things that we'll look at going forward. Fred, you got any comments?

Frederick John Crawford
President & COO

No. I agree, Dan. I think right now, what we focus on is just expanding within the line of cancer, meaning, so when looking at refreshing our cancer product, we also have lump sum critical illness that we include. We also has, as I mentioned earlier, the [indiscernible] cancer consulting service. And so quite honestly, what we're focusing on now with Japan Post is not just cancer sales but how do we expand and enrich the overall activity within that cancer line of business. So I think what you can assume is, anything that comes out or any developments or innovation around the cancer line of business that we will certainly deploy that within the Japan Post system.

Operator

And our next question will come from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Looking at the turnaround in premium growth in the U.S., it's very favorable. Is there any senior management type compensation to support the turnaround growth specifically at the company?

Max Kristian Broden
Executive VP & CFO

Essentially, total of a -- both senior management and employees have incentive compensation based on earned premium.

Joshua David Shanker
BofA Securities, Research Division

And is that targeted? Is there any -- can you go into how that works a little bit?

Max Kristian Broden
Executive VP & CFO

You mean in terms of specific levels?

Joshua David Shanker
BofA Securities, Research Division

Is it above a certain target, there's a long-term compensation grant? Is there a trajectory? How should we think about how invested the company is in growing premium?

Max Kristian Broden
Executive VP & CFO

In the short term, it's outlined in our proxy and you can see our MIP targets there.

Joshua David Shanker
BofA Securities, Research Division

Okay. And that's true for both the Japan business and the U.S. business?

Max Kristian Broden
Executive VP & CFO

That is correct.

Daniel Paul Amos
Chairman & CEO

We try our best to keep these tied together to our bonuses to where, when you're happy, we're happy, when we're happy, you're happy. So if you look at those, you will see that that's a very important part of our Board function under the Compensation Committee that will tie that together.

Frederick John Crawford
President & COO

You'll see very clearly in each segment, U.S. and Japan, there's both sales and earned premium targets. And then as you can imagine, we cascade that down and get more particular by line of business when we get down to executives or officers that are in charge more directly to a particular line of business. So the concept of earned premium is an essential piece of how we compensate.

Max Kristian Broden
Executive VP & CFO

And Josh, I would just remind you that the earned premium outlook that we gave for the year 2023 and 2024 is a CAGR of 3% to 5% earned premium growth.

Joshua David Shanker
BofA Securities, Research Division

Yes. I do. I am aware of that.

Operator

Our next question will come from Mark Hughes with Truist Securities.

Unknown Analyst

This is actually Maxwell [indiscernible]. I am calling on behalf of Mark Hughes. So looking at the total recruited agent count, it looks like it reduced 4% year-over-year on a tough comp, though and up 6% sequentially. I was just wondering if you could give me an outlook or what the environment looks like for recruiting and the labor market right now.

Virgil Raynard Miller
President of Aflac U.S.

This is Virgil from the U.S. Actually, I would tell you, I'm sitting very pleased with our performance for the first half of the year. To your point, we did see a decline in the second quarter. But if you look at the [indiscernible] some of the numbers, I look at the lead indicators, we had strong recruitment in January, February, March, April and May. The decline really happened in June. If you look at for the first 6 months, so we're sitting at about 8% up. If you look at the actual career agents themselves, we had a strong increase in that Q1 at about 35%. So we're sitting about -- will not be specific on a number. We've got about 600 more than I really expected this time of the year.

What it really means to me, though, is we've got a great opportunity, which we did in June to really push on productivity conversions. We have first year conversions up 5.2% and then really driving to our average weekly producers. So average weekly producer number is up again for the quarter, over 2%. That's really what we're trying to do. We're bringing them into the pipeline. We're getting quality recruits. We're giving them converted. We happen to drive productivity and then we're looking to turn them into average weekly producer, so I would tell you that recruiting is favorable for the remainder of the year. We really don't see any major headwinds out there. But we will take those recruit, convert them and give them average weekly producer. So looking forward to a even stronger second half of the year.

Daniel Paul Amos
Chairman & CEO

Let me make a comment about recruiting from the past. And we have to remember, we're in a postpandemic period. But our track record for the past has been that with high unemployment, people tend to come selling for us because they can't get a job on a sal. So they're working on commission. That's not limited to Aflac. Anybody that's in that business. Most people prefer a salary with a bonus versus all commission.

So that's the first point. But on the other hand, when you have high unemployment, recruiting becomes more difficult. But at the workplace, there are more people to enroll. So the people that are selling are seeing more people at the worksite. It will be interesting, what happens here is, we see more people working from home. We're seeing that they're -- I was in a restaurant the other day that it was closed for lunch because they couldn't get enough people to work there.

So these things are happening and we're having to do that. But I would say, considering that it's hard to find employees certainly at the lower levels, it tells you that we're doing a pretty good job. And I give kudos to Virgil and their team for what they're doing because it is a little bit uncharted waters because the tradition or the way we've been doing it, I've just got to see how it falls out. So I want to make that comment.

Virgil Raynard Miller
President of Aflac U.S.

Yes. To that point, Dan, we have that baked into our numbers. So that's what I mean when I say we're on target with our expectations. I mentioned in Q1, you won't see these humungous numbers that you see in the past, right? We've got -- and that's why you see a concerted effort on making sure we convert what we have. And it's going pretty well for us this year.

Frederick John Crawford
President & COO

If we could for a minute before we go to the next question, Jimmy had asked a question earlier about our expansion opportunities in Japan Post. And as Dan mentioned, our President, Koide-san, is here with us today this morning in Columbus. And he would like to add just a few comments about the Japan Post alliance. Koide-san?

Masatoshi Koide
President, CEO & Representative Director

[Interpreted] This is Koide once again. Let me just add a little bit on what we are doing with the Japan Post Group or the Japan Post Insurance. We are actually doing a lot of collaboration in various areas. For example, apart from the cancer insurance sales, we are also working with the Japan Post Insurance Group to have concierge service on nursing care area. And on top of that, we are also doing some start-up acceleration program together with the Japan Post Insurance Group. So as you can see, we are working with the Japan Post Group outside of cancer insurance area as well. That's all.

David Young

All right, Joe. I believe that's the...

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, Joe. That concludes our call. I want to thank you all for joining us this morning. Please reach out to the Investor Relations team if you have any questions and we look forward to speaking with you soon and wish you all continued good health. Thank you.

Operator

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