S&P Capital IQ

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Aflac Incorporated NYSE:AFL

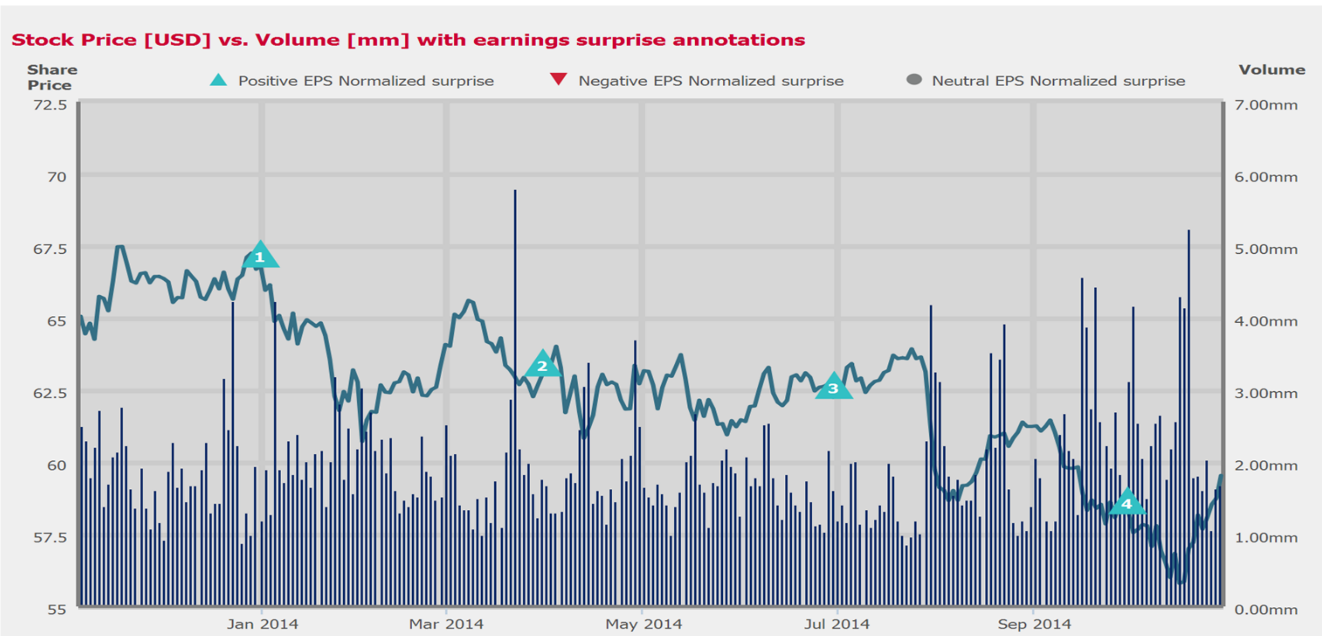
FQ4 2014 Earnings Call Transcripts

Wednesday, February 04, 2015 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.28	1.29	▲0.78	1.57	6.15	6.16
Revenue (mm)	5515.33	5514.00	▼(0.02 %)	5218.67	22713.42	22728.00

Currency: USD
Consensus as of Feb-04-2015 12:09 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	1.39	1.40	▲1 0.72 %
FQ1 2014	1.59	1.69	▲2 6.29 %
FQ2 2014	1.59	1.66	▲3 4.40 %
FQ3 2014	1.43	1.51	▲4 5.59 %

Call Participants

EXECUTIVES

Daniel P. Amos
Chairman & CEO

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Hiroshi Yamauchi
Vice Chairman of Aflac Japan

Kenneth S. Janke
Former Executive Vice President and Head of Corporate Finance & Development

Kriss Cloninger
President & Director

Paul Shelby Amos
Former Director

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

Teresa Lynne White
President of Aflac US

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Yaron Joseph Kinar
Deutsche Bank AG, Research Division

Presentation

Operator

Welcome to the Aflac's Fourth Quarter Earnings Conference Call. [Operator Instructions] Please be advised, today's conference is being recorded. I would now like to turn the call over to Ms. Robin Wilkey, Senior Vice President of Aflac Investor and Rating Agency Relations. You may begin.

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

Thank you, and good morning, and welcome to our fourth quarter call. Joining me this morning is Dan Amos, Chairman and CEO; Kriss Cloninger, President and CFO; Ken Janke, President of Aflac U.S., Executive Vice President and Deputy CFO, Aflac Incorporated; Eric Kirsch, Executive Vice President and Global Chief Investment Officer; and also joining us from Tokyo are Paul Amos, President of Aflac; Hiroshi Yamauchi, President and COO of Aflac Japan.

Before we start, let me remind you that some of the statements in this teleconference are forward-looking within the meaning of federal securities laws. Although we believe these statements are reasonable, we give no assurance they will 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 fourth quarter release for some of the various risk factors that can materially impact our results.

Now I'll turn the program over to Dan, who will begin this morning with some comments about the quarter and year as well as our operations in Japan. I'll follow-up, and then we'll take your questions afterwards. Dan?

Daniel P. Amos
Chairman & CEO

Thanks, Robin. Good morning, and thank you for joining us. Let me start off by saying that the final quarter of 2014 concluded another good year for Aflac. I'm excited about the incredibly strong fourth quarter sales results in both the United States and Japan. And on top of that, we finished the year at the high end of our expectations for operating earnings per share growth.

Let me begin with some highlights related to the Japanese operations. Aflac Japan's impressive 28.5% increase in third sector sales in the fourth -- in the final quarter of 2014 is particularly remarkable to me, considering the significant growth follows 2 years of excellent sales results in the fourth quarter. Sales of cancer insurance serves following the launch of the new Cancer DAYS product, which also included an exclusive product sold by Japan Post. Cancer insurance sales through all distribution outlets were up an outstanding 176% for the quarter. This dramatic increase in cancer insurance sales was critical to Aflac Japan reaching the high end of the 2% to 7% annual target.

On the distribution side, our traditional agencies have been and remain key to our success. Additionally, I consider our strategic alliance with Japan Post to be enormously advantageous. This alliance merges the broad consumer access of Japan Post with Japan Aflac's status of an industry leader of cancer insurance. Tremendous progress has been made in increasing the number of postal outlets that offer our cancer insurance to our customers. I would remind you that Japan Post has the largest distribution network in Japan. I believe Aflac Japan and Japan Post will continue to be mutually beneficial as we make cancer insurance available to more and more Japanese consumers. Our goal is to have a presence in all the outlets where consumers want to make their insurance purchase decisions.

In Japan, I think about sales for a 12-month period from October 1, 2014 through September 30, 2015. For the 9 months of 2015, we project a 15% increase in third sector sales. When you add the 28% increase from the fourth quarter, we could be close to a 20% increase over the rolling 12-month period. Please note that this 12-month rolling period will be the biggest third sector increase in more than 10 years.

We are reviewing fourth quarter sales and the difficult comparisons that we'll experience in 2015. At this point, we believe sales for the fourth quarter could be down sharply but, as always, we'll be working to find ways to minimize that decline. At the end of the second quarter, we will have more insight and will give you additional guidance on the fourth quarter.

Aflac Japan has also performed extremely well in the fourth quarter, with $454 million in new sales or a 14.1% increase, exceeding our expectations. The strong fourth quarter sales drove our total new sales to $1.4 billion, which is approximately a 1% increase, which also significantly exceeded our most recent sales expectations for the year. I believe the changes we made to our sales organization in the third quarter are showing promising results, but I'm not willing to say yet that the sales have turned around until I see the first half sales results in 2015. Saying that, I'm still encouraged and I believe we should be or have an increase of somewhere between 3% to 7% with a target of 5%.

I also want to mention that we have a groundbreaking new marketing campaign that I mentioned on CNBC this morning. We're kicking it off at the GRAMMYs on Sunday. And on E! Entertainment channel, the preshow, the Aflac Duck will be the first-ever advertising icon to walk the red carpet. During the GRAMMYs, a new commercial will feature the Aflac Duck, but it will focus on One Day Pay, which highlights our new accelerated claims payments. One Day Pay is an industry first that allows us to process, approve and pay in just 1 day, which would be about 70% of our eligible claims.

Through One Day Pay, we expect to pay more than 1 million claims in 2015. I hope you all get a chance to see the commercial and the campaign. I'm very excited about it and I think it will set us apart in the industry, thus increasing our sales. You can also go to our website and see more about it.

Having covered operations, let me turn to a topic I know is top-of-mind with our shareholders, and that's capital deployment. I believe dividends are an important component of the value we provide to investors. In 2014, our capital strength enabled us to increase our cash dividend to shareholders in the fourth quarter for the 32nd consecutive year. Our objective is to grow the dividend at the rate that's generally in line with the earnings per share growth before the impact of the yen. Additionally, we believe that share repurchase should continue to be the largest component of our capital deployment. I'm very pleased that in 2015, we plan to repurchase 1.3 billion of shares, which exceeds the 2014 repurchase. As we've said for many years, when it comes to deploying capital for the benefit of our shareholders, we still believe that repurchasing of our shares and growing the cash dividend are the most attractive means, and those are the avenues we will continue to pursue.

Let me reiterate what I said in the press release last night. I am very pleased that we ended the year with our operating earnings per share at the high end of the 2014 estimate. And although the results creates a tougher comparison when we look at 2015, our objective remains to grow 2015 operating earnings per diluted share before the currency at the 2% to 7% range. Because overall financial markets are currently very challenging and interest rates are at significantly depressed levels, it's difficult to invest cash flows at attractive yields. Therefore, we will be very disciplined in selling first sector products in Japan, which will reduce cash flows to investments.

I also remind you that the progression of this year's benefit ratios in both the United States and Japan, which have seen favorable trends, could also have significant impact on our results. As always, we are working very hard to achieve our earnings per share objectives while also ensuring we deliver on our promise to our policyholders.

Just let me end by saying how proud I am of the -- how hard our people in both Japan and the United States have worked to pull off such phenomenal fourth quarter results. Everyone involved has been relentless and disciplined in their pursuit of excellence. I'm also pleased with Aflac's position in Japan and the United States, the 2 largest insurance markets in the world.

First and foremost, we are focused on protecting our policyholders and providing value to our investors. We are fortunate that in the process of doing so, we have the privilege of providing financial protection to over 50 million people worldwide. Now I'll turn the program back over to Robin. Robin?

Robin Y. Wilkey

Former Senior Vice President of Investor & Rating Agency Relations
Thank you, Dan. We know we're on a tight time frame this morning, and that we will have to end sharply at 10:00. So in lieu of the numbers I normally give, we're going to go straight to Q&A. But please remember that we're available in the office for any specific numbers that you want to get following the call. So we'll start now with our first question, please.

Question and Answer

Operator

And our first question is from Nigel Dally of Morgan Stanley.

Nigel Phillip Dally
Morgan Stanley, Research Division

In the U.S., clearly encouraging sales, but the one area that was somewhat weak was recruiting. So a 2-part question. What was causing the pressure? And what initiatives do you have in place to turn that around?

Teresa Lynne White
President of Aflac US

Nigel, this is Teresa White. In the U.S., we actually expected a slightest decline in recruiting. As you are aware, recruiting includes the career recruit and the broker recruit. So as we made changes to our model that we spoke about, about 6 months ago, we realized that what we wanted to do is focus on broker productivity. So really managing the relationship with the broker. So we're looking up the quality of that relationship versus the quantity of recruits from a broker perspective. However, on the career side, we're continuing to work with our sales organization to increase the recruits in sales. But we did expect a slight decline in recruits this year in 2014.

Operator

Next question is from Randy Binner of FBR Capital.

And we'll go on to Steven Schwartz, Raymond James & Associates.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Dan, I want to talk about kind of your -- the fourth quarter '15 thing in Japan. It looks like the fourth quarter cancer sales were driven by affiliated corporate agencies, which I believe is where Japan Post is located in terms of the -- your financial statements. And I don't think there's any particular reason for non-Japan Post affiliated corporate agencies to really have surged in the quarter. So I guess I'm interested in your worries with regards to 4Q '15. I mean, I understand being conservative and all, but are you indicating maybe that Japan Post is kind of won and done? Like maybe Dai-ichi or the banks for you, they pick up the low-hanging fruit and then they're pretty much done and the growth is over?

Daniel P. Amos
Chairman & CEO

No, I'm not. I tell you, I'm going to let Japan answer that. But I just want to say, the increase in cancer sales were broad-based. There's no question that Japan Post was significant. But let me just say that it's the best increase in cancer sales in our existing channel that we've probably had in, I can't remember how many years. So I'll let you all -- Kriss wants to say something.

Kriss Cloninger
President & Director

I just want to point out, Steven, that it's the growth rate in the fourth quarter that we're more concerned about. It's the comparison, not the absolute value of Japan. I think Japan can comment and affirm it, but I believe that the projected sales in absolute terms are similar in the fourth quarter as to what they were -- would be in the previous couple of quarters. And it's just the growth rate that would decline. So I want to clarify that. Now Paul or anybody else in Japan might want to elaborate.

Paul Shelby Amos
Former Director

Yes. First of all, I'd like to say that Dan and Kriss are correct, that our channeled growth was across the board, while Japan Post was significant and provided significant growth around our cancer plan. We also saw significant growth, not only in the corporate-affiliated agencies, but also with our independent agencies as well as our associates in all channels across the board. So we feel confident that, that growth was not about a single channel, but about a broader environment where Japanese consumers saw the need for our cancer product. We believe that will continue, thus our 15% increase projected over the next 3 quarters. As Kriss mentioned, he is correct. Sequentially, the numbers will remain the same. It's the rate of growth that we believe will really drop off in the fourth quarter. That said, it's very difficult to tell this far out with all of the different things that we're monitoring, how that's going to go. But the outstanding fourth quarter that happened here in Japan happened due to a concerted effort by our sales team. It capped off an incredible career for Toru Tonoike as our President, who had everyone aligned and ready to execute. And we have just gone through a wonderful succession here at Aflac Japan with Hiroshi Yamauchi coming on as the President. And I'd like to just let him make a quick comment before we turn it back over.

Hiroshi Yamauchi
Vice Chairman of Aflac Japan

Good morning, I am Hiroshi Yamauchi. As you know, I assumed the position of President and COO of Aflac Japan as of January 12 this year. I joined Aflac Japan in 1976 as a member of the first group of new project hires. For the past 39 years, including 1 year in Columbus, I have been advancing my career with Aflac Japan's growth. Some of you may recall my name since I have given presentations in the financial analyst briefing before. I look forward to seeing you all at the Analyst Meeting in May. Thank you.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Paul, if I may, one follow-up. One Day Pay in Japan, is that a possibility? I would think with the misselling stuff that's gone on in the past, this could be a really big thing.

Paul Shelby Amos
Former Director

We are acutely focused on what our customer wants here in Japan. And currently, we believe our payment of claims in Japan is the fastest among all of the competitors that we have here in Japan. So while we are not doing the One Day Pay, we do believe we're ahead of the competition in terms of claim payment and we constantly monitor what our consumers want. And if we deem that, that is a route we want to go, we would consider doing it.

Operator

Our next question is from Randy Binner, FBR Capital.

Randolph Binner
FBR Capital Markets & Co., Research Division

I wanted to talk about the reinsurance, the retro that happened at the end of the year. Two-part question. One is can you explain how the economics of that work and how that may have offset the upfront costs of the most recent reinsurance deal? And then secondly, I'm kind of interested in the outlook for you to do more deals and potentially more retro sessions back to -- I assume the retro session was back to the Nebraska sub.

Daniel P. Amos
Chairman & CEO

This is Dan. Let me start on that, and Kriss may want to add something. We did execute an agreement to retrocede 50% of the second tranche. You'll recall that the second tranche released about JPY 55 billion of FSA-based reserves, and that was executed on October 1 of last year. And so then we retroceded roughly half of that to actually our company that's domiciled in Columbia and South Carolina, CAIC or Aflac Group. And it effectively serves as an offset to the cost that we incurred for the reinsurance. So we'll pick up about $8 million or about $0.01 a share in this year from the retrocession, which will reduce the cost of the second tranche, which was probably around $0.025 a share so annualized. As far as the extent to which we might do this going forward, as I indicated at the Analyst Meeting we conducted in Tokyo last September, we're working on a multiyear capital plan. We're building out the framework for that plan and should be able to discuss more details at the Analyst Meeting in May. But I'll tell you, we have been pleased with the reinsurance agreements we've executed. It's an effective and -- efficient and effective tool for us to use to release FSA-based capital. And we found that the retrocession is also a tool that we can use to try and minimize some of the costs of that transaction. So those are things that we'll consider as we go forward and build out our plan.

Kriss Cloninger
President & Director

The only thing I'd add is that, technically, we said we retroceded. We, Aflac Japan, ceded a block of business to Swiss Re, and Swiss Re retroceded to our South Carolina company. It's an independent risk-sharing transaction. It's a two-legged transaction. In Japan, Aflac Japan doesn't have anything to do with the retrocession. It doesn't impact their financials in any way. They weren't involved in the transaction at all. The retrocession transaction was arranged between Aflac Incorporated and Swiss Re with an Aflac Incorporated subsidiary. So just to clarify the technicalities that they had.

Randolph Binner
FBR Capital Markets & Co., Research Division

Yes. No, and I guess -- I mean, just 2 quick follow-ups would be, one, the assumption or the implication there would be that Japan FSA is comfortable with this in further deals. And then the other one is just any characterization you'd give us on the kind of the flow or activity or interest you're getting from some of the global reinsurers.

Kriss Cloninger
President & Director

Well, the FSA recognizes that there is no arrangement between Aflac Japan and the retrocession arrangement at all. That's solely between the assuming party from Aflac Japan reinsurance and Aflac Incorporated through the South Carolina subsidiary. So the FSA recognizes Aflac Japan is not a party to the retrocession, therefore, they aren't involved in it. So that's no problem. Remind me, what the second part of the question was?

Daniel P. Amos
Chairman & CEO

The interest among reinsurers.

Kriss Cloninger
President & Director

Well, there's significant interest among reinsurers. This reinsurance is a very competitive market. There are a number of companies that took notice of the first tranche that we arranged with Swiss Re. We've had a number of calls. We've talked to some others. Swiss Re is an important partner to us, but we are talking with some others just to test the market and the waters. And we believe we'll have relationships with multiple reinsurers as a possibility going forward.

Operator

Next question is from Yaron Kinar, Deutsche Bank.

Yaron Joseph Kinar
Deutsche Bank AG, Research Division

So a couple of questions. First, just looking at the sales growth momentum from a premium growth and then even the retrocession. Is there any expectation now that, that EPS growth year-over-year will not necessarily come in at the lower end of the guidance range?

Kriss Cloninger
President & Director

Well, this is Kriss. I'll say that I -- you've heard me say in prior years, there are a lot of moving parts to our earnings estimates. And clearly, we're in recognition of the fact that the historically low interest rate environment is a headwind to us, both in new sales in Japan. We don't want to sell products that don't have appealing profit margins. And at today's yen-denominated interest rates, it's hard to get an appealing profit margin on a first sector sale. We have been doing some alternative investment strategies to mitigate that, and we'll continue to pursue those alternative investment strategies for the business we do sell. But the fact of the matter is that new sales will be a drag, first sector sales will be a drag a bit. The ability to invest current cash flows at attractive investment yields is a challenge. Eric can talk to that, if appropriate. And then you get to the benefit side of things. We've benefited from a decline in benefit ratios for a number of years now. And the way we do our earnings estimates, we take a look at where we are today. We tend not to anticipate any further improvement in a step to be conservative. We have experienced improvements and, therefore, we've been able to be at the mid- to high end of the earnings range for the last several years. In 2015, if we continue to get improvement, it will move us toward the high end of the range. If things stay about the same, it will probably stay in the mid part of the range. If things deteriorate a bit in terms of no additional improvement or some modest deterioration, things might move toward the low end of the range. But that's why we've got a range. It's just a lot of moving parts, and we don't have a lot more insight -- well, we don't have total insight into that, so that's why we give a range.

Yaron Joseph Kinar
Deutsche Bank AG, Research Division

Okay. And then my second question is going back to the third sector sales. So if you use kind of the guidance that was offered last night, a 15% growth for the first 3 quarters of the year and then sounds like you're basically expecting a similar absolute number of sales in the fourth quarter, ultimately, I get to about 2% growth for the full year in third sector sales which is at the low end of the guidance range within 2014. So I am sorry to be a -- to push on what seems like a good sales quarter at the end of the day. But still, I guess I'm somewhat surprised that with the Japan Post and with the deal and/or partnership and with the new cancer products out in the market that we wouldn't see more robust growth over the full year?

Daniel P. Amos
Chairman & CEO

Of course, we didn't -- we don't know what the fourth quarter will be at this particular point. We just, as I said in my numbers, I looked at it for the last, the rolling 12 months, and I think they're going to be close to 20%. And the fourth quarter will give you more insight at the end of the second quarter. But at this particular time, we're still unsure. Anytime you -- we feel confident with what our existing channels will do. But as to how we roll out and the way they roll out with Post, it's just too early to tell. So we're not willing to go out at this particular point and give a number, but we will at the end of the second quarter when we've got more information. It's not something we control. It's kind of like Dai-ichi Life when we had them, we had to wait and see. But I would say we're still optimistic about our relationship with Japan Post because it has been an outstanding relationship with them, and no one else has got anything like this and we're going to continue to grow it and work on it.

Operator

Our next question is from Jimmy Bhullar, JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

So I'll just ask the -- given the confusion on sales. So maybe if you could talk about just the ramp up in sales about the Japan Post. Obviously, the growth rate should slow down from the recent pace, but do you expect the absolute amount to continue to go up through 2015? And then I have a couple of other questions that I've written down.

Paul Shelby Amos
Former Director

This is Paul. Unfortunately, we're not allowed to disclose the specifics around the sales for Japan Post or the projections for Japan Post. But what I can tell you is that we have a three-pronged approach to our overall success within our partnership with Japan Post. Number one, we wanted to expand to the number of post offices, which equaled a number of 10,000 through end of last year, beginning in October. We wanted to expand selling through Compo, the Japan Post Insurance Company, and we also wanted to make sure that we offered a new product that was exclusive to the Japan Post network. We've been successful in achieving all 3 of those, and we know that we're going to continue to expand the number of post offices overtime, as that is the objective of the overall relationship. And we believe the combination of the additional product for just Japan Post, along with the expanded number of post offices, will continue to allow us to foster growth in that relationship and access new customers that we would not have been able to access otherwise. So I am in no way pessimistic about the relationship, but we cannot go into specifics around the numbers or the projections.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Sure. And then on the U.S. business, the expenses are obviously elevated in the fourth quarter. Could you discuss what the -- or quantify what the expenses related to the U.S. sales force restructuring were? And what are your expectation is for that number as you -- should expenses remain elevated as you go through 2015?

Kenneth S. Janke
Former Executive Vice President and Head of Corporate Finance & Development

Jimmy, this is Ken. We -- in the fourth quarter, we had about $26 million hit the U.S. P&L -- excuse me, that was for the full year. There's about $1 million in the third quarter. So about $25 million in the fourth quarter. For 2015, we expect it to be around $88 million for the full year, fairly evenly spread on a quarterly basis in the $21 million to $22 million range net of capitalization that would run through the U.S. segment.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay, that's helpful. And lastly, if I -- if you could just comment on capacity and/or likelihood of additional reinsurance deals you talked a little bit in response to a previous question. But are you still actively pursuing additional deals, reinsurance deals?

Kriss Cloninger
President & Director

This is Kriss. I'll take that. First of all, let me say that these increased expenses in the U.S. are built into the projections. We had a pretty good estimate of them and they're cranked in there. So...

Daniel P. Amos
Chairman & CEO

And they're predicated on a 5% sales in terms -- sales increase for the year.

Kriss Cloninger
President & Director

Which is our objective. So, okay? That's that. As far as our capacity and interest in additional reinsurance, that's going to be dictated by our capital management planning. We are taking a more comprehensive approach to doing capital management planning, including identifying potential uses of capital and discussing potential sources of capital. And we don't want to act precipitously in just doing reinsurance deals for the sake of doing reinsurance deals because we can free up some of the additional reserves that are available in Japan. We want to have and identify appropriate use for that capital to the extent we choose to repatriate some of those proceeds from Aflac Japan to Aflac U.S. and subsequently to Aflac Incorporated. There are uses for capital other than share repurchase, partly to make sure we've got squared up on our tax cash flows in the U.S. and some other things like the position of the U.S. operation from a capital perspective where we've -- we've been forcing the U.S. operation to kind of pay the shareholder dividends for some time, and there's a modest imbalance if you just looked at U.S. only versus Japan that we're trying to remediate. It's not a source of concern among ourselves or among the regulators, but it's something we're trying to do some advanced planning on. And there are certainly potential other uses for capital, so we're trying to do a more comprehensive program. And we'll have more to comment on, most likely at FAB, in terms of the progress we're making in that regard. But I just want to emphasize, we're not going to do reinsurance for the sake of doing reinsurance or because we can. We have to have a disciplined approach about this, and that's what I'm trying to put in place.

Daniel P. Amos
Chairman & CEO

And just one follow-up to that, too. Let me mention the -- our FSA-based earnings clearly benefited from the reinsurance transaction we executed in October of last year. As we commented in the third quarter, that influenced our thoughts as we formulated our objectives, earnings objectives and capital deployment plans for '15. So we're looking right now at an amount that we would repatriate of somewhere around JPY 150 billion to JPY 170 billion this year, JPY 50 billion of which we already received in December. And that puts us in a good position in terms of executing on the capital deployment objectives we have for this year, which is increasing the cash dividend and buying back $1.3 billion of our shares. So that's why -- that, in conjunction with our comments Kriss has made and what we talked about last September, we're really thinking of a longer-term plan.

Operator

Our next question is from Eric Berg, RBC.

Eric Noel Berg
RBC Capital Markets, LLC, Research Division

Dan, for much of its early history in Japan, Aflac was heavily, if not exclusively, I believe, a cancer insurer. Then during your tenure, the company has diversified, really, quite a bit. And for many years, you had a broad lineup of products between cancer and medical, the riders, dementia/long-term care and so forth annuities. But now it seems we're back to cancer only or at least that's what it seemed in the December quarter. I think it was the only product that showed a sales increase, with the others showing declines. What's your take on sort of what the next couple of years will bring in terms of new business production? Will Aflac be a one-product company or will there be breadth to the sales?

Daniel P. Amos
Chairman & CEO

Well, the one thing that it's been rather consistent is whatever the new product is, that's ultimately where the sales go. And the new product for 2014 was cancer insurance. I do believe we have a distinct advantage in Japan when it comes to cancer insurance over any other product we've got. It's what started our company, it's what's all consumers view as us being dominant in the market. And so from that standpoint, I think we've learned that cancer insurance is still very important. But I think medical will be important. And I think as we introduce the new medical product, we will be -- we're still #1 in that, and so I think it will just vary. Let me ask Paul or Aflac Japan if they'd like to make any comments.

Paul Shelby Amos
Former Director

Yes. Remember, we launched our new medical product toward the end of 2013. So the comparison for medical sales in conjunction with the strong emphasis we had on launching of our new cancer plan, certainly put the emphasis on third sector products on the cancer plan itself for that particular quarter. The other comment I'd like to make is really about the discipline that we're holding in first sector. Because of the record low interest rates we're seeing today and the profit margins that have already been mentioned around certain products, we are certainly restraining the total number and total volume of first sector sales given the current conditions. Given the large volume of exclusive agencies we have at Aflac, we are certainly going to continue some presence within selling first sector products. But in terms of broadly going after the first sector in the current environment, we're restraining those sales and looking to see a fairly significant decline in first sector sales in 2015 if these trends continue. We'll be closely monitoring, just as we did in the fourth quarter, and we'll be monitoring our sales. If conditions change for the better, we'll move in that direction. If conditions stay the same or worsen, we would react accordingly. But we have measures in place to affect our sales based on the type of business we want to be selling at Aflac.

Kriss Cloninger
President & Director

But I will say -- let me add some to that. This is Kriss again. We are making some modest investments to protect all of our distribution relationships. All of our distribution relationships are important to us, particularly the bank channel, where there are limitations on what we're going to sell on the first sector. But we're making accommodations in selling a certain amount of business in order to protect those relationships for the longer term.

Eric Noel Berg
RBC Capital Markets, LLC, Research Division

I had one follow-up question, then I'll be done for the U.S. team. In the U.S., it seems that there has been a stabilization, a stabilizing in the number of productive agents, number of monthly average producers. Maybe the U.S. team could address where they see that headed. Because it seems to be, at the end of the day, what matters is not how many people you're recruiting, not how many people you're losing, indeed not how many people you have, but how many productive people you have. So I'm focused on that productive number, and I'd like to know where it's headed.

Teresa Lynne White
President of Aflac US

This is Teresa White again. We're absolutely headed -- we'll continue to recruit, but we also are wanting to make sure that we have productive recruits. So we see growth in that number. Our goal is to grow that number in '15. We are also looking to grow the number of what we call district sales coordinators. And those are the field trainers. Those are the people who assist those recruits in ensuring that they increase their productivity. So short answer is you're absolutely correct, the goal is to continue to increase the average weekly producer number.

Operator

Our next question comes from Thomas Gallagher of Credit Suisse.

Thomas George Gallagher
Crédit Suisse AG, Research Division

My question is on the new product. And given that it's more than the Cancer DAYS product and then a similar product that's being sold exclusively to the Post, the -- I guess, last time we saw a sales surge to this level, where that product is now almost 50% of sales in the quarter, there were some issues with margin in the future. So I just want to get a better handle on your level of comfort around the margin in the product. And in particular, I recall you all highlighting some of the cash accumulation features within the product. And I might not have that exactly right, but it sounded to me like this was a bit of a hybrid product. So I want to know is there an interest rate component that we should be mindful of. But if you could just address that question in general.

Kriss Cloninger
President & Director

Tom, this is Kriss. The cancer product that has created the surge in the sales is an annual premium, long-duration product, not that -- as sensitive to interest rates. I think at the FAB meetings, I've shown that third sector's products are relatively insensitive in terms of profitability to levels of lifetime net investment yields associated with the cash flows, associated with that product. We do build some reserves. The old blocks had some cash surrender values and long duration benefits that -- we are selling a cash value rider this time out, but it's not that interest-sensitive. And we have diminished some of the long duration benefits that tend to build reserves a lot. So the cancer product is not nearly as interest-sensitive as a first sector product. And in fact, I don't absolutely know it, but I think it's profitable at 0% interest. So that would tell us something there. Let me see, what else did I want to say?

Daniel P. Amos
Chairman & CEO

About WAYS?

Kriss Cloninger
President & Director

WAYS?

Daniel P. Amos
Chairman & CEO

Yes. That's what he was talking about.

Kriss Cloninger
President & Director

Well, WAYS was where we had the surge previously. And clearly, that was interest-sensitive, both in terms of it being a limited pay. We got most of the funds up in the short term and the interest spread made a lot of difference in the profitability over the long term, so this isn't anywhere near that. Plus we don't have things like discounted advance premium, where we have to invest at today's rate. And basically, the third sector products, Tom, the claims pay out more quickly over the term of the contract. They pay out periodically during the term of the contract as opposed to all at the end of the contract. So basically, the new third sector products, the cancer products, aren't nearly as interest-sensitive as the first sector products that caused the surge in 2011 and '12, on into '13.

Thomas George Gallagher
Crédit Suisse AG, Research Division

That's helpful, Kriss. And just my follow-up is, just given what looks to me like is a fairly radical product mix shift that we're seeing between first sector significantly falling off, the cancer really ramping up here, why shouldn't we see a reversal and an improvement in margins going forward here? Because I know we had the opposite happening when WAYS had become a much bigger part of the whole here. But now that we're likely to see a real shift in the other direction, is there -- should we be thinking over the next several years that we're going to see any kind of meaningful lift in profit margin?

Kriss Cloninger
President & Director

Well, you'll see a lift in profit margin, but it will be more gradual than the first sector business impact because a lot of the cash flows associated with the first sector business came in, in the front end of the product and closer. Just most of the premiums were paid within a 5- to 10-year period whereas these health products, the cancer products, premiums were paid over the life of the business. So the impact on premium income and the recognition of profit -- well, the recognition of profit will be over the life of the policy as it was in the first sector business, but the revenues will come in over a slower period of time, a more gradual period of time. But we should see kind of a diminishment. We'll see the impact of the first sector premiums on the margins tend to diminish as the level of first sector volume declines.

Thomas George Gallagher
Crédit Suisse AG, Research Division

Okay, that's helpful. And I guess, just so I'm clear on this, is it -- if you look out over the next 2, 3, 4 years, just given the mix shift here, would you expect margins to go up? Or is there still a bit of a drag from the first sector and it's less clear at this point, given where interest rates are?

Kriss Cloninger
President & Director

I think -- I don't expect margins to rebound immediately, Tom. But I think there will be a gradual trend of increasing margins. The first sector business, that was about, on a per policy basis, 10x the premium of the third sector policy. So there was a major, major impact on the mix shift of revenues associated with that surge in first sector business. This is a big surge in third sector business by itself, but we're still, volume-wise, going to write, and I don't know the exact number, but, say, around $70 billion of premium on third sector business right now. And we were writing, like, $120 billion or something like that at first sector in those prime years, so it's just not quite -- on a policy basis, we're writing a lot more policies than we did on first sector. But the premium on the first sector was so much more that I think it will be more gradual impact, Tom. I'll tell you what, we're going to have the updated projections and the like at the FAB Meeting in May, and I'll be able to update those forecasts we give you on margins by product category, first sector and third sector, as well as an estimate of the impact on the aggregate margin for the next 3 years. We will be updating that.

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

And this is Robin. I would add that if you look at the presentation from the FAB Meeting, Aflac Japan outlook by product category, the total overall profit margin that we're seeing for 2015 is going to be right in the middle of what we projected. So the projection was 19% to 22%. And for '15, we're seeing 20.3%. So I wanted to make that clear. Also, when you look at the days today, the number of days per hospital stay in Japan, we're continuing to see that decline, which has been helping our benefit ratio also.

Operator

The next question is from Ryan Krueger of KBW.

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

I was hoping you could talk a little bit about how you're thinking about investment allocation in Japan between JGBs and U.S. dollar corporates in 2015.

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Sure. It's Eric, Ryan. Prior to all this volatility, as we do our budgets and planning and consistent with the SAA work that we've completed, it would have been about a 25%, 75% ratio. Though I should also say, as we think about the U.S. dollar allocation, it's not necessarily confined to U.S. corporates anymore. We certainly have widened the scope, but we could call it dollar assets. However, as you know, we're being very tactical. Rates have dropped, particularly in Japan. Because in the U.S., while treasuries have fallen, we have seen some credit spread widening that somewhat offset that. So the absolute yield levels haven't really dropped that much in the U.S. But in light of these very low yields, as you know, on the 10 year, it hit about 23 or 24. But since it popped up, the 10-year JGB has popped up to about 38. At these low yields, we would be inclined to underweight that allocation to JGBs. Meaning, to buy a 20- or 30-year maturity JGB, which is typically where we focus, at an average of perhaps 1% or so, we'd rather underweight that allocation this year at those low yields and put that money to use, whether in dollar assets, in traditional fixed income, or perhaps we do expect this year to get going with some of the growth assets that I've spoken about. So we're going to monitor that closely. As you guys know, the global macro conditions are changing drastically. We're cognizant of that. But at those low levels for JGBs, we would underweight our allocation relative to the original budget. The other thing I might mention as well, as we continue to evolve in our transformation, we are being tactical on our asset allocation. So as an example, because we've seen this dislocation in the credit market going back to about November, December, we firmly believe those good fundamental credits are still very strong in the U.S. So one of the things that we did late December, and we're completing up soon, is what we call a $1 billion asset allocation or switch trade. So we've moved out of about $1 billion of our investment grade corporates that we own and reallocated that about half to bank loans. We think that sector has gotten hit from technicals, not necessarily from credit quality and liquidity from the retail market. But given our long-term nature, we can take advantage of that and the other half of that into BB credits in the high yield sector. But the higher quality part of high yields, where we think on a relative value basis, that's a good long-term place to put our money. So we're not only focused on the new money that's coming in. And Kriss has talked about there will be less cash flows this year that's associated with how we do the product side, but we're also looking internal to our portfolio, what else can we do amongst our own assets to rotate, to take advantage of this. And everyone's heard me say we're in a great position around our capital levels. As you all know, we've cleaned up the past in terms of the portfolio. So we are positioned for when there are disruptions in the market, if there are asset classes and strategies that fit our SAA, we'll seek to try to take advantage of those. And of course, all of those things I've just mentioned are always within the risk limits. We have risk limits around all of these asset classes, around different credit quality and duration. And we've had capacity because we were derisking the portfolio over the last few years. So now is the time for us when these disruptions occur to take advantage of those risk limits and average into the markets.

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

That's very helpful. One follow-up on that. In the fourth quarter, your blended new money rate in Japan was 2.47%. Certainly, things have -- rates have come down since then. Can you just give us some sense of, I guess, given where we are today in the current environment, what type of new money rate you think you can get in Japan at this point?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

For the blended portfolio, so that would basically look at not only whatever JGB assets we would buy, but the dollar-type allocation. If we based it based on sort of the initial percentages by plan, it would probably be something in the 2% area. If we underweight those JGBs, then that number would go higher. So it will depend on how we invest. And of course, it will depend on where the yields are when we do invest that money. And I don't need to tell everybody those yields continue to be volatile.

Operator

And the next question is from Erik Bass, Citigroup.

Erik James Bass
Citigroup Inc, Research Division

Just other than sales improving, are there things that you're seeing in the U.S. business that may not be as clear to us, but they give you confidence that the changes you made are having the desired impact and that momentum should build in 2015?

Daniel P. Amos
Chairman & CEO

Well, I'm optimistic. I was -- I felt good about the third quarter. I felt good about the fourth quarter. But I think what Mike Tomlinson, our new Director of Sales, is doing, is working. I think what Teresa is doing and her involvement with sales in terms of managing the people has been good. I'm just, overall, very pleased. I think Dan Lebish and what he has done with Aflac Group has been good. So it all seems to be working. The one thing I will say about this new structure is it pays for performance, so there are going to be some very good bonuses in the fourth quarter. If they don't perform well, they're all going make a lot less in '15. So I've always said, put the money where you want it and the people will flow that way. I was in sales for 10 years, so I know that to be true. So I'm cautiously optimistic. But I want to wait till the end of the second quarter before I'm willing to declare victory on what's going on because, frankly, we were going against a pretty easy quarter. The fourth quarter was an easy comparison for us, so we should have done well. Now we did better than I even thought. But still, it was an easy quarter. Our easiest quarter in 2015 will be the second quarter. First quarter is a little harder because we had some carryover business in '13, so we'll just have to see. But I'm still very encouraged that we'll make that number. And I'm really not satisfied with that, I really want higher numbers. And I think, especially with this One Day Pay, it just opens the door for us because there's nobody in the industry that's going to be able to process, approve and pay in 1 day. And that's what's important. It's at the time of claim that people need their money the fastest, and we're going to get it in their hands. And yes, there'll be some we can't because of, like, short-term disability. But the accident, the cancer, all the main product lines we sell, we're going to be able to get it to them. And I just think it's going to set us apart, and so I'm optimistic. But I still, at the same time, want to be cautious because I am a salesman at heart, so I want to be careful here.

Erik James Bass
Citigroup Inc, Research Division

Got it. That's helpful. And then just one follow-up on the U.S. Can you talk about the sales breakdown in the fourth quarter between individual and group products?

Teresa Lynne White
President of Aflac US

Well, what we look at really is the distribution of the product breakdown. And so, in the fourth quarter, what we saw was really increase in sales on the broker side. We saw, as far as the breakdown, about 69% from career, 31% from broker is the breakdown. But what I really kind of want you to look at from my perspective is really the channel. And we look at the channel from the perspective of the career channel being focused on the less-than-100 market, and the broker channel and the broker sales executives basically selling to and servicing the large-case brokers. Now when you look at the product sets, the products are looking more like 87% of our business as traditional, 13% is group. And we, of course, think that, that's going to continue to grow.

Erik James Bass
Citigroup Inc, Research Division

Got it. And what that -- how does that 13% of group sales compare to what it was in the fourth quarter of '13?

Teresa Lynne White
President of Aflac US

Fourth quarter of -- well, around 10%. So we've seen a modest growth in the group sales. But one of the things -- the reason I look at it from a career distribution versus broker distribution is because even in our broker -- with our brokers, 63% of what they sell is the individual product. So the larger-case brokers are the ones that are selling more of the group products, but the more regional and local brokers are still selling the individual products. So you really can't get a good feel when you're looking at it group versus individual or the traditional product from a -- just a product standpoint.

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

Operator, [ph] we're reaching the top of the hour, so we have time for one more question.

[Audio Gap]

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

[Audio Gap] allocations within the existing portfolio. Is there a point which you take a really hard look at the available-for-sale portfolio within Japan and start to sell some JGBs and reallocate given where yields are? I know, obviously, it generated some significant capital gains. But might you not be happy to pay those taxes to get a lower allocation to JGB, as particularly given the downgrade in December to a single A level?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Sure, thank you for that question. And please be assured, we look at all sorts of modeling of our portfolio and opportunities from yen to dollars. There could be a day when we prefer dollars to yen and we take a look at the credit quality issue. And to your point, the JGBs we own, we'll be looking at in the single A category instead of the AA category, given the Moody's downgrade. But having said that, keep in mind, we are balancing a number of factors. So for example, when we look at the JGBs, they do provide us with yen interest rate protection versus our liabilities, so that the liabilities are all in yen. So that's a very important factor. And we look at the SAA, our JGB allocation is what I would call at the lower end of the range. It could be a lot higher if we wanted even better matching characteristics, but the privates help with that as well because they are yen-denominated. So we will take a look at that, but I don't think there's an infinite amount of capacity to, say, take JGBs down by 10% of the total portfolio and reallocate. There may be some opportunities around the edges. And then, finally, just for clarification, most of our JGBs are in either HTM or what we call PRM, policy reserve matching. We have very few in AFS. But even within PRM, there are some opportunities to do asset allocation and rotate, but I just want to clarify the accounting designation.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Yes. No, that's why I was focused on the AFS. And then just, I guess, maybe it's a question or a comment and maybe 2 -- both. If I look at your overall U.S. sales in 2014, they are only about 7% or 8% below your all-time high, which I believe was 2007. Now I recognize that competition has grown and probably the market opportunity has grown since 2007 as well, so you've lost ground. But, I mean, isn't it possible that you're back within the next year or 2 to essentially all-time, at least in absolute dollar terms, production levels at highs?

Teresa Lynne White
President of Aflac US

So -- go ahead.

Daniel P. Amos
Chairman & CEO

Teresa and I both -- 8.9% is the number. That's what we have to do to beat the all-time record.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

I knew you'd know it.

Daniel P. Amos
Chairman & CEO

Oh hell, yes, I know it. What I've told them is we want to beat records. That's what we're after. Teresa and I both know the number by heart, and we are keeping it in front of them constantly. And the sooner the better, but that's a stretch goal that I'm keeping back there. But as I said, 5% is the number.

Kriss Cloninger
President & Director

Chris, I just want to tell you that Dan and Teresa's motto this year is, "No whining. No whining." Just...

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Well, I guess, and maybe keeping that in mind, I'll make this last comment for you before the call ends. The more you want to create difficult sales comparisons for yourselves, the more I'm on board.

Daniel P. Amos
Chairman & CEO

We're all for that. Go to our website and check out One Day Pay.

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

All right, guys and ladies, thank you so much for joining us. If you want to follow up with any calls, we'll be in the office. And we thank you so much for joining us today. Bye-bye.

Operator
Thank you. This completes today's conference. You may disconnect at this time.