S&P Global
Market Intelligence

Aflac Incorporated NYSE:AFL

FQ2 2008 Earnings Call Transcripts

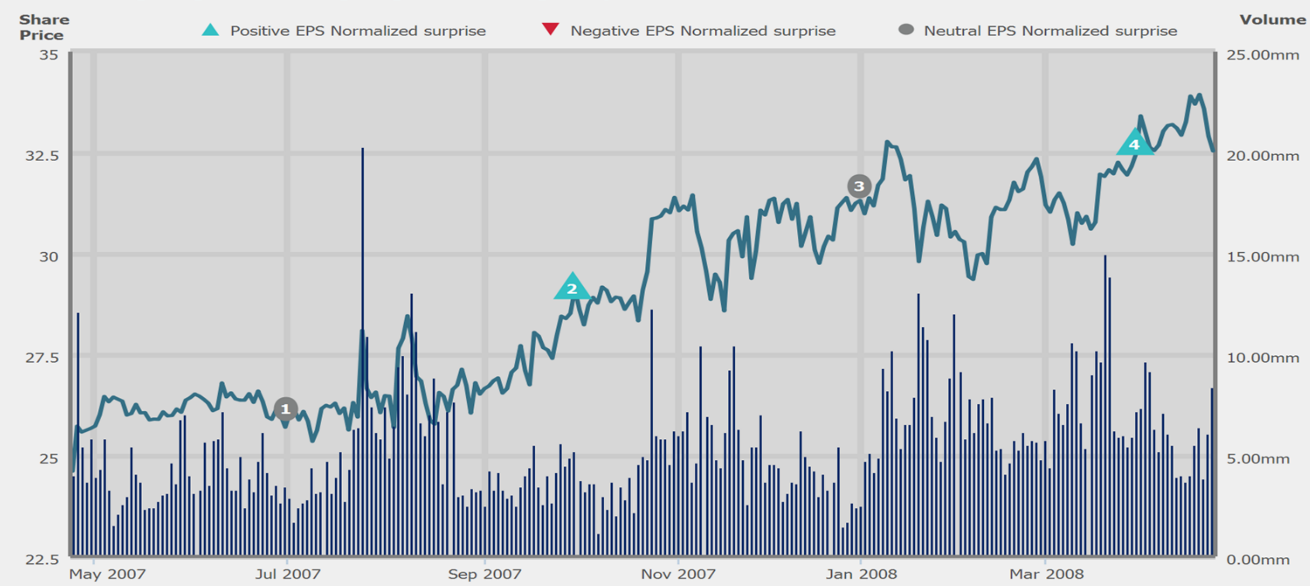
Thursday, July 24, 2008 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2008-			-FQ3 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.50	0.50	▲2.00	0.50	2.00	2.27
Revenue	-	-	▲0.13	-	-	-
Revenue (mm)	4330.39	4336.00	-	4371.46	17361.53	18254.90

Currency: USD
Consensus as of Jul-24-2008 1:48 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2007	0.41	0.41	❶0.00 %
FQ3 2007	0.41	0.42	▲4.88 %
FQ4 2007	0.40	0.40	❸0.00 %
FQ1 2008	0.48	0.50	▲4.17 %

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EXECUTIVES

Daniel P. Amos

Kenneth S. Janke Jr.

Kriss Cloninger III

Paul Shelby Amos II

Tohru Tonoike

W. Jeremy "Jerry" Jeffery

ANALYSTS

Colin Devine
Citigroup

Darin Arita
Deutsche Bank

Eric N. Berg
Lehman Brothers

Mark Finkelstein
Fox-Pitt Kelton

Mark Hughes
SunTrust Robinson Humphrey

Nigel Dally
Morgan Stanley

Steven Schwartz
Raymond James and Associates

Suneet Kamath
Sanford C. Bernstein

Takaaki Matsumoto
Sr. VP, Director of Marketing for Japan

Unidentified Analyst

Unidentified Company Representative

Presentation

Operator

Welcome, and thank you for standing by. At this time, all participants are in a listen-only mode. [Operator Instructions]. Today's conference is being recorded. If you have any objections, you may disconnect this time.

Now I'll turn the meeting over to Ken Janke, Senior Vice President of Investor Relations.

Kenneth S. Janke Jr.

Thank you. Good morning, everybody and welcome to our second quarter call. Joining me this morning is Dan Amos, Chairman and CEO; Kriss Cloninger, President and CFO; Paul Amos, President of Aflac and COO of our U.S. Operations; Jerry Jeffery, Senior Vice President and Chief Investment Officer. Also from Japan, we are joined by Tohru Tonoike who is President and COO of Aflac, Japan and with him is Takaaki Matsumoto and Hisayuki Shinkai. You know that Matsumoto's son is in charge of sales, Shinkai's son is charge of banks and Charles Lake, the Chairman of Aflac Japan is also with him.

Before we start, let me refer you to the Safe Harbor language. I would like to point out that some of the statements in this conference call this morning are forward-looking within the meaning of Federal Securities Laws, although we believe these statements are reasonable. We can give you no assurance they will prove to be accurate because they are prospective in nature.

Actual results could differ materially from those that we discuss today. I encourage you to look at our quarterly press release for some of various risk factors that could materially impact our future results.

Now, I'll turn the program over to Dan, who will talk about our quarter and outlook for the balance of the year in the United States and Japan. I will follow up with some financial highlights and then we would be happy to take your questions. Dan?

Daniel P. Amos

Thanks, Ken. Good morning, and thank you for joining us today. Let me start out by saying that I remain pleased with Aflac's financial performance. Our financial results for the second quarter and the first half of 2008 met or exceeded our expectations in both the United States and Japan.

However from a sales perspective, I had expected Japan's, Aflac Japan's sales to produce better growth in the quarter, but I still believe that we can achieve our sales objective for the year. Most important, I continue to believe we are well positioned to achieve our objective for operating earnings per share for this year and 2009.

Let me share some more thoughts about the quarter beginning without Aflac, Japan. It's the leading contributor to our consolidated financial statement, we were very satisfied with Alfa Japan's operating results in second quarter of 2008.

Our top line was consistent with our budget for the year and the benefit ratio continued to improve as we expected. The persistency of our business was strong and we again produced solid pre-tax earnings growth.

You may remember from the first quarter comments that we anticipated slower sales growth in the second quarter compared with Aflac Japan's 5% increase in the first quarter. In part that was because I knew how aggressively Aflac Japan pushed at the end of March. I felt that they had written some business in the first quarter that would otherwise occurred in the second quarter.

Even though I believe second quarter sales results would be slower than the first quarter, I did not think we would have positive sales results. Instead, total new annualized premium sales declined 4.9% to 28.7 billion yen in the quarter. For the first six months new sales were $56.3 billion or 0.3% below the first half of 2007.

One of the reasons for the sales decline was weaker cancer insurance sales than we anticipated. Cancer insurance sales in the second quarter of 2007 exceeded 10.8 billion yen and were the strongest that we have seen in a longtime. You may recall that cancer insurance sales a year ago benefited from a rush to purchase the product before the premium rate increase took effect.

So we knew we were going be up against tough compressions. In addition our agents have been aggressively focused on selling our lower premium cancer upgrade product since March of this year. This separate policy bridge the coverage from the old product and our new Cancer Forte type product with daily out patient benefit and annuity for newly diagnoses patients and canceling in doctor referral benefits.

This cancer upgrade policy has allowed us to leverage our policy holder base to increase sales.

In the second quarter, we sold 94,500 of these upgrade policies. However, the average premium was much lower at 27,000 yen compared with the Cancer Forte average premium of about 50,500 yen per policy. We now realize, we must go back and concentrate on selling Cancer Forte, rather than upgrade policies which we will do.

The good news is that the medical sales were up 8.7% for the second quarter and 13% for the first six months. Medical sales have benefited from Gentle EVER, our non standard medical product that we begin selling in August of 2007.

Gentle EVER contributed 1.2 billion yen in sales or approximately 13% of the medial sales in the quarter. While we know this product appeals to a relatively narrow segment of the population, we've been pleased with the opportunity to extend our reach to new consumers and further segment the market for medical insurance. It's certainly been one component in our medical sales recovery.

We continue to believe that sales of cancer and medical insurance will benefit from the new distribution channel, and we remain encouraged about the opportunities to sell through a significant number of banks in Japan.

By the end of June, Aflac had already secured agreements with 154 banks to sell our products out of a total of 402 banks. That's a much greater number of selling agreements than our competitors, and it's more than we initially expected.

In the second quarter, we sold 680 million yen in new business through the bank channel which is a 146.4% increase over the first quarter. In fact, June sales through the bank channel were greater than the entire first quarter.

Although that's the tremendous increase over the first quarter Bank sales, we'd expected sales from the Bank channel to do even better. We believe slower than expected growth to this new channel primarily reflects the ongoing conservatism of some banks due to the regulatory environment. We're still very excited about the prospects of bank sales, because banks that have been introduced to our products are doing very well.

In addition, we will begin selling the product through the bank channel in October. Also in response to the needs of banks, we developed a single premium product called which has been approved for the sales on this product called Santiso [ph] which has been approved for the sale by the FSA.

This product provides lump sum payments upon the diagnosis of cancer, heart attack or stroke. It also has debt benefits.

In addition, we have are very pleased that the national association of Shinkin banks has endorsed our Gentle EVER and weighs products to the membership of the 280 Shinkin banks.

As I've said before, I believe bank sales in the fourth quarter should be 10 times the amount we rote in the first quarter. I still believe that's the case, and I expect the momentum in the bank channels to build in 2009 as well. Overall, we are confident in this channel and fully expect it to meet out long-term expectations.

We're also looking forward to the opportunities to sell Cancer Forte products through our agreement with Japan Post Network. As I am sure you are aware where Japan Bus chose Aflac as the cancer insurance provider through their network company.

Initially, we expected to sale through about 300 postal outlets almost... also beginning on October the first of this year.

Next month, we will begin training 5000 Japan post workers. Needles to say, we continue to believe this is a great opportunity for both Japan Post and Aflac.

I am sure most of you are aware that the FSA's recent issues of the business improvement order to the top 10 Japanese life insurance companies. We were very surprised and disappointed to receive an order, even though they are common. The order requires the company to enhance the process and then to report on the progress to the FSA. We took exception to the business improvement order because we believe it was unfair and unjust.

We feel this for several reasons. First, Aflac Japan was one of few companies able to complete the five year claims review process by the date... deadline required by the FSA. Second, our average rate was low compared with others in the industry.

During the five year review period we assessed more than 4.2 million benefit payments and determined that our average rate was 0.47%, which means that 99.53 of the benefits were paid properly. Since then we have lowered the average rate by half and we expect it to get even lower.

Third, we are in close contact with the FSA throughout the process and completed all promised measures on schedule to correct the problem and to prevent reoccurrence. In our opinion it appears that in issuing the business improvement order, the FSA focused on the absolute number of cases and the overall yen amount associated with those cases, rather the considering the companies real average rate. On a positive side there was limited media coverage of the business improvement order and we do not expect any material impact on the business. Perhaps and most importantly this should now put the claims issue behind the industry

Our marketing team in Japan has plans in place and all of Japan's offices or all of part of their bonus is tied to achieving 3 to 7% increases in sales for the year. Although our sales objective for the year is going to be more challenging then we initially thought, I believe we will achieve it.

Now let me turn to our business in the United States, the top line of Aflac U.S. was consistent with the expectations and pre-tax earnings were better than our target. We were also pleased to see an improvement in persistency over the first quarter.

Total new annualized premium sales were up 4.9% to 383 million. Although sales were below our annual target rate of 8% to 12% for the second quarter. I was encouraged to see a significant improvement following a very weak first quarter.

For the first six months, total new annualized premium sales increased 2.6% to 736 million. We continue to be pleased with expansion our sales force. New age of recruitment has been solid this year and the second quarter we recruited more than 6700 new associates an increase of 4.2% for the six months recruits were up 6.3%. The average number of weekly producing sales associates also increased 6.3% in the second quarter after being up only 0.2% in the first quarter.

We believe our success in increasing the number of producing sales associates has resulted from an enhanced training program and we've been implementing over the last few years. In addition to growth of our sales force the key indicators we used to measure our sales force activities continues to be very positive.

For example the number of new payroll accounts rose 10.1% in the second quarter, following, an 8.5% increase in the first quarter. The growth of payroll accounts opened by new agents rose a very strong 20.3% in the second quarter.

Production from new associates was also very positive, rising 12% in the second quarter.

That leads us to believe that the fundamental approach to building and training an affective distribution team is still working and we continued it to be our main focus. I believe our strong payroll account growth suggest that employers are better understanding the benefits, Aflac brings to the table.

They are seeing how Aflac's product help to provide health care options to there workers at an affordable price. We believe the improved acceptance of employers has benefited from the advertising message and also the new business to business initiatives; we discussed that the annuals meeting in May.

And we are looking at the consumers buying pattern. The average revenue was premium per new customer is up for the first half of this year compared with the year ago. However during the same period, fewer employees took out coverage when we enrolled the new pay roll account, which is a problem and we are addressing it through better training.

The obvious question is whether our new sales have been impacted by the slower economy. I think it's very safe to assume that some of our policy holders, potential customers and sales associates are feeling the pain of the current environment. Obviously we have operated in the challenging economics before. But it's been a long time since consumers have added deal with such short increases in gasoline and food prices.

However, we don't believe this means that our fortunes are exclusively tied to the business cycle. As you've heard me say before, I believe the need for our products is actually more compelling when the economy weakens, because the financial risk to the household becomes more pronounced.

The risks of serious illness or accidents don't change with the business cycle. But coping with rising household expenses, even more of a drain on the family's finances when a healthcare occur... event occurs.

That's exactly where our products can provide value to the average American household. In this environment, it's up to us to understand the circumstances that existing and potential customers are facing and make sure that our message is appropriate and our products are affordable.

We now that people don't wake up in the morning, and suddenly come to the realization that they need an extra layer of protection, especially in this challenging economy. It's our job to identify potential customers and inform them of the possible risk and then help mitigate those risks through the sale our products.

You will recall that we held a national training day for our field force in the first quarter to intensify and coordinate our message in this current economy. One of the adjectives of that day was to train our sales force on how to sell our products in a weak economy. We have incorporated that message into our ongoing field training.

Earlier this month, we released a commercial that speaks directly to the challenges consumers face and why Aflac's products are important in this type economy.

We're doing what we believe is appropriate to support our sales force and customizing our training and tools to suit the current needs. While the weak economy, would have made it more challenging to sell, it's actually made it easier to recruit. The reason is that when unemployment people cannot find salary jobs, they are willing to try commissions that they normally would have not done.

As I mentioned in the press release, it will clearly be difficult to achieve the minimum of 8% for this year when we need 12.5% for the second half.

However, I can assure you that our sales director and eight territory directors are all pushing hard to improve the sales result so they can make a bonus.

Importantly, we continue to believe that the U.S. market is perfectly suited to our business. There are literally millions of potential payroll accounts and tens on millions of potential customers that can benefit from our products.

On a consolidated basis, I'm pleased with our overall financial position. Clearly there's been a lot of investor focused on the balance sheet of financial companies recently, which is certainly something that we understand. I'm proud that Aflac's balance sheet was marked by highly rated investments.

Despite the turmoil of the capital markets, we are confident that our time tested investment approach remains prudent and effective in the current environment. Even though we have seen a sharp rise in unrealized losses on the fixed income investments, they have primarily resulted from the widening of credits for it.

Remember, that a widening of spreads benefits our income statement as we invest huge cash flows in Japan at a more attractive investment yields.

Our outlook for this year remains 14% to 15% increase in operating per diluted share, before the effect of foreign currency. I have a high degree of confidence that we can achieve that target and we hope to grow with a high end of the range this year.

As I mentioned in our analyst meeting in May, our modeling suggest that 13% to 15% increase in operating earnings per diluted share excluding the currency is reasonable goal for 2009.

I am still focused on increasing operating earnings per share by at least 15% excluding the impact of through yen from my first 20 years of Chief Executive Officer. Beyond those 20 years, I still think we can produce another ten years of double-digit earnings growth.

As we look to the future, we believe our strong earnings growth will continue to exemplify our underlying earnings tower of our insurance operations in the United States and Japan. It will also reflect our prudent approach to deploying access capital in way that benefits our shareholders. Ken?

C: Kenneth S. Janke Jr.: Well thank you Dan. Let me just briefly go through some of the second quarter numbers beginning with Aflac Japan. Starting at the top line in yen terms, of revenues were 2.9% for the quarter. Investment income was down 0.7%, due primarily the impact of stronger yen on Aflac Japan's dollar denominated investment income.

If you exclude the effect of the stronger yen, investment income was actually up 5% on a currency neutral basis. Of the annualized persistency rate excluding the annuities was 94.5% compared with 94.7 in the first half of 2007, that was consistent with our expectation. In terms of quarterly operating ratios, the benefit ratio continued to improve over last year. It was 61.9% in the quarter compared with 63.7% a year ago and excluding the impact from the weaker excuse me, the stronger Yen on investment income the benefit ratio was 61.5%.

The expense ratio for the quarter was 19.9%, up from 18.9 in 2007. The higher expense ratio was budgeted and therefore expected and the increase primarily reflected additional marketing expenses, especially for ongoing preparation on the bank channel and increased IT expenses. Reflecting the lower benefit ratio and the higher expense ratio, the margin rows from 17.4% to 18.2% in the quarter.

With the expansion of the margin, free cash, earnings were up 7.5% for the quarter in Yen and again excluding the impact of the stronger Yen-on-dollar denominated investment income, pre tax earnings were up 11.1% in the quarter.

On the investment side, yields in Japan were a bit higher than they were in the first quarter. For instance, looking at the index of 20 year JGB's, the yields averaged 2.24% in the second quarter, up from 2.08% in the first quarter.

The compounded yield for 20 year JGB right now is about 2.26%. For the quarter invested our cash flow in Yen securities at an average rate of 3.27%, including dollars the blended rate was 3.46%.

Our portfolio yield at the end of June was 398, that's down 1 basis point from the end of March and 11 basis points lower that a year ago. The overall credit quality of the portfolio remains very high. On a consolidated basis securities rated double BB or lower are only 1.9% if the end of June, which was unchanged since the end of March. We did have one small addition to our below investment credit holdings in the quarter that was Sprint Capital Corp. That was down grade and had an amortized cost of $24 million.

Turing the Aflac U.S., total revenues were up 8.4% in the quarter. The annualized persistency rate for the six months was 73.1% which was up significantly from the first quarter and only down slightly from a year ago.

Looking at the operating ratios for the Aflac U.S., the benefit ratio was 52.8% in the quarter, compared with 53.1% a year ago. The expense ratio was unchanged at 31.3, therefore the profit margin increased to 15.9% compared with 15.6 a year ago.

As a result pre-tax operating earnings for Aflac U.S. were up 11.1% in the quarter. In terms of U.S. investments the new money yield for the quarter was 729, up from 651 a year ago. The yield on the portfolio at the end of June was 7.04%, up 3 basis points from the first quarter in the year ago.

Looking at some other line items for the quarter, excluding FAS 115, the ratio of debts to total capital was 15.9% at the end of June, a little change from the 16.0% of a year ago. Non insurance interest expense in the quarter was $6 million, compared to $5 million a year ago.

In the company and another unallocated expenses, were $11 million in the quarter, up from $5 million a year ago. That increase primarily reflected a reduction in retirement expense in 2007 and then lower investment income in 2008 at the parent company level.

On a consolidated basis that pre-tax operating profit margin rose from 16.6% to 17.2%. The after tax margin also increased, rising from 10.9% to 11.2%. The tax rate, as we expected was little changed, and was 34.7 versus 34.6 a year ago.

As reported, operating earnings per diluted share rose 23.2% to a $1 that was consistent with the guidance we had given on our first quarter call. The stronger Yen increased operating earnings by $0.08 per share in the quarter and $.013 for the first six months of the year. So excluding the Yen's impact, operating earnings per share were up 13.4% for both the quarter and the first six months.

Lastly let me comment on the outlook for the year. AS Dan mentioned we have reaffirmed our target of 14 to 15% increase in operating earnings per diluted share, before the impact of the Yen for 2008. That would translate to a target of $3.73 to $3.76, assuming the exact same average exchange rate as we experienced in 2007.

However, as you now the yen is clearly much stronger than it was a year ago. And if the yen is averages 105 to 110 for the full year, we would expect reported earnings per share to be $3.86 to $3.98 on a diluted basis for 2008. Under that same yen scenario, third quarter operating earnings per share would likely be $0.98 to $1.01 per diluted share. The first call estimate this morning was a $1.01. For 2009, our objective is a 13 to 15% increase in operating earnings per diluted share before the impact at the yen.

We would like to make sure that everyone has a chance to ask a question this morning, so please let limit yourself to one question, so that we can be faired everyone and we'll try to give back with you if you have additional questions.

Christine, we'd now be happy open it up and take some questions.

Question And Answer

Question and Answer

Operator

Thank you. We will now begin the question and answer session. [Operator Instructions]. Our first question comes from Nigel Dally from Morgan Stanley.

Nigel Dally
Morgan Stanley

Great, thank you, good morning. In the U.S. you ideally issued that as perhaps the economic weakness driving this outflow, your original forecast, are you seeing the sales particularly weak and the states more economically prone. And if it is the weakness in the economic do you think sales to come under pressure, shouldn't we also be concerned that you your persistence say in the U.S. could also come into pressure in the coming quarters. Thanks.

Daniel P. Amos

Well. First of all, our persistency improved in the U.S., which I think shows the need for our products even more so this quarter. But I'll let Paul answer that.

Paul Shelby Amos II

I agree with Dan, I think they persist... from a persistency standpoint, we are going to see some strength. And it is to your question about where we are seeing the sales, it's just like we have seen traditionally across this country. There are operations throughout the United States who are doing better than other operations.

There is no particular area in the country, the North East to California have been hit particular hard by the economic situation, they are doing any worse than anywhere else. So I believe that we are still showing some consistency. I mean again we are up 4.9% and while that is not within the targeted where we want to be, it is not significantly off where the numbers that we have projected for the year at least on a quarterly basis.

So I feel like we've got some refining to do and we will continue to get better. But the overall sales are consistent throughout the country with some good, some bad and some in between.

Nigel Dally
Morgan Stanley

Thank you.

Operator

Our next question comes from Colin Devine from Citigroup.

Colin Devine
Citigroup

Good morning. I got just two quick things. First, first on the investment portfolio you talked a lot about quality. But I'm looking at the forward position the unrealized losses doubled year-to-date, by your own kind of threading it what... of what its either like to 62%.

At what point, are we going to seeing an impairment of this, how far does it have to go before you finally start to write it down.

Then secondly, for Dan, I appreciate your comments on Japanese sales, as I am looking at the numbers today, it seems to me that channeled to zero and once again its your affiliated corporate agencies where their second quarter sales are the lowest and at least six years and may in fact be the lowest ever, because you only gave them split back out for the last six years, are we back to where we were two years ago when you you're your comments on the call?

Daniel P. Amos

Well I think the corporate... this is Dan. I will start with and then let Jerry follow up. The corporate agencies had the biggest increase in the second quarter of '07, that they had in long time. They were the ones that were the most affected by the rate increase that was to take place on the cancer sales.

They are the ones that went to all their policy holders and immediately added the additional cancer part to the rate increase. So from that perspective.

But to your point, I am not satisfied with the corporate agencies. They are actually being hurt as we create new channels, because the new channels will actually go in for example, the banks will actually be selling to customers which in essence is an indirect run at the corporate agencies and if they are not finding a way to penetrate their market that they have, then in essence, either through postal or through banks, we will be they'll be going at their customers another way. So it's actually hurting them that they are not doing that and what our challenge has been is to convince that bureaucracy that's over there to do that. So Collin, your point is well taken, but I do believe that they can either do it themselves or through other distribution channels, these customers will have an opportunity to buy a policy one way or another through one of our distribution channels. So by adding these new channels, we are in essence making another way of getting to those potential customers within the corporate agency structure.

Colin Devine
Citigroup

Or isn't that another way, this organic thing that you're just cannibalizing, your existing sales. I mean I think the point is the second quarter is traditionally your second best in the year. And pointing at in fact at last year's boost, the fact is, this is the worth sales they put up in at least six years and may be the last ten, and you just don't give the number to back that product. And it seems that we are back where you nailed it two years ago, that there is real problem in the channel and I what I am hearing is now is, it's not going to get really any better. You may take up the sales somewhere else, but this channel has not turned around.

Paul Shelby Amos II

Colin, Paul. I agree with you the sales channel has not turned around, I also agree with you that the numbers have not improved other than last year at this time and all I can tell you, it this we continue to work on that and find ways to do it and I am very unhappy. Maybe, Aflac Japan would like to make a comment on this. I have them on the line and let's -- I have already spoken to this issues several times with them in most recent weeks. And so maybe they'd like to comment on the corporate agency structure for one second.

Unidentified Company Representative

And in the interest of time, we have last told her to speak for Mr. Matsumoto, so we don't have to go through a translation second.

Takaaki Matsumoto
Sr. VP, Director of Marketing for Japan

Yes, I agree with Dan and both corporate agencies have been affected by the factors which Dan mentioned just a few minutes ago. I totally agree with everything Dan said. In addition to that corporate agencies have been affected for years by the social change which is taking place in Japan in which the people are not so strongly attached to the companies as they used to be, and also the people have other places to buy insurance other than their lock-sides [ph]. So that has been the first half that have reviews about the corporate agency sales.

Having said that I also agree with Dan that, in saying that they have huge a market and the huge customer base. So point... the question is the how and when they could find a way to change their business the way... they do business so about so that they can be more... they can fit to the current environment. That's challenge we have been facing and that we've been trying hard, but still I think we are not very successful yet.

Daniel P. Amos

But I Colin I will say this, I will not quit on this issue and if necessary I am going to take some of these accounts away from some of the corporate agencies in terms of existing policy orders and mail out them or do something, but long-term I am going to let these potential customers just sit there without people being called on. So one way or another we are going to get to them over the next year or so, but I have tried to do it tactfully, but at some point I might have to do it with pressure.

Colin Devine
Citigroup

Thank you Dan I appreciate the comments.

W. Jeremy "Jerry" Jeffery

Colin, Hi it's Jerry Jeffery. To your question about Ford Motor Company [ph], I assume you were referring to the company. We... let me just refer you first of all to our impairment policy, which is very clear. We will and have in the past written down and subsequently sold any investment, where we thought there was significant risk that we would not receive our principal and interest on time and in full. As you probably know, we have four or five material below investment grade positions, and we have spend an outsized amount of time looking at each one and we have regular reports that beyond that and those things really consume a great deal of our time

And our view on Ford has not changed. We still... I don't want to get into a credit discussion on Ford specifically, but our overall view remains that we expect to receive our payment in full and on time. Did I answer your question?

Colin Devine
Citigroup

Yes.

Operator

Next question comes from Suneet Kamath, from Sanford Bernstein.

Suneet Kamath
Sanford C. Bernstein

Thanks, just another question on cancer sales that you'd mentioned that you are seeing this impact of some more of these upgrade sales as oppose to new policy sales and that's impacting your results.

Can you talk specifically about what you are doing to try to reverse that, get more new policy sold as oppose to upgrades and then just related to that, there was pretty big drop off it seems in terms of contribution from Dai-ichi, can you talk about what's going on in that channel? Thanks.

Paul Shelby Amos II

I'll mentioned Dai-ichi, Dai-ichi came in exactly where they told us they would. So, we knew that they were going to concentrate on another product. So, they are not out of line with what we anticipated.

As far as the cancer, I am going to let Tohru in and talk about it. But I want to mention had the cancer products instead of selling the radar, had they sold those 94,000 been the full cancer product, our sales would have been up 2.7%.

So it just gives us an idea of what impact it had, Tohru?

Tohru Tonoike

Yes. We are now trying to refocus our agents to sell the Cancer Forte product rather than the upgrade product. We are doing... trying to do so by basically two measures. One is that we are going to increase our direct mails and the hot calls which is our calls to the policy holders.

Sell to PKs and try to reduce that involvement of our agents, human resources in selling upgrade product, and at the same time we are trying to make more associates to say that Cancer Forte product by providing that rebate in... for about 2004, 2000 Yen per policy.

And we are going to run the campaign for that purpose. And we are trying to encourage that associates to increase the number of the prospective customers and also increase the level of their approach to those prospective customers.

In addition, we are tying to help that corporate agency by providing the opportunities of alliance with individual, our agents so that they can have a better capability to reach their prospective customers.

Suneet Kamath
Sanford C. Bernstein

Just on those alliance, I mean I think you have talked that in the past and I am not so sure that they have been successful or is there something that you're changing that would make that more successful going forward?

Tohru Tonoike

I think that never though it hasn't changed yet. But we are trying to find out the individual agent which will be more useful to the corporate agents. So we are trying to find a better field than before.

Suneet Kamath
Sanford C. Bernstein

Okay, thank you.

Operator

Our next question comes from Steven Schwartz from Raymond James and Associates.

Steven Schwartz
Raymond James and Associates

Hey good morning. If I may just as a follow up to that last question. I need to understand could there is going to be a rebate on a product or something like that.

Tohru Tonoike

Yes. We are going to provide a 2000 Yen rebate for every cancer policy that our associates would sell.

Steven Schwartz
Raymond James and Associates

Okay, so that's a. that's going to go to the associates or that's going to go to the contract holder?

Tohru Tonoike

Associates.

Steven Schwartz
Raymond James and Associates

Okay.

Tohru Tonoike

To the associates, our agents.

Steven Schwartz
Raymond James and Associates

So we are in fact that you are going to be increasing at least temporarily commissions on subject.

Tohru Tonoike

That's correct.

Daniel P. Amos

But be clear of one thing. We satisfied X amount of money every quarter, every year for contests et cetera. All of this will fall within the guidelines of us making our earnings per share. and our overall earnings in Japan. So it won't have any impact on that.

Steven Schwartz
Raymond James and Associates

Okay. Very good. I understand that, just to stick with this topic then, I don't get it and Dan, maybe you can explain the salesman's mind to us. I understand that it's an easy sale, doing this upgrade product, certainly you are going back to people who have a product that was last upgraded or created in 2001.

Daniel P. Amos

Right.

Steven Schwartz
Raymond James and Associates

And by the way, I wonder if the corporate agencies were very, very important in this upgrade things, since they seemed to be the lions share of sales back then. So I am wondering about that, but also I mean the commission is going to be significantly lower. So these guys sell more, but they are going to make less, I would assume even if they sell more. It doesn't make sense to me. So I am trying to figure out the mindset of these guys, even if they could sell more, they are still going to making less, so why do it?

Daniel P. Amos

Well one reason you are doing it is just to help the policyholder themselves.

Steven Schwartz
Raymond James and Associates

Okay.

Daniel P. Amos

Policyholders have less coverage and at time of claims you want to make sure they have the best possible coverage out there. So part of it is a responsibility on the agents part to simply make sure our customers have the right coverage. So it's true that the commission is the driver. And I am sure what a lot of them are doing it for that reason. Again, one of the flaws in our corporate agency structure is that most of the corporate agencies are salaried people. The corporate agencies keep all the money and so they make a little bonus. But as is a general rule, it done... it's not the same as you see our individual sales force or our other or our small agency sales force, where commissions are really are the driver.

Steven Schwartz
Raymond James and Associates

So then does it in fact follow that lot of work that you saw in terms of the selling of these upgrade came from the corporate agencies?

Daniel P. Amos

Tohru, can you just add some more comment on what you think about that question?

Tohru Tonoike

Yes, just one moment. Yes, I think Matsumoto beliefs, Matsumoto importing this many associates. Matsumoto feels that many associates have started to realize that they have been shifting their attention too much to the upgrade policies and they realize that I our premium they are obtaining and also therefore, their commissions are decreasing. Therefore, many of them have started to increase that preparation for the cancer products by themselves, and we expect that in August, they are trying to... they make that sales efforts to almost three times more than they did last year of the same month.

Steven Schwartz
Raymond James and Associates

Okay, that's good information, but it didn't quite get to the question.

Daniel P. Amos

The question Tohru is the corporate agencies responsible for a lot of the sales of the upgraded policy.

Tohru Tonoike

Yes, that's about... let's see, yes more than half... that's represents more than half of the upgrade policy.

Steven Schwartz
Raymond James and Associates

Okay. All right, that's good information. Thank you.

Operator

Our next question comes from Mark Hughes from SunTrust.

Mark Hughes
SunTrust Robinson Humphrey

Thank you very much. Of the banks with whom you partnered, what percentage of them were actually making material contributions to sales at this point?

Daniel P. Amos

Tohru?

Tohru Tonoike

Yes, the sink [ph] item reported to me that the currently that above 13 institutions, which represents about 20% of total number selling, about 80% from the total sales.

Mark Hughes
SunTrust Robinson Humphrey

Right and then the strategy for giving the other, I guess the balance of those banks, did that ramp up their sales?

Tohru Tonoike

Yes, actually the things that we have planned to do, going forward and we have been increased the trainings given to those banks. And by providing them the examples of the banks which are have been successful. There are few banks which have been very successful. There are few banks which have been very successful in the second quarter. So, we took their model and teach those models to the other banks, so that they can learn and start studying quickly.

Unidentified Analyst

Thank you.

Operator

Our next question comes from Eric Berg from Lehman Brothers.

Eric N. Berg
Lehman Brothers

Thanks very much. I was hoping we could revisit Dan, or Paul. Your comment about sort of what's happening to the average American family and how this slowdown in the economy affects the attractiveness of your products? I mean I would think that would be exactly the opposite of what you are saying, and since I would think that a family has, a middle-income family, I mean you are not selling to the poor, you are not selling to the wealthy in this country.

You are selling to middle-income families. I would think the way it works is that most families have budget for necessity use and from many families, I suppose not all, but many families to have the necessity, got to drive to work in many cases. And you have got to cool your house and heat your homes. I would think they have a budget for necessities, including food that we need necessity costs go up. Discretionary expenditures such as yours get crowded out, and yet if I understood your points early, your prepared remarks. This situation increases the attractiveness of your products.

Help me sort of think this through, because I am not getting your point earlier about the economy and the attractiveness of your products. Thank you.

Daniel P. Amos

We will go ahead to that. The fact of the matter is that the more mud more disposable income, someone's forced to spend on necessities such as gas, food, any of the sort. The less money they are putting away in terms of savings. The fact of the matter is majority of Americans today are self-insuring themselves against the financial and the non-medical related cost of an accident orders [ph]. That exactly for a nominal amount that what we are insuring them against.

So, I think people more than ever realize that they could be in bankruptcy as a result of our healthcare issue, if they don't have our types of products. I think that is shown directly by the fact of the people who are purchasing our products; they are purchasing more than they ever have. And we're seeing increases in terms of the average premium per customer. Additionally, business is which is the key means that which we offer our products are offering our products at a record pace.

Our new account growth is up tremendously. We are having new agents come on being more successful than they have ever been. So I think from all facets, you are seeing that the American consumer and the American business environment is accepting of our products, and sees the need for them and I only think that's going to continue to grow.

Kenneth S. Janke Jr.

At the same time Eric, Eric this is Ken. Dan did mention and Paul did mention on our first quarter call that when we open up a new account, the people that are buying, are buying actually a little bit more than they did last year. But we are seeing fewer enroll. And that's entirely to your point that people... there is some buyer resistance at some point from people that feel they just can't afford it at this time.

Daniel P. Amos

However, that small penetration in an accounts represents and opportunity for us to go back, when there is complete stabilization and really what we are buying is shelf space for the future with a greater opportunity.

Eric N. Berg
Lehman Brothers

Thank you.

Operator

Our next question comes from Darin Arita from Deutsche Bank.

Darin Arita
Deutsche Bank

Thank you. Just a question going back to the affiliated corporate agencies. I guess then a little surprise that I guess we are attributing some of this decline here to the new distribution channels when the share of the affiliated corporate agency, as the percent of the total sales is pretty much unchanged at 35% from the first quarter and it's pretty much inline. But the full year of '07 and up from full year '06, isn't the decline here really a function of 39% share they had in the second quarter of last year that spike up there?

Paul Shelby Amos II

Absolutely. If you are looking at the year-over-year growth, it's more attributable as Dan pointed out, that sharp rise they had last year, the second quarter is one of the best quarters they have had. So, you are absolutely right. Not much has changed on their overall contributions, which also means it hasn't improved.

Darin Arita
Deutsche Bank

So, can we really conclude that the new distribution channels are cannibalizing your sales here?

Daniel P. Amos

Well, let's just go back a minute and talk about overall sales in Japan. And I just want to make sure we keep everything in perspective. First of all, I would have hoped that sales would have been flat or up a couple of percent. Now, we were down roughly five. So we are talking about 5... we are up about 5% to 7%.

I knew we were going against a tough comparison. And I know that going into the second quarter, I am going... excuse me, the third quarter, I am going to be going against the easy comparison, because cancer sales drop off dramatically. I mean they just fall off the table. So, I know that I have got those going forward. So I just hope that is you analyze and I certainly appreciate your ability to analyze that you realize that the third quarter is when we should see a lot of improvement. We just happen to have the prior rate increase enormous sales in the second quarter and then we'll have the other to follow.

I think our distribution channel model has evolved over the last seven or eight, almost ten years with corporate agencies, becoming less and less. It used to be 80%, 90% of our sales. Like you said, it is now in the 30s and last year it spiked up. It only spiked up last year, because of the rate increase that was going to go into affect. I think all along that the sales of the corporate agencies will stay at about the percentage that it's been and it will move lower as the other new channels come on board and will add more, as postal takes hold in the fourth quarter and as the banks grow, just like it did with Diege Life [ph].

So I think those things will continue to change going forward. I do expect us to me our objective for the entire year, which is in the 3% to 7% range. I do think it's tough or frankly I thought five was probably easy to do. Now, I think it's tough and I think that three is more inline. But I do believe we will achieve that. So, I don't know if I answered your questions specifically, but if I didn't tell me it again and I will try to say it.

Darin Arita
Deutsche Bank

No. That was very helpful. Thank you, Dan.

Kriss Cloninger III

This is Kriss Cloninger. Just like the Aflac One comment on this. In the past, the term cannibalization has been used when the sale of the new product replaces an existing product. In other words, it causes the lapse of the existing product to be replaced by a new product and there is no net affect on the company.

In our case here, we are shifting from one distribution outlet to another. But there is a still a net increase in our overall in-force. And, I just want to make that point for that to be clear. I think cannibalization is a pretty... it has a negative connotation that I'm not sure is fully deserved in this case.

Kenneth S. Janke Jr.

Christine?

Operator

Our next question comes from Tom Gallagher from Credit Suisse.

Unidentified Analyst

Hi. This is Mike Swarenski [ph] calling in for Tom. Can you guys refresh us when most of your bonds as far as those health and maturity. I think most of your competitors hold them as available for sale?

W. Jeremy "Jerry" Jeffery

Yes. This is Jerry Jeffery speaking. There are a couple of reasons for that. One is the that because we have a very, very high persistency rate, particularly in Japan. Our cash flow is a) very predictable and b) very robust. So, we can focus more on asset liability matching in the decisions we make on investing. Therefore, we tend do invest at the duration of our portfolio is significantly longer than our peers in Japan. Because we focus a lot more on asset liability matching.

As a result, it is their intention to hold these two maturity and our past history has demonstrated that we, in fact, it is unheard for us too. Well, it is extremely rare for us to move in securities from held-to-maturity to available-for-sale and we typically only do it, if gets downgraded to below investment grade. And then the lions share does gets resale.

Unidentified Analyst

So, is there any approval required for that, or it's just based on your decision?

W. Jeremy "Jerry" Jeffery

There is no approval required there. It has to be some consistency though applied or otherwise. It is deemed to be attain to your portfolio. If you are putting Southern held maturity and then moving it out from those consistent reason.

Unidentified Analyst

Okay.

W. Jeremy "Jerry" Jeffery

And there and you demonstrate over a period of time that held-to-maturity securities are in fact just that. And the regulatory values typically are okay with it.

Unidentified Analyst

Okay. Thank you very much.

W. Jeremy "Jerry" Jeffery

Yes.

Kriss Cloninger III

Again Kriss Cloninger. I wanted to offer a comment. When we price products we impulsively guaranty an investment return to the policy covers. And as long as we can make investments sort of going to meet those guaranties than they are more satisfied we've covered our obligations. So we don't need to move securities around during the life of the contract to do that. And that's one of the things that's driven our operating practices overtime. And when we have substantial unrealized gains in our portfolio, we still held those securities to maturity. We did not think that we would take advantage of the unrealized gains by liquidating the securities and reinvesting in lower yield rates.

Similarly, today we don't feel compelled to liquidate to securities and take advantage of the higher yields that we could generate in the event that we took to realized loss and then to power investment income going forward. So, that's just from our perspective, one of our motivations.

Operator

Our next question comes from Mark Finkelstein.

Mark Finkelstein
Fox-Pitt Kelton

Hi. Just two very quick questions on the U.S. By your metrics, how did penetration within accounts compared to Q1 levels? Did they deteriorate further? I know that was one of the issues that was brought up in the first quarter call.

Daniel P. Amos

We don't actually give that specific number out. What I can tell you is that because we are opening up such a large volume of new accounts, it's very difficult to tell how the penetration is going to be. Because while we may go back, we may go out and have an initial enrollment. The full enrollment may take place over a longer period of time, say three to six months, depending on going back, following up, getting all the people, if you got multiple shifts on a particular job, you'll be looking at.

And so, it's a little bit of a trailing statistic and what I don't want to mislead you on. What I can tell you is that overall we feel that the new accounts that we are bringing all in our extremely solid that we are seeing... we are not selling to as many people as we once were. But we're selling more to the people, we are selling to. So the people who'd understand the need are continuing to purchase our products and we continue to see that consumer demand going in a right direction.

So, I don't know if that fully answers your question but what I can tell you is I think that as I said earlier, the shelf space that we are purchasing for the future is something that we're going to have as a result of continuing to bring out all these accounts without fully penetrating them to the extent we would like to.

Mark Finkelstein
Fox-Pitt Kelton

Okay. And then just knowing that you disclosed last quarters well that sales in the U.S. were kind of up about 6.5%. I think you gave through the first three weeks of April is the metric. Is there anything you can kind of say about kind of sales trends throughout the month, knowing we ended it kind of 4.9 for the average, 6.5 average where we likely started it at. Was it lumpy or was it kind of a trend down? Is there anything you can say it was there?

Daniel P. Amos

It was pretty consistent. What I'll you is May was by far our biggest month in 2007. So we went up against. I think is about an 18% comparison to May of 2007. So, May was a little bit slow but it was still great growth. What I'll tell you is overall throughout the quarter I feel consistent. I fell we're still producing the same numbers, I feel like 4.9% was representative of the quarter we have.

Mark Finkelstein
Fox-Pitt Kelton

Okay.

Paul Shelby Amos II

Remember too Mark and this is also true in Japan, and especially to Japan that's why we don't talk about monthly data March for inter quarter sales updates, our sales tend to be very, very skewed towards the last couple of weeks of the quarter. And sometimes we can see in the month of June and feel the sales are going one way and by the end of June find out they've gone the other way. So, that's why we don't really comment on these inter quarterly trends.

Kriss Cloninger III

Some times the last month of a quarter can almost equal the first two months because of the way our push and our enrolments work.

Mark Finkelstein
Fox-Pitt Kelton

Okay, great. Thank you.

Kenneth S. Janke Jr.

Kristine, I have the top of the hour 10 o'clock which means we'd... we'll conclude the call today. If there are other questions, I'd encourage you all to please call Robin or myself at the toll free number. We would be happy to talk with you today or whenever you choose to call. And we thank you for joining us this morning.

Operator
This concludes today's conference call. You may disconnect at this time.