S&P Capital IQ

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Aflac Incorporated NYSE:AFL

FY 2011 Earnings Call Transcripts

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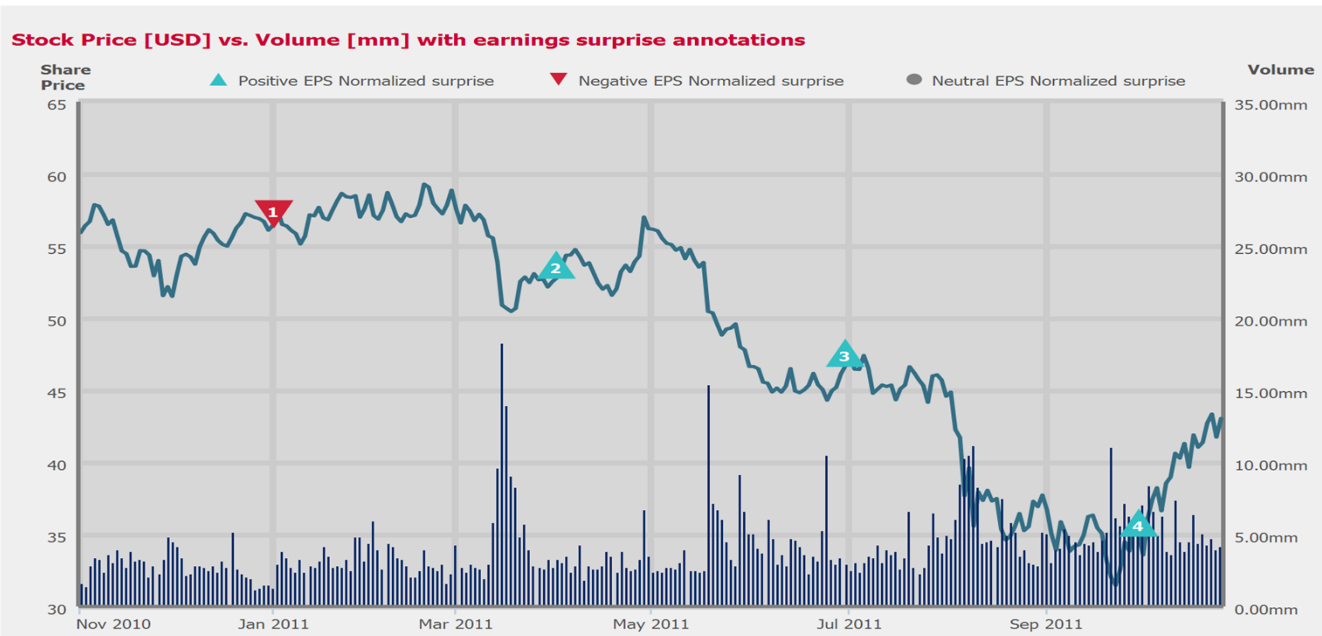
S&P Capital IQ Estimates

	-FQ4 2011-			-FQ1 2012-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS
EPS Normalized	1.51	1.48	▼(1.99 %)	1.67	▲5.45	6.36
Revenue (mm)	6159.49	5979.00	▼(2.93 %)	6220.27	▲0.94	23243.72

Currency: USD

Consensus as of Feb-01-2012 8:01 AM GMT



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Presentation

Operator

Welcome to the Aflac 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. Ma'am, you may begin.

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

Good morning, and welcome to our fourth 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; Ken Janke, Executive Vice President and Deputy CFO; Eric Kirsch, First Senior Vice President Global Chief Investment Officer; Toru Tonoike, President and COO of Aflac Japan who is joining us from Tokyo.

Before we start, let me remind you that some statements in the teleconference are forward-looking within the meaning of federal securities laws. Although we believe these statements are reasonable, we can give no assurance that they will prove to be accurate because they are prospective in nature. Actual results could differ materially from those we discuss today. We encourage you to look at quarterly release for some of the various risk factors that could materially impact our results. Now, I'm going to turn the program over to Dan, who will begin this morning with some comments about the quarter and our operations in both Japan and the U.S. Dan?

Daniel P. Amos
Chairman & CEO

Thank you, Robin. Good morning, and thank you for joining us. I'm pleased that we met and, in many cases, significantly exceeded our financial and operational performance for the fourth quarter and the year. I'll briefly review the quarter and the year starting with the operations in Japan and the U.S. Let me begin with Aflac Japan, our largest earning contributor, that generated strong results throughout 2011. We were again pleased with Aflac Japan's financial performance, and particularly the tremendous sales momentum they produced. New annualized premium sales rose 31% to JPY 48.6 billion for the quarter which significantly exceeded our expectations and set all-time quarterly record. Aflac Japan outstanding sales results are especially remarkable considering 2011 was the year Japan was hit by the most devastating natural disaster in its history. For the year, total new annualized premium sales rose 18.6%, though suppressed by the strong yen revenue growth in yen rose 6% for the quarter and 4.5% for the year. Pretax earnings rose 8% for the quarter and 6.8% for the year.

Bank channel sales significantly exceeded our expectations, generating JPY 16.5 billion in new annualized premium sales produced and accounted for 33.9% of total Aflac Japan sales. This represents an increase of 135% over the fourth quarter of 2010. Banks have been very successful in selling products especially with WAYS, our unique hybrid whole life product. In the fourth quarter, the bank channel produced 323% increase in the sale of WAYS over the fourth quarter of 2010. Looking at the bank channel sales, we anticipate sales comparisons in 2012 will be especially difficult, especially in the second half of the year, following the record 2011 results. Keep in mind, we anticipated the momentum of WAYS sales through banks to carry over into the first quarter of 2012. In fact, we believe first quarter sales of Aflac products through banks will be up more than 150%. This is in large part because we expect an intense product first quarter push from banks to finish their fiscal year very strong.

Following in a strong first quarter, we anticipate the decline in the second half of the year. One reason is the phenomenal sales growth resulting from the addition of new banks has been mostly tapped. You'll recall that we started in the smaller Shinkin banks, then the regional banks and now all for the mega banks. Following a great start to the year is Japan banks focus on strong sales for the conclusion of their fiscal year, sales will be increasingly challenged when going up against record third and fourth quarter results. Keep in mind that we've been selling WAYS, our top-selling product, through banks for as long as 2 years at some banks. That means we've already cycled through the first major pass at selling this product to the large portion of the bank customers, though we believe sales through bank channels will be down for the full year.

With respect to Aflac Japan's traditional sales channel, the tremendous sales results in 2009 and 2010 from our EVER product in the Maneki Neko duck campaign created tough comparisons in 2011. Our traditional sales channel produced flat in 2011, but I expect to see sales growth from this channel in 2012.

Before I turn to the U.S., I want to give you some perspective on our Japan business. Until recently, 2010 was by far the best year we have ever had in Aflac Japan sales. As we entered 2011, it was absolutely unthinkable that Aflac Japan could generate an 18.6% sales increase for the year. That's exactly what we did, and we crushed 2010 sales records by JPY 25.5 billion or $316 million. Following that kind of sales growth, I can't imagine that any of you would be surprised that we expect Aflac Japan sales to be down 2% to 5% for 2012. You'll recall my comments in the third quarter, I'm not about to hold business in order to smooth the sales track for the future. It is in the best interest of our shareholders to take sales when they come in, and that's exactly what we did and had a 31% increase in the fourth quarter.

Now let me turn to the U.S. operations. It's been and continues to be an outstanding -- a long-standing vision to be the leading provider of voluntary insurance in the United States, a position we've held for many years. Aflac U.S. generated 9.3% increase in new annualized premium sales for the quarter and a 6.8% increase for the year. We are pleased with those strong results which exceeded our annual sales expectations of flat to up 5%. I would also note that in 2011, we had stronger persistency than we have had in over a dozen years.

We are continually leveraging Aflac strong brand by directing our efforts and initiatives to support that. Part of what has driven Aflac's success is our commitment to investing in our business infrastructure. Once we achieve our corporate earnings objective, we look for opportunities to strengthen our business operations. We told you that we were going to increase expenses in the fourth quarter on IT and marketing initiatives, following 3 quarters of restrained spending and that's exactly what we did. These higher expenditures substantially contributed to fourth quarter earnings decrease of 11.8%. Earnings for 2011 were basically flat which is better than expected for the year. This is because 2010's earnings benefited from the release of a $40-million reserve from a 2009 lapsation of a large account. Revenues rose 4% for the quarter and 3.8% for the full year.

We continue to expand Aflac's potential to connect with employees at many companies, large and small, across the United States. 2009 addition of group products to our existing portfolio has allowed us to leverage our strong brand and provide more options for customers in both traditional and broker distribution channels. In 2011, product marketing efforts geared toward existing accounts contributed to strong sales for the veteran agents. Those efforts included strategic product pushes of enhanced products including dental and short-term disability. Additionally, you'll recall that we've been establishing and developing relationships with brokers that handle larger cases. While the broker initiatives still is in the infancy, we are excited about the opportunity this channel presents for future growth. I believe that given the challenging economic environment, our success in achieving a sales increase of 6.8% for the full year is outstanding. The U.S. continues to provide a vast and accessible market for our products by leveraging our strong brand and enhancing our portfolio of individual and group voluntary products. We expanded our universe of potential customers within the vast and accessible market. For 2012, we expect Aflac Japan sales to increase in the range of 3% to 8%.

With both operating segments performing well, investments are my top priority as a CEO. The financial crisis that began at the end of 2008 transformed the investment landscape. In the wake of the fallout, we've been closely evaluating our investment function. In addition to our proactive derisking activities, over the past several years, we've also enhanced our global investment platform by investing in systems that will help us refine our analysis. By management -- my management philosophy has always been to find the right person for the job then give them the latitude and support them to deliver the results. As most of you know, Eric Kirsch officially joined Aflac as the Global Chief Investment Officer on November 1. I'm confident he is the right person to prove the capabilities of our investment function. Eric's 3 decades of experience in building and leading global teams and managing assets will help us further our vision to be a world-class investment organization that pays particular attention to the needs of the insurance operations through effective ALM and capital adequacy management while also balancing the expectations of shareholders through the investment income growth.

It goes without saying that this objective is in the best interest of the policyholders. We didn't bring Eric on board to manage our global investments from a status quo standpoint. Given continued challenges in today's environment, we are calling upon Eric's global perspective to evaluate where we are with the investments in relation to the current financial backdrop, and where we want to be within that same space.

Eric's on the call today, so he will answer your questions when we go to Q&A. But first, let me highlight some of the actions we took with investments this quarter.

As conditions in Europe has deteriorated further, volatility has increased. And we are not presently making any new investments in Europe. As part of the company's strategy to improve our investment credit profile and diversification, we decreased our exposure to Europe through optimistic investment transactions and impairments. I want to emphasize that these impairment charges are as a whole, different from the impairments we've taken in the past. These impairments did not result from a significant credit changes to specific companies. Instead, they reflected a well-thought-out strategy to reduce our overall exposure to Europe. I would remind you that our strong capital position and our operation to generate significant capital on an annual basis, we were able to make impairments from a position of strength.

We were able to offset a portion of the losses with the sale of the holding of the U.S. Treasury strips, which produced an after-tax gain of $218 million. So our net after-tax losses for the first quarter was $145 million, which was down from $191 million in the fourth quarter of 2010. We will continue to look for opportunities to lower our holdings of European financial assets.

Let me remind you of how successful we've been in substantially enhancing our investment portfolio over the past few years. From January of 2008 to the end of 2011, we have dramatically cut our holdings of sovereign and financial investments in PIIGS countries from 5.9 to 2.2 of the total investments in cash. For example, on the fourth quarter, we exercised the downgrade put on a local Spanish authority, La Mancha [ph], and put the security back to them at par. We've also lowered our investment in perpetual securities by more than half, going from 14.7 to 6.8 of the total investments in cash. We sold the perpetual security in the fourth quarter KBL at a much higher sales price than an impaired value. DBN Nor [ph] also redeemed the perpetual upper Tier 2 security in December.

I'd also like to point out that none of the perpetual securities we currently own are in PIIGS countries. As we pursue opportunistic investment transactions, we will continue to take actions to reduce our exposure to European debt. Overall, we're pleased with Aflac's consolidated financial performance. Operating per diluted share rose 11.3% to $1.48 for the quarter, and 15.5% or $6.33 for the full year. Excluding the benefit of the stronger yen, operating per diluted share rose 6.8% for the quarter and 8% for the year, which was consistent with our 2011 EPS objectives of an 8% increase before the impact of the yen. I am pleased that for the 22nd year, we have achieved our operating earnings objective.

I'd like to comment on the capital position. The strength of our capital ratios demonstrates our commitment to maintaining financial strength on behalf of our policyholders, bondholders, as well as our shareholders. As we've communicated over the past several years, maintaining a strong risk-based capital or RBC, remains a priority for us. We have conveyed that our goal was to end 2011 with an RBC ratio in the range of 400 to 500, with a target of 450. Although we have not yet finalized our statutory financial statements, we estimate that 2011 RBC ratio will be between the 480 and 520. Our capital strength enables us to increase our cash dividend to shareholders in the fourth quarter of 2011 for the 29th consecutive year. Our objective is to grow our dividend at the rate in line with our earnings per share growth before the impact of the yen. I believe dividends are an important component of the value that we provide investors. Additionally in the fourth quarter, we purchased 900,000 shares of Aflac's stock bringing the total number of shares purchased for the full year to 6 million.

As we have said for many years, when it comes to the deploying capital for the benefit of shareholders, we still believe that repurchasing our shares and growing the cash dividend of the most attractive means and that is something that we will continue to pursue. As you've heard us say before, proper repatriation has always been the primary source of funding our share repurchase programs and that is true for 2012. We mentioned on the third quarter call, that we estimated 2012 profit repatriation to be about JPY 45 billion, assuming no additional material investment losses through March 31, 2012. However, since that time, we again enhanced the quality of the portfolio through reducing our exposure to European assets. These results incurred investment losses in the fourth quarter. Additionally, the reevaluation of the Aflac Japan's deferred tax assets resulted from the reduction of the corporate tax rate in Japan, will lower our current SSA-based earnings. Therefore, our profit repatriation in 2012 will be less than we originally anticipated.

We will make a decision about the amount of money that we will transfer from Japan to the U.S. around middle of the year. In thinking of that decision, we will be taking into consideration the needs of all of our shareholders in Japan including the policyholders. As you know, our capital adequacy in Japan is principally measured by the solvency margin ratio which we estimate within the range of 520 to 560 at calendar year 2011. We are comfortable with this level of solvency margin ratio but continue to test our capital adequacy ratios by applying vigorous stress test under extreme scenarios.

As we've discussed, one of the potential risk to the solvency margin is the rising interest rates. Although this does not seem likely in the short run, we continue to assess the impact of rising interest rates on solvency margin ratios. In that regard, we've taken action to help mitigate that risk. For instance, we sold a portion of our JGB holdings, classified as available for sale and then repurchased them the same amount of JGBs classifying them as held to maturity. Additionally, we sold the remainder of our holdings of U.S. Treasury strips in the fourth quarter, and reinvested the proceeds primarily in JGB that were classified as held to maturity.

Looking ahead, I want to reiterate that our objective for 2012 is to increase operating earnings per diluted share, 2% to 5%, on a currency-neutral basis. This range reflects the impact of the portfolio derisking and investing significantly cash flows at lower interest rates. We expect the rate of earnings growth for 2013 to improve over 2012. I'm very pleased with how we have responded to the challenges in 2011 and remain focused on our vision to be the leading provider of voluntary insurance products in the United States, and the #1 provider of supplemental insurance in Japan. Robin, I'll turn it over to you.

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

Thanks, Dan. Today, I'm going to dispense with our usual process of highlighting financial and operational metrics in order to allow more time for questions. However, to use this time most effectively, I would suggest you focus your questions on the how and why. If you have a question of fact, the odds are we disclosed it. If you can't find the answer, please call Investor Relations and Tom and I will be happy to help.

But before we get to your Q&A, I'd like to highlight several things that came up repeatedly in the conversations last night. One relates to the profitability characteristics of our WAYS product in Japan. One, it has higher premium about 9x the premium of our medical and cancer products. Two, lower commission rates. Three, a higher benefit ratio. I'd like to add that our benefit ratio in Japan primarily reflected the increased sales of WAYS which greatly exceeded our expectations. As we've said before, the overall profitability of the sale of one WAYS policy is about the same as the sale of one of our cancer or medical products. My second comment relates to impairments in the quarter. Of the total impairments for the quarter, there was only one impairment, CSAV, related specifically to the credit of that company. The remainder were related to our investment strategy and the basket of securities we identified with the intent to sell that Eric will discuss later.

As in the past, I would remind you to please limit yourself to one question and one associated follow-up in order to be fair to the other callers. But before we begin taking your questions, since this is Eric's first quarter with the company, I'd like Eric to comment on his objectives, strategies and challenges for the investment area. Once he completes his opening remarks, we'll open the lines to your call. Eric?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Thank you, Robin. And let me start by thanking Dan and the management team for allowing me to become part of the Aflac family, a terrific and great organization, and asking me to take the challenge on bringing the Aflac investment group up to world-class standards. It's a terrific challenge, but it's also a great opportunity, and it's a great opportunity for our shareholders.

Let me give you a sense of what I've been doing in my first 3 months on the ground, and in the spirit of becoming world-class, I would classify my objectives as both strategic in order to move us to world-class, as well as tactical, because we have investments to make and investments to analyze every single day as the world in particularly Europe in such a dynamic and volatile place, if you will.

Firstly, I've spent significant time on the ground in our operations in Columbus worldwide headquarters with our investment teams and management. And I have spent significant time in Japan having made 3 trips already, spent significant time with our investment teams on the ground in Japan, as well as our senior management, which has allowed me to fully understand our capabilities, our challenges and our issues. I've also had the opportunity, right when I started, to meet with all members of the board and to work closely with our finance and investment committees. As you all probably are aware, we have many governance structures internally around the investment functions and I have taken over as chair, for example, of our global investment committee and our credit subcommittee, and we're working very closely with our finance and investment committee representing our investment goals [ph] this year.

Let me break up my conversation in the next few minutes into the strategic and these tactical buckets. And let me start on the strategic front, and then move into the tactical front. Strategically, the charge is, let's make sure that Aflac is a world-class investment organization, by reviewing all of our capability, not only in human capital, but also with respect to technology, also with respect to investment process, also with respect to best in class investment strategies to ensure that our portfolio is well diversified, well-managed and we understand all the rest that we can take and take advantage of in consideration of our capital. So 2 things that we have engaged folks on that we are working on extensively already. First, we've hired McKinsey & Company, a well-known management consultant, to work alongside me to do a strategic review of our investment capabilities on a global basis. That project has already started. We have steering committees of senior management that have already met with McKinsey, and McKinsey has been on the ground in our Japan office as well as in our Columbus office and New York, already doing an extensive review. We expect this project to take about 3 months and to conclude somewhere at the end of March.

Secondly, we have embarked on a strategic asset allocation, ALM capital management exercise. So specifically, what that means is we want to take a broad look at all the investment opportunities that are appropriate for an insurance company, appropriate for our company, of our locations in Japan and Columbus, appropriate for the type of liabilities that we have, and well-managed given the objectives that we have with respect to capital. That project we've embarked on with Goldman Sachs asset management, who is a world leader in this expertise, and what my expectation of that is to look at a broader set of asset classes and investment opportunities that we can use in the future that has not been used historically at Aflac which will help us improve the overall quality of the earnings of our portfolio and diversification for the future. That project will take approximately 5 months, and my expectation is, when we have those recommendations and work with the senior management and our board for approvals, we'll begin to implement those strategies somewhere in the second half of the year.

So those are the strategic parts that go along with defining our roadmap which I think in the second half of the year will be very well defined and we'll be able to articulate that to you. Let me move to tactical because that's so, so important as we have $100-plus-billion balance sheet, that in fact is invested on a global basis in a time of great volatility in the markets.

So with respect to that, I have spent significant time with our investment teams, both in Japan and the U.S., looking at all of our holdings, understanding where our exposures are, where our concentrations are. In addition, as you all know, we've made a commitment to do outsourcing. And I took advantage of asking some potential partners of the future to work with us, to look at our portfolio so that I can have a second set of eyes and opinions that complement our own. So with respect to that, as you all know, we do have concentrations in Europe. And as you also know, and I'm pleased to tell you that I reviewed, the company had been on a derisking strategy over the last few years and it made significant improvement in reducing those exposures and increasing the quality and lessening the volatility of our portfolio. Nevertheless, we still have those exposures, and as I look at that basket of securities with a focus on Europe, where most of my attention has been focused on, clearly, I'm focused on the financials. As I look at our broad portfolio, it's actually a high-quality portfolio. As you know, most of our assets are in private placement form where we've had the opportunity to negotiate specific covenants to our structures. But clearly, the financials represent the greatest challenge with respect to the situation in Europe.

And let me remind everybody, that in the second half of this year, the volatility in Europe increased to unprecedented proportion that nobody could have imagined. And it's multifaceted because we've got the political framework, the monetary framework and the fiscal framework in a very difficult situation in Europe in order to get agreement. And during the quarter, no matter what financial indicator you look at with respect to European assets or European financials, in particular, the spread in the marketplace went to all-time highs in terms of volatility. During the quarter, as different actions were successful by the politicians and the monetary officials and some actions were not. In the last month of the year, we did see an easing up as the ECB has basically provided liquidity to financial institutions, helping to take the biggest risk, a Lehman type risk, off the table. Nevertheless, we will continue to see volatility in Europe in my opinion over the next couple of years, as they try to reach consensus on some strategies that will be everlasting in nature, but that will take some time.

With that in mind, that expected volatility, as I looked at the portfolio, I felt it was necessary to have a strategy to continue to reduce these exposures, in particular, with the financials so that we can lessen our exposure to that potential volatility which is very, very hard to predict. As Dan and Robin have mentioned, consistent with that strategy, since we've embarked on that in late December, we took a number of impairments with respect to that basket of securities because our intent is now focused on executing those strategies which started in late December and are going to be ongoing throughout this year, but hopefully primarily completed before the midyear mark.

So again to emphasize, those impairments were not because of credit related reasons with respect to the financials. They're related to a strategy that's focused on improving the quality of our portfolio, lessening the exposure to the financial sector, so that we'll have less volatility should the situation in Europe continue to be volatile, which I believe it will be. We will be highly vigilant on these holdings. Our teams are highly focused on it and where it makes sense, we will leverage outside advisers that are potentially going to become outsourcing partners with us so that we have the best intelligence in the world to make the best informed decisions. I should also may -- mention early on my arrival, upon my assessment, I put a stop to all new investments in Europe. As I look at our broad exposure, while I believe the quality of the portfolio is very high, with obviously the risk in the financial sectors I've already mentioned, I felt that our macro exposure to Europe was at its limits, and there was no need to make further investments, even though there are many good companies in Europe that we could find as attractive opportunities, we just have reached our risk bucket. Nevertheless, there are new investment opportunities we're looking at in other parts of the world.

So with that, those are the strategic and the tactical things. We're working hard on all of those fronts. And we'll continue to provide you updates as the situation continues to develop. But we're very proud of the work that we've done to-date. And we feel good with respect to where our portfolio is and feel good that these strategies will transition us into the future state.

Daniel P. Amos
Chairman & CEO

Eric, why don't you go ahead and answer a couple of questions that came up last night that you overheard and give them a sense and then we'll take their questions. It might cut down the questions.

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Sure. Again, one of the questions we've heard last night was, can we see the list of specific securities and is that it? The reason we've not provided the list is, this is a strategy. The strategy around our financials. And as you all know, our investments are not publicly traded investments. They're in the form of private placements. And what that means is, these are privately negotiated transactions in order for us to find ways to either liquidate those securities that we'd like to reduce exposure to, and if we can't do that, there are other strategies such as looking at hedging strategies, credit default swaps and amongst the bucket of securities that we wish to look at, we will only execute if we get a value that we feel is optimal for our shareholders. We will not execute simply in the interest of trying to reduce the exposures if we can't get a fair value. So in that spirit, the negotiations will take a few months to develop, and we will report to you as we actually transact during our regular reporting periods, but I want to emphasize that it's a strategy.

Another question that comes up is, do you expect more? That is a difficult question to answer. What I expect is the situation in Europe will continue to be volatile. Just -- let's look at the recent activity. The month of December started to feel better, financial indications -- indicators in Europe began to get better, because the ECB came to the table and is providing liquidity to the system. Just in the last 2 weeks, questions have arose again with respect to Greece. And again, I'm proud to say that we don't have any exposure to Greece. But nevertheless, because those questions have arisen in the market, we've seen an increase in volatility in the last week or 2. I expect those types of events to continue to happen.

Therefore, our strategy of reducing our bucket should reduce our volatility. Again, I'll remind you, the strategy is not because we had a change of opinion on the credits. But should the situation in Europe deteriorate, as an example, and the ECB not provide liquidity because they feel the fiscal situation isn't keeping speed, that could have an impact on our views of our holdings, the speed of our execution and/or the credit views.

So I can't say anything with precision, but I can analyze the dynamics that might affect the portfolio and be actively working on those risks to reduce the potential that those situations in Europe would impact us in any substantial way from here on out.

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations
Thank you very much, Eric, and welcome aboard. All right, we will now begin with your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Jimmy Bhullar of JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

I had a question on Japan sales. Typically, sales in Japan declined sequentially in the first quarter from the fourth. Given your comments on bank sales which are obviously seasonally strong in calendar 1Q, is it reasonable to assume that you'll see sequential growth in sales in the first quarter of this year? And then just following up on Dan's comments on free cash flow and capital flexibility at the holding company. Could you just give us a little bit more detail on how much capital you think you can upstream to the holding company from the Japan's sub in 2012 based on what you've seen in, in investment losses the past few quarters?

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

Kriss, you want to go ahead and take that?

Kriss Cloninger
President & Director

Okay. Jimmy, I'll take the question on how much capital we can upstream from Japan. At the end of the third quarter, we had said that we had projected that the repatriation would approximate JPY 45 billion, potentially, if we had no material additional losses. As you know, we did take additional losses in the fourth quarter within the Aflac Japan segments. And now our best estimate, at today's date through March 31, if we don't have any additional material losses, would be approximately JPY 25 billion. So that's kind of the range of numbers on that. Now at that level at JPY 25 billion would we choose to take it all out and use it for capital management purposes of various sorts, I think the jury's out on that right now. I think we're kind of in a wait-and-see period as to what our most effective use of capital is. Our overall story continues to be that we have strong operating earnings. They're going to generate a lot of capital. We're going to see to what extent in realized investment losses are going to cut in to the portion of that capital that becomes available for capital management purposes. So that's where we are right at the moment.

Daniel P. Amos
Chairman & CEO

And in regard to sales, I don't have it in front of me because I'm always interested in what it compares to last year. But let me say again that first quarter sales traditional channels look to be about flat. What's going to happen with sales regarding the bank channel is the driving factor. And I just said, it would be up 150% or more. How it's going to break down, I'm not totally sure at this point. When I said or more, it could be. I don't know how much more it could be. Because it's something we just can't track at this point. But I do expect -- I want to go back on sales. This is common with any new product. There's an enormous spike once they've made the cycle. So they're trying to finish out the cycles on some of these and -- by the end of the quarter. And so there may be carryover in April. They may process it all in March. I'm just not sure at this point. But the point I want to make to you is it's going to be big. So just because it's big in the first quarter don't expect the sales for the year to be that tremendous because we're expecting this spike.

Operator

Our next question is from Ed Spehar of Bank of America Merrill Lynch.

Edward A. Spehar
BofA Merrill Lynch, Research Division

I have a question about the RBC ratio that you think you have at the end of the year. And I guess if I'm doing the numbers right, it looks like your year-end total adjusted capital shouldn't be that much different than where it was at the end of the 9 months. And so for you to be at the lower end or even the midpoint, the 480% to 500% RBC, it would seem that your required capital would have to be up 10% to 15% year end '11 versus year end '10. And I guess it's hard to see, can you help us understand why required capital would go up so much, especially considering that you've been derisking throughout 2011?

Kriss Cloninger
President & Director

Okay, Ed. I haven't seen the final numbers to know whether required capital is up or not. Based on the nominal NAIC ratings changes in the portfolio that actually would help us. Foreign exchange will hurt us a little bit. So then, I think the primary change in RBC ratio related to the realized losses, and whether or not or to what extent we can take tax benefits associated with those losses. On a GAAP basis, we've been taking a full tax benefit on the realized losses, because we've got unrealized gains that we can use to justify, no allowance on utilization and foreign tax loss carry forwards. But under statutory, there's a limitation on the amount of surplus that you can use to get an admitted deferred tax asset. And I think I mentioned last year that we were approaching the limit on that deferred tax assets. So I think what you're seeing is that limited tax benefits on the realized losses we're booking.

Edward A. Spehar
BofA Merrill Lynch, Research Division

But, Kriss, that's already been the case through the first 9 months of this year, right? So I guess, that's factored into this tac number that I think you've got already, right?

Kriss Cloninger
President & Director

Well, that number reflects actual capital as opposed to the total adjusted capital in the numerator. I think the denominator stayed about the same, Ed. And I think the total adjusted capital we have in force was influenced by the higher level of losses pretax.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Right. I mean, I guess, that would be my assumption as well which would make it seem like 520 is a lot more likely than 480, I guess, is my conclusion.

Kriss Cloninger
President & Director

Well, right now, I think, we're close to the middle of the range. We haven't finished the numbers.

Unknown Executive

We'll know at the end. Really, a couple more weeks, Ed, before we get the final stat work done. And then we can work with Robin to provide a reconciliation to the year end '10 numbers so you can see what the moving parts were.

Daniel P. Amos
Chairman & CEO

Ed, we've got our Chief Accounting Officer in the room and her comment was it may be. We're just not sure at this point. [indiscernible] We're just not sure.

Operator

Our next question is from Chris Giovanni of Goldman Sachs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Eric, question for you. I mean, the -- sort of the tactical element and the strategic review is taking probably another 5 months or so to address the optimal asset allocation. Can you comment some in terms of what you're doing with new money today as you kind of bridge the gap, as you look out over the next 5 months?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Sure, happy to. We continue to be looking at non-JGB investment opportunities. And they do exist in other parts of the world. As previously stated, no more investments in Europe, but we are seeing good investment opportunities in Asia, including some in Latin America as well. We're also focused on continuing to purchase an appropriate amount of JGB investments. We need those both for diversification, liquidity, but also as I believe Dan mentioned earlier, the JGBs as we're able to use them as liability management tools, as well as interest rate tools, allow us when put into HTM to better manage our solvency margin ratio. So for the foreseeable future, those are the things that we have concentrated on historically, and we'll continue to do that before we venture into new investment opportunities, we need to do, as I mentioned earlier, the asset allocation project to make sure we understand how they're going to fit. One last item I should mention, last year, the company did embark on an allocation to bank loans. And the board had approved an allocation up to $500 million. Through the end of the year, we've used approximately $100 million to $125 million of that. We are moving forward to use that capacity as we believe bank loans do represent an attractive opportunity and an attractive complement to our broad portfolio. So I would expect that before the end of June, before the end of the second quarter, we will probably use $500 million of capacity in bank loans subject to market conditions, but we're working on that funding as we speak.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

And then, Dan, in terms of, I guess, Japan. Can you comment a little bit on sort of the expectations for where the benefit ratio could go given the product mix shift? And are you at all worried given sort of the distribution, how it becomes much more open architecture with banks being a predominant player now? Or you at all worried about deterioration in overall profitability, not just for Aflac but for the industry overall?

Daniel P. Amos
Chairman & CEO

I think that's a Kriss question.

Kriss Cloninger
President & Director

Thanks, Dan. Well, I would say that we did write a significantly more, significantly higher portion of life products and including WAYS in the fourth quarter than we had in previous quarters. Those will -- particularly the WAYS products caused the ratios to behave in the way that I've been describing. You're going to get higher revenue on the WAYS life policy than you got on a health policy. Your benefit ratio is going to be somewhat higher. Your expense ratio is going to be somewhat lower. Your overall margin may be somewhat lower. But your profit per policy ought to be at least the same as a health policy, as a combination health policy. Now, I was pleased to see that our overall margin increased during the 2011 period, including the fourth quarter, compared to the fourth quarter last year. So the numbers are behaving as I told you to expect them to behave. We're not getting the declines in the benefit ratios, but we are getting some decline in the expense ratios. And overall, margins are holding steady to modestly improving. And that's even holding true in the light of low interest rate environment we invested in during 2011. I think you'll see some continuation of that into 2012. I told you the reduced earnings estimates in 2012 were a function of getting the low investment yield rates kind of reflected through the full 12-month period, as well as the effect of reinvesting funds associated with investment principal that we had derisk that is sold and had to reinvest. So that can -- impact continues on into 2012.

Daniel P. Amos
Chairman & CEO

And the only other comment I'd make is that, we are continuing to downplay the sale of the endowment policy. In fact, we're giving no credits for sales in 2012 for bonuses for the management team on endowment. And in addition, we're introducing a new cancer, I mean, a new medical product, and we expect that to be very positive for us going forward and will be the same profit margins of the medical products in the past.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then just in terms of the open architecture and kind of profitably across the industry?

Kriss Cloninger
President & Director

Well, by open architecture, I'm not sure if you mean that we intend to control sales by product category. Is that sort of what you mean?

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

No, more just the bank distribution, you have sort of expanding distribution beyond just sort of control, controlled distribution.

Daniel P. Amos
Chairman & CEO

Well, I was just going to say, our distribution channels vary dramatically over the years. If you go back, you can remember we had a telemarketing company that was selling almost 18% of our business. And they no longer produce anything for us. So we found a way to look for new alternatives of distribution and expand on as we move forward. I still think the bank channel, although this year will be difficult and maybe even next year, we always find ways to supplement and grow our business. So I think that's what we'll be doing in terms of expanding that distribution channel.

Operator

Our next question is from the Andrew Kligerman of UBS.

Andrew Kligerman
UBS Investment Bank, Research Division

This question is around the profitability of the products. Two data points. I was a little confused, Kriss, and I think Robin mentioned earlier that for every one sale of a medical product, you have the same profitability as a WAYS and then there's -- and it's 9x the premium. So is the profitability 1/9? And then following on to that, I was in Japan recently and had gotten some feedback from competitors that the pricing on WAYS was somewhat aggressive and that they were having difficulty competing. So what I'd like to know is, what do you think is the reason for these robust sales? And is the pricing aggressive?

Kriss Cloninger
President & Director

Okay. The -- with respect to child endowment, we did have the situation where the premium was about 3x higher than the health policy and the margin was about 1/3 of the typical health policy. So the comment about same profit for policy really applied to child endowments. We don't have that extreme situation on WAYS because WAYS has a different patterns of cash values and settlement features and the like. And the premium is much higher. It's like 9x higher on average. So the profitability of WAYS as a percent of premium actually is almost double that of child endowment as a percent of premium. So the WAYS's profitably is much better. The WAYS benefit period tends to be longer than child endowment. It's longer before you reach the time when benefits are paid out. Child endowment, you start paying benefits at about age 15. WAYS is more like a whole life contract where you pay benefits out starting at a retirement age, and you have certain options in the benefits after retirement age. As far as pricing it aggressively, it's priced at the same interest rate that child endowment was, but it is a longer duration. So we think we can invest for somewhat longer period on WAYS than we can on child endowment and still maintain asset liability management principles in place. Overall, just suffice it to say that WAYS, when sold with advanced discount premium options which is done over half the times in the bank channel, 90% of the bank channel almost half the time overall, that does improve the profitability, too. Because you change your weighted average interest rate required under the contract from the 1.85% that the base policy assumes to an average of 1.85% and the 1% that we credit on the advanced premium deposit funds. So it really kind of weighted average required interest down less than 1.5% on the aggregate contract and that makes a big difference on WAYS sold through the bank channel. So whether or not the other company that made the comment to you that they thought we are priced aggressively, utilize the advanced premium deposit fund to the same extent we do, I don't know. Whether they just want to invest short-term in JGBs only, I don't know. So I can't really comment on the comparative profitability. That's all I can tell you what we're doing.

Andrew Kligerman
UBS Investment Bank, Research Division

Got it. And then just with regard to the profitability, how long a duration are you investing? And more importantly, on this investment portfolio, the hierarchy, it sounds like there's a derisking of another pool of investments. What kind of impact will that have on 2013 earnings? Is there going to be sort of a waiting down? Should we be looking at something in the mid-single digits next year as well because you are derisking a significant amount of securities?

Daniel P. Amos
Chairman & CEO

Well, I want to make one other comment. This is Dan going back to your first question. Number one, is one reason, the competitor's hadn't been in the business is because it has the health insurance element and most life insurance companies have not been comfortable with the health insurance element that's in there. Therefore, it's given us an enormous competitive advantage that very few had been offering it. And also, I just want to mention that the profit margin is around 18%. So it's a great profit margin on that if you include the discounted advanced premium.

Kriss Cloninger
President & Director

They're -- and they're actually competing with us with the product that we prefer not to sell. There's really no other product like WAYS in the marketplace.

Andrew Kligerman
UBS Investment Bank, Research Division

Yes. I mean, they were arguing that -- they argued that they could tack on some type of the health benefits but maybe they can't. I don't know.

Daniel P. Amos
Chairman & CEO

Well, all we know is we're doing great with what we're doing, and we're making an 18% profit margin. We're very happy with it, and we're glad we're selling the hell out of it.

Kriss Cloninger
President & Director

Was the last question related to the duration of investments? I'm kind of...

Andrew Kligerman
UBS Investment Bank, Research Division

I just quickly wanted -- you just said you can invest longer, so I just wanted to get a quick number, like what's the duration of the investments tied to the WAYS product?

Kriss Cloninger
President & Director

Well, it's 20 years or less, typically.

Operator

Our next question comes from John Nadel of Sterne Agee.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Two quick ones, if I could. I know there's been a lot of talk about the premium levels and the margins, et cetera, of WAYS, relative to maybe the medical or cancer products. Maybe the easier way to get at this, and I'm not sure if you'd be willing to do it, but I'll ask anyways is maybe you can help us understand the ROE characteristics of WAYS relative to cancer and medical. I assume the ROE is lower. But I guess the question is just how much lower. Maybe capital required per premium dollar or something like that.

Kriss Cloninger
President & Director

The capital requirements -- we pay lower commissions on WAYS, John, than we do on the medical. So we don't have a major difference in invested capital. I'd say the payback period or the so-called breakeven period on the statutory or regulatory accounting basis would be about 7 years, which might make ROE somewhat less than our basic health products which break even after maybe 3 or 4 years. But with that kind of profit margin, the ROEs are somewhat less than the health products but not a tremendous amount. We're still getting ROEs in excess of cost of capital certainly and that approximate our average. They're not going to bring down our average ROE very much, if at all.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Okay. That's helpful. And then, just a quick one. Just thinking about cash flow and obviously the higher level of losses might bring down the repatriation. Just want to get a sense for where the holding company's cash balance was at the end of 2011.

Kriss Cloninger
President & Director

All right. We were, I think around $380 million or so, I'm trying to remember that...

Unknown Executive

That sounds $385 million.

Kriss Cloninger
President & Director

About $385 million down from last year where we were about $685 million or so.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

But there's no upcoming debt maturities like there was in 2011, correct?

Kriss Cloninger
President & Director

Well, we have a JPY 30 billion samurai note due in June that we've been investigating alternatives to refinancing that and considering other options that we think we can easily refinance that activity. I'll say we actually planned for the cash at the holding company, to be somewhat less than it is now. But we did forego taking 2 of the quarterly dividends from the life company to the holding company in 2011 and that brought our cash position down somewhat at the holding company. I think I mentioned on the last call, yes, the last call or the June call that we were doing a lot more cash flow analysis and a lot more cash flow projections and looking at the different levers we can pull to maintain adequate cash position at the various levels of the company, and have some alternative strategies in place that will interface with our capital management program. I will tell you that we also contributed $40 million to the group company, CAIC, during 2011 to support the substantial growth that we have there. You didn't ask anything about the U.S., but U.S. sales were up quite a bit in 2012. And the significant part of that came out of the success of our Aflac group operations.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

I guess, that begs sort of an interesting follow-up. I mean, I think historically or in recent calls, you guys have talked about or, Kriss, you've talked about 20% of annual earnings, operating earnings or net income required to support organic growth. Is it safe to assume -- I assume that it's safe to assume -- sorry -- that given the substantial growth in 2011, it was much higher than 20%, correct?

Kriss Cloninger
President & Director

Well, most of the organic growth came out of Japan. And -- but I think that 20% would not be substantially affected by the volume of business necessarily because if the growth's there, 20% of the same volume would be about right.

Operator

Our next question comes from Jeff Schuman of KBW.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

A couple of follow-ups for Kriss. First of all on the repatriation, I wondering how that relates to share repurchase. I think you had earlier suggested 2012 share repurchase could be maybe ballpark $600 million. I assumed that figured somehow into the EPS guidance. Should we think of that as being at risk at this point? How should we think about that in light of the uncertainty around repatriation?

Kriss Cloninger
President & Director

Well, I mentioned earlier, Jeff, that at the end of the third quarter, we had forecast our repatriation through kind of as of the March 31, 2012 FSA statements, which is the time that the fiscal year end in Japan is the time that we set that repatriation. And normally, we target approximately 80% of our net earnings on FSA basis after tax. And the impairments we took in the fourth quarter for Aflac Japan investments caused us to revise our estimates of repatriation down from $45 billion which might have given us $600 million at then exchange rates to about $25 billion if we have no additional material net realized losses during the first quarter of 2012. Now, I don't know whether we're going to have the realized losses or not. Eric's still continuing to posture the portfolio and if we decide that it's in the best interest of the company to sell or impair additional securities, we may have more realized losses. And we may reduce repatriation or at least repatriate-able earnings. And then we'll have to take a look at the solvency margin in Japan and try to decide whether that's an appropriate level to satisfy the policyholders and the regulators in Japan. And that is a solvency margin that we're comfortable with relative to our position within the other countries in the industry. Our story all along, Jeff, since the fall of 2008 has been that we believe that our best strategy to make it through the financial crisis is to continue having solid earnings growth which we've done. Our operating earnings have continued really without a blip. And those earnings have contributed enough capital to the company to be able to absorb all the investment losses we've been able to take. And in 2010, we were -- 2011, we were comfortable enough to resume share repurchase and did in fact, to repurchase 6 million shares or so last year. Now, where we go in 2012 is going to be a function primarily of the investment losses we take. We're comfortable with that the operating earnings we're going to generate are going to be there. They're probably going to be in excess of our projections given the good sales activity we've had going on both in Japan and the U.S. relative to what those sales were back when I was making the projections before the last FAB meeting. So we'll update those numbers for you in May and take a look and let you know. But all I can tell you is, right now, I'm thinking that it depends on the level of the realized losses, and the operating earnings portion of it is going to be there.

Daniel P. Amos
Chairman & CEO

The statement I want to make is, is that if we didn't buy any stock back, we can still make the range. But our goal is to have JPY 25 billion available to be able to buy stock back with. That's the most important thing I want to mention.

Kriss Cloninger
President & Director

Internally, I'm saying we're managing toward that. And if we can achieve it, that'll be good. But if we don't, it's not the end of the earth because that doesn't mean we're going to have an earnings miss [ph] in 2012.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And the other thing I want to just follow on quickly was the WAYS' ROE. You gave us a couple of bookends that were really far apart. I think you talked about it, earning more than cost of capital which I assume we would all agree is probably low double digits for you, but then you said probably close to ROE which is I think 2011 was 28%. So that's a really big range. I know you don't want to give specific number, but I mean, which is it really close to, the cost of capital or your consolidated ROE?

Kriss Cloninger
President & Director

Well, that's a difficult question for me to answer because I don't price our products on an ROE basis. And ROE's influenced by the level of investment losses you have and the like and what your equity position is. Now you have to get into the whole list of things about what are we talking about, are we going to compare net earnings to equity including unrealized gains and losses or we're going to talk about operating return on equity where we exclude investment losses and we exclude realized gains and losses and I don't sit around spend a lot of time worrying about that. I worry about the fundamental profitability of our products as a percent of premium. And if I can sell products with double-digit profit margins, I figure that I've got it covered for the most part. So that's just our internal perspective.

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

I'm going to interject now. I see that it is already past the top of the hour, but considering the number of people in line to ask questions, we're going to extend to 10:15. So you can go ahead with the next question, please.

Operator

Our next question comes from Randy Binner of FBR.

Randolph Binner
FBR Capital Markets & Co., Research Division

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I just got a quick follow-up on the buyback. I think previously, Kriss, had talked about in 2013, JPY 90 billion to JPY 95 billion of repatriation. So how does everything that's been talked about so far affect how you might be able to look ahead to 2013 in those levels of yen repatriation and thus buyback?

Kriss Cloninger
President & Director

Well, the JPY 90 billion to JPY 95 billion, those are our projected operating earnings before any investment, realized investment losses in 2013. The JPY 45 billion that I talked about at the end of the last quarter are already reflected the realized losses we had taken during the first 6 months of the fiscal period in Japan for the year ended 3/31/2012. So the JPY 45 billion reflected the investment losses we had in the second, third quarter this year. So that' how you got down. JPY 95 billion is close to the run rate of operating earnings for fiscal 2012 in Japan, but then we have the realized losses. The other JPY 95 billion for 2013 would just be close to the operating earnings, assuming no additional realized losses. So that's where those numbers came from.

Randolph Binner
FBR Capital Markets & Co., Research Division

All right. So without further credit loss in 2013, we can -- we should be able to try and model for much higher buybacks in 2013 versus what we'll be able to expect again in 2012, is that fair?

Kriss Cloninger
President & Director

Yes, that's fair. Keep it in mind that we really don’t become eligible to take the repatriation out until March 14. March 14, that's when -- that's the final date of the financial statement. And then as a practical matter, we don’t file it till May or so and we have to reflect any losses that occur prior to the date of the filing and that could affect things. So we've become more certain we're going to get the money, but we don’t get the money until accounting period is over. Kind of thing, we can't pull it out as we go along. I suppose, we could arrange to finance anticipated share repurchase. But I've been reluctant to do that because of the changing nature of the investment climate throughout the world. I would say that our primary priority is supporting the shareholder dividends, making sure we got enough money for that and then share repurchases. Our second priority in terms of returning money to shareholders.

Operator

Our next question is from Joanne Smith of Scotia Capital.

Joanne Arnold Smith
Scotiabank Global Banking and Markets, Research Division

I just want to talk about your past history in terms of your way of reserving for relatively new product, and how that kind of runs through profits over time. So in the past, you have always put up a little bit more reserve or pads or whatever for new products because there's this uncertainty around how the profit is going to emerge. And then that tends to be conservative and then you're able to take down some of those reserves over time as the benefit ratios come in and you're more comfortable with the profitability of the product. Is that one of the ways that we should look at the WAYS product now, because it's new and it's different that you're being a little bit conservative on the reserving, and so, over time, we should see more profit emerge?

Kriss Cloninger
President & Director

It's not quite as true to the level of the health products, Joanne, and the reason is that prior to the age at which the policyholder has the options. It's primarily a life insurance accumulation contract. You tend to accumulate cash until the so-called Y age which is the age at which the policyholder has the opportunity to elect the option to continue the product, as life benefits or to take out cash or move the health benefits or annuity benefits. So the WAYS product is more inter sensitive than a typical health product because it builds cash to that retirement age. And then at the retirement age, when they elect the options, they elect the options at the price at which we offer products at that time. So the policyholder doesn't really know, and we don't have to commit to the price we're going to sell them health benefits at 15 years from now. We don't have to commit to that today. So we've got the option and the protection of doing that.

Now on the health products, you're right. We tend to be a little bit more conservative in the early years. If we don't have a good track record or a good handle on where the health claims are going to come out based on who utilizes our distribution channel to buy those products. So we start out being a little conservative and then as we gain confidence over a couple of years, we'll introduce a new version of the product and develop new reserve assumptions that reflect our experience to date and probably have a little less element of conservatism and therefore, the old products would have more provisions for adverse deviation to release in the future. But it's a little bit different story on the WAYS product.

Joanne Arnold Smith
Scotiabank Global Banking and Markets, Research Division

And just a follow-up for Eric. With respect to your looking at new investment opportunities throughout the world. One of the problems is obviously that you have so much liabilities denominated in yen. So when you look around the world for opportunities, will you only consider things that can be denominated in yen? And does that limit that opportunity set?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Terrific question. First, as you know, through the private placement structure, that's exactly right. We end up with a yen denominated asset with no risk to currency fluctuations. As we look at new strategies beyond privates, which is an objective because we have a big portfolio of privates. One of our objectives which will come out from the asset allocation project is to have more public traded bonds but on a global basis. So you're right, in order to do that, we need to focus on the currency risk, and our objective would be to have minimal currency risk relative to our liabilities and particularly in Japan. So we would be exploring, if we were to invest around the world in more publicly traded securities, what hedging vehicles or strategies would we need to employ to ensure we're not taking on currency risk so that it's better matched to our liabilities and our base currency. So that will be determined and analyzed as part of our project and later on this year, as I said, when we would move to implementation, we will have that all factored in and be able to articulate that more.

Joanne Arnold Smith
Scotiabank Global Banking and Markets, Research Division

Eric, just a quick follow-up and then I'm done. In the past, management has been very reluctant to hedge currency risk. And I'm wondering if this is something that you think you can do without taking on substantial financial risk? Or is it more of a diversification of exposures strategy?

Eric M. Kirsch
Global Chief Investment Officer and Executive VP

Well, I think we can potentially achieve both. But that's the scope of the asset allocation, ALM. And I just said, capital management program. We certainly want to achieve diversification in our balance sheet on a global basis, and we certainly want to understand all the different types of investment risk that we could take or could be exposed to. So those investment risk include interest rate risk, sector risk, concentration risk, how different asset classes correlate with each other. But within those risks, could be currency risk. And I don't feel that we should be an investor in currencies in terms of taking that as an active risk. Our liabilities, particularly for our Japan branch, are based in Japan, and we should minimize that risk by ensuring the asset strategies match up well versus the liabilities. So as we do this project, we will actually be able to measure and quantify those potential exposures and what would be the effect of a hedging strategy if we employ more assets globally and in publicly traded bonds. So we would have a metric on given different scenarios of what can happen in the currency markets or the credit markets or the financial markets. What the hedge is on? How would that potentially impact our investment results, our capital position. So we would not move forward unless we had that fully quantified. And we understood fully the potential for those risk.

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

It's 10:15. It's 10:15 now, so we're going to have one more quick question.

Operator

Our final question comes from Steven Schwartz of Raymond James & Associates.

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

I want to follow up and then a quick one for Paul, if he's still there. Kriss, the timing -- the amount that you can take out in May or June is based on the net income of Japan for the year ended this March. Is that correct?

Kriss Cloninger
President & Director

Yes, that's correct.

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

Okay. And then assuming everything is clear, which you can -- I think you said 2014, but what you can take out in 2013, is based on the year ended in March of 2013, is that correct?

Kriss Cloninger
President & Director

Yes. I probably got the year off there.

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

Yes, okay. You said 2014, I just wanted to clear that up. And then for Paul, it seemed -- talking about the group business through the brokers is still nascent, still in its infancy. If you can talk about what's going on there because I think that's going to be, that has the potential for being a huge delta. And we're only 1 year into it, if we're talking in this time next year, is that the time to really see whether or not this is successful?

Paul Shelby Amos
Former Director

Yes, the book to market has certainly been success over the last several years. As I've mentioned in previous calls, it is a relationship business that takes time for us to be successful. There's no doubt that the large majority of our success in the group business was a balance between not only what we're seeing in the broker market, but also our field force. I think there was pent-up demand among accounts as well as some of our sales force to actually go out and write group business and accounts over 100.

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

Let me stop you, Paul. I understand it's been very successful through the traditional agent. I'm much more interested in the alphabet houses.

Paul Shelby Amos
Former Director

I'm getting there. The alphabet houses themselves continues to be slow. We have done -- our greatest success with the smaller regional brokers and in terms of the national brokers, we know that those relationships have the longest tail to them and are taking the longest for us to develop. We do feel that we're making progress, and we're making some additional changes and investments in order to grow that further. Whether or not 12 months from now, we're going to see significant premium, I think that it will be much improved over where it is today. That said, I think it's still too early to tell how that's going to go. That said, broker sales on the whole for last year were up 18%. So I feel very good about the success of our broker strategy, but I would like to see us become more successful in the top end of that broker strategy, and we're putting the things in place now to make sure that happens for the long term.

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

Okay. So a year from now yay or still too early? If we're here a year from now talking about this.

Paul Shelby Amos
Former Director

A year from now is going to be better than it is today, how exponential versus linear that is, I can't tell you. My hope is for exponential but linear may be a reality. Just give me until May and I can talk to you a little more of that.

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

Thank you. All right, this concludes our conference call this morning. Thank you for joining us. If you want to follow-up with any questions or comments, you have our numbers so you can call Tom McDaniel or myself and we'll be glad to help you out. Thanks again.

Operator
This does conclude today's conference call. You may disconnect your phones at this time.