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Aflac Incorporated NYSE:AFL

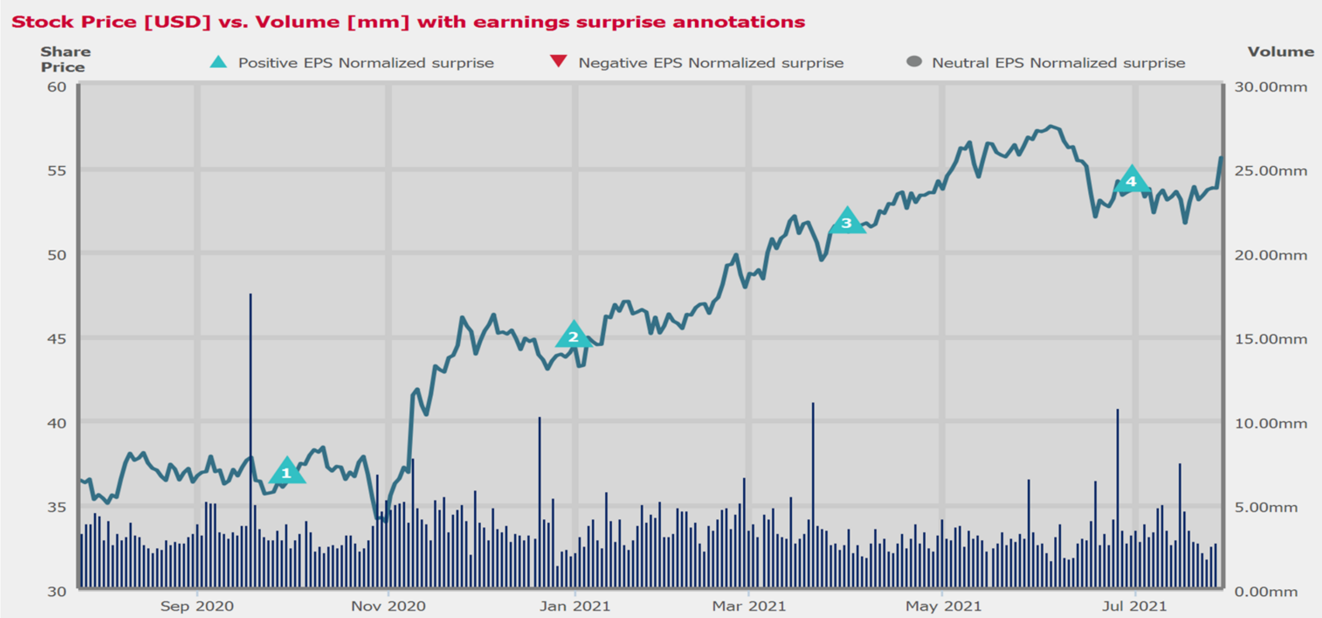
FQ2 2021 Earnings Call Transcripts

Thursday, July 29, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.28	1.59	▲24.22	1.29	5.47	NA
Revenue (mm)	5366.98	5564.00	▲3.67	5373.16	21593.50	NA

Currency: USD
Consensus as of Jul-29-2021 9:33 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	1.14	1.39	▲21.93 %
FQ4 2020	1.04	1.05	▲0.96 %
FQ1 2021	1.21	1.51	▲24.79 %
FQ2 2021	1.28	1.59	▲24.22 %

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EXECUTIVES

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Chairman & CEO

David A. Young
Vice President of Investor & Rating Agency Relations

Frederick John Crawford
President & COO

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

Koichiro Yoshizumi
Senior Managing Executive Officer, Executive VP & Assistant to the Director of Sales and Marketing

Masatoshi Koide
President, CEO & Representative Director

Max Kristian Broden
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Teresa Lynne White
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Presentation

Operator

Welcome to the Aflac Incorporated 2021 Second 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 Mr. David Young, Vice President of Aflac Investor and Ratings Agency Relations. Please go ahead.

David A. Young
Vice President of Investor & Rating Agency Relations

Thank you, Andrea. Good morning, and welcome to Aflac Incorporated Second Quarter Earnings Call. As always, we have posted our earnings release and financial supplement to investors.aflac.com. This morning, we will be hearing remarks about the quarter related to our operations in Japan and the United States amid the ongoing COVID-19 pandemic. Dan Amos, Chairman and CEO of Aflac Incorporated, will begin with an overview of our operations in Japan and the U.S. Fred Crawford, President and COO of Aflac Incorporated, will then touch briefly on conditions in the quarter and discuss key initiatives, including how we are navigating the pandemic. Max Broden, Executive Vice President and CFO of Aflac Incorporated, will conclude our prepared remarks with a summary of second quarter financial results and current capital and liquidity.

Members of our U.S. executive management team joining us for the Q&A segment of the call are: Teresa White, President of Aflac U.S.; Virgil Miller, President of Individual and Group Benefits; Eric Kirsch, Global Chief Investment Officer and President of Aflac Global Investments; Al Riggieri, Global Chief Risk Officer and Chief Actuary; June Howard, Chief Accounting Officer; and Steve Beaver, CFO of Aflac U.S. We are also joined by members of our executive management team in Tokyo at Aflac Life Insurance Japan: Charles Lake, Chairman and Representative Director, President of Aflac International; Masatoshi Koide, President and Representative Director; Todd Daniels, Director and CFO; and Koichiro Yoshizumi, Director, Deputy President and Director, Sales and Marketing.

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

I'll now hand the call over to Dan. Dan?

Daniel Paul Amos
Chairman & CEO

Thank you, David, and good morning, and thank you for joining us. With the pandemic conditions to evolve, we remain cautiously optimistic and vigilant as the vaccination efforts continue in the face of uncertainty associated with the emerging variants. I am proud of our response over the last year and our ability to adapt to what has been a very challenging time for everyone, and I continue to pray each day for everyone affected.

Adjusted earnings per diluted share, excluding foreign currency impact, increased 24.2% for the quarter and 24.5% for the year. While earnings are off to a very strong start for the first half of the year, it's important to bear in mind that they are largely supported by a low benefit ratio associated with the pandemic conditions as well as a better-than-expected return on alternative investments. At the same time, sales improved year-over-year for the first time during the pandemic in the second quarter in both the United States and Japan.

As part of our strategy, we strive to be where people want to purchase insurance. That applies to both Japan and the United States. Face-to-face sales are still the most effective way for us to convey the financial protection only Aflac products provide. However, the pandemic has clearly demonstrated the need for virtual means. In other words, non-face-to-face sales that help us reach potential customers and provide them with the protection that they need.

We have continued to invest in tools from a distribution in both countries and to integrate these investments into our operation. Recognizing the uncertain nature of recovery from the pandemic, we expect a stronger second half of the year in both countries, especially if the communities and businesses continue to open up, which would allow more face-to-face interactions.

Keeping vaccinations in mind, right now, I'm addressing our employees in a way that is similar to how I talk to my family, keeping them informed with the medical community by bringing doctors in but also by encouraging them to get COVID-19 vaccinations as I want people to avoid being sick or even worse, becoming a casualty of the virus or variant.

Looking at our operations in Japan, in the second quarter, Aflac Japan generated solid financial growth results as reflected in its profit margin of 26.5%. This was above the outlook range provided at the 2020 Financial Analyst Briefing. Aflac Japan also reported strong premium persistency of 94.7%. Sales improved year-over-year, generating an increase of 38.4% for the quarter and 15.7% for the first 6 months. These results reflect easier comps, improved pandemic conditions and a boost from the first quarter launch of our new medical product.

While sales in the first half of 2021 are at approximately 65% of 2019 levels, we continue to navigate evolving pandemic conditions in Japan. The states of emergency have been in the targeted areas, especially Tokyo and Okinawa. However, cases have begun increasing in Tokyo and Osaka metropolitan area, and we expect the Japanese government to make a determination soon to expand the declaration of the state of emergency to 3 other prefectures surrounding Tokyo and Osaka. But most importantly, these states of emergencies are less restricted and limited in scope and do not represent lockdowns as experienced in other countries.

Japan, post-resumption of proactive sales starting in April, is contributing toward a gradual improvement in Aflac's cancer insurance sales, and we continue to work to strengthen the strategic alliance to create a sustained cycle of growth for both companies. In June, for example, Aflac and Japan Post Holding, Japan Post Company and Japan Post Insurance, reached agreements to further the strategic alliance in a matter consistent with Japan Post Group's 5-year medium-term management plan, which was announced in May. While we do not expect this to have an immediate impact on sales recovery, it will further position our company for long-term growth as we respond to customers' needs, provide customer-centric services and create shared value of resolving societal and local community issues.

Turning to Aflac U.S., we saw a strong profit margin of 24.4 -- 25.4% and very strong premium persistency of 80.1%. As expected, we also saw sequential sales improvement and more opportunities for face-to-face activities. As a result of softer sales a year earlier and more face-to-face opportunities, sales increased 64.1% for the quarter and are at a 73% of the first half of the 2019 levels.

In the U.S., small businesses are still in a recovery mode, which we expect to continue through 2021. At the same time, larger businesses remain primarily focused on returning employees to the worksite. As I stated earlier, we will focus on being able to sell and service customers, whether in-person or virtually. In addition, we continue to build out the U.S. product portfolio with previously acquired businesses, Aflac Network Dental and Vision and Premier Life and Disability. While these acquisitions have a modest near-term impact on the top line, they better position Aflac for future long-term success in the U.S.

Meanwhile, strong persistency, underwriting profits and investment income continue to drive strong pretax margins in the United States as they do in Japan. As always, we place significant importance on continuing to achieve strong capital ratios in the U.S. and in Japan on behalf of our policyholders and investors. We remain committed to prudent liquidity and capital management. We treasure our 38-year track record of dividend growth and remain committed to extending it, supported by the strength of the capital and the cash flows. At the same time, we will continue to tactically repurchase shares, focus on integrating the growth investments that we've made in our platform.

We are well positioned as we work toward achieving long-term growth, while also ensuring we deliver on our promise to our policyholders. By doing so, we look to emerge from this period in a continued position of strength and leadership and look forward to sharing more about the strategic and financial priorities at our financial analyst briefing on November 16, 2021.

So now I turn the program over to Fred. Fred?

Frederick John Crawford
President & COO

Thank you, Dan. I'm going to focus my comments on activities to restore our production platform and progress on growth strategies. Beginning with Aflac Japan, we are focused on 3 areas in building back to pre-pandemic levels of production: product development, online or digital assisted sales and specific sales efforts within the Japan Post platform.

With respect to product development, we continue to see positive reception to our revised medical product, EVER Prime. Medical product sales for the first half of the year are up roughly 48% over the same period in 2020 and have approached pre-pandemic levels down only 4% from the 2019 period. We are gaining back market share in this highly competitive medical market. Earlier this year, we launched our first short-term insurance product under a newly-formed subsidiary called SUDACHI. The product is a small amount, substandard medical product targeting customers who do not qualify for traditional medical coverage. In the second quarter, we have registered close to 600 agencies with SUDACHI and issued about 230 policies. We are in the very early stages of this initiative, but over time, we anticipate adding additional short-term health and income support products.

We are in the process of developing a new care product aimed at supplemental elderly care coverage provided by the Government of Japan. We will provide strategic context and timing around this product in the coming months, but we believe this product line will mature into a meaningful driver of future third sector sales, with an aging population and in anticipation of a continued shift in financial burden from the government to individuals.

Turning to distribution, we have technology in place to allow agents to pivot from face-to-face to virtual sales. On March 26, we launched a national advertising campaign promoting this capability. In the second quarter, we have processed over 14,000 online applications as compared to nearly 8,000 in the first quarter. On Japan Post, proposal activity has increased month-to-month as sales training and promotion permeates the 20,000 branches that sell our insurance. Through the month of June, Aflac Japan has conducted over 35,000 training sessions with Japan Post sales agents nationwide, along with providing contact information on nearly 700,000 existing cancer policyholders to inform on the latest coverage advantages. Activities in the third quarter include visits with regional office managers in the JP system and post office visits to reinforce the sales process.

Turning to the U.S., our group voluntary platform continues to respond well with sales exceeding 2019 pre-pandemic levels. Overall, sales recovery is focused on restoring our agent-driven small business franchise hurt by the pandemic. Critical areas of investment include recruiting, converting recruits to weekly producers and product development. In terms of recruiting, we have refocused our efforts in the past year on broker recruiting, with new appointments exceeding pre-pandemic levels. Appointing small business brokers takes time to convert into production but is critical to expanding our reach and gaining traction in the dental and vision markets. Individual agent recruiting remains under pressure, and we are running at 70% of weekly producers we enjoyed pre-pandemic. Agent recruiting is impacted by onboarding and training under COVID restrictions, tight labor markets and employment subsidy programs, all of which we expect to subside later in the year.

Our Network Dental product is approved in 43 states and Vision in 42 states, with more states coming online later in the year. We are completing national training programs and have about 50% of trained agents who have quoted on our new dental and vision product offerings. It's early, however, we continue to see our volume building each month, and over 50% of our dental and vision cases include voluntary benefit sales. We believe this supports our strategic intent to increase access in new accounts and deepen relationships in our existing accounts. As I said last quarter, our 2021 dental and vision strategy can be summed up as a year of launch, learn and adjust.

Our Premier Life and Disability platform continues to support their key client relationships and are building a pipeline of quoted business. Our service model remains exceptional. And since closing, we have not lost any notable accounts and have seen early interest among some of our larger voluntary benefit clients. In fact, this morning, Connecticut Governor Ned Lamont announced the selection of Aflac as administrator for the Connecticut Paid Leave Authority, administering benefits for their statewide paid leave program. This awarded business would not have been possible without our recently-acquired group capabilities.

With respect to our e-commerce initiative, Aflac Direct, we offer critical illness, accident and cancer and are now approved in 45 states, including California. As a reminder, this platform is focused on reaching customers outside the traditional work site. Like most digital sales platforms, we enjoy higher conversion rates when a digital lead is handed to a licensed call center agent. Currently, most of our leads are funneled to third-party call center platforms, and we are actively building out an Aflac-licensed call center. Our digital platform overall is experiencing a 16% conversion rate on qualified leads and generally consistent with many digital D2C insurance platforms. Our consumer market strategy also includes digital distribution and product partnerships, and while early in development, are designed to expand access to protection products and increase traffic to our site. Through 6 months in 2021, these 3 platforms, new platforms, have combined for 5% of sales as they are in the early building and development stages. We continue to forecast a strong second half based on increased activity and expect these 3 growth initiatives will contribute upwards of 15% to sales in the second half of 2021.

Aflac Global Investments announced last week, an investment partnership with Denham Capital. Aflac has made a $2 billion multiyear general account commitment to launch a new debt platform focused on investing in the senior secured debt of sustainable infrastructure projects. Aflac will hold a 24.9% minority interest in a newly-created entity Denham Sustainable Infrastructure. We are also making a $100 million commitment to Denham Equity Fund, focused on sustainable infrastructure investments. We are pleased to partner with Denham, a recognized and leading investment firm, in the sustainable infrastructure markets. Under Eric's leadership, this transaction furthers our strategy of partnering with external managers. We seek alliances with firms that maintain strong track records in specialized asset classes that play an important role in our portfolio. We then leverage our capital to take a minority stake to further maximize the potential benefits. When combined with our recent Sound Point Capital investment, we advance our ESG efforts by investing in sustainable infrastructure and distressed communities across the U.S.

I'll now pass on to Max to discuss our financial performance in more detail. Max?

Max Kristian Broden
Executive VP, CFO & Treasurer

Thank you, Fred. Let me begin my comments with a review of our Q2 performance, with a focus on our core capital and earnings drivers have developed. For the second quarter, adjusted earnings per share increased 24.2% to $1.59. The slightly weaker yen-dollar exchange rate did not have a significant impact on adjusted earnings per diluted share. This strong performance for the quarter was largely driven by lower claims utilization due to the pandemic, especially in the U.S.

In addition, variable investment income ran $112 million above our long-term return expectations. Adjusted book value per share, including foreign currency translation gains and losses, grew 20.5%. And the adjusted ROE, excluding foreign currency impact, was a strong 17%, which is a significant spread to our cost of capital.

Starting with our Japan segment, total earned premium for the quarter declined 3.8%, reflecting the impact of first sector policies reaching paid-up status, while earned premium for our third sector products was down 2.3% due to recent low sales volumes. Japan's total benefit ratio came in at 66.9% for the quarter, down 290 basis points year-over-year. And the third sector benefit ratio was 56.5%, down 305 basis points year-over-year. We experienced a slightly higher-than-normal IBNR release in our third sector block as experience continues to come in favorable relative to initial reserving. This quarter, the IBNR release was primarily due to pandemic conditions, constraining utilization since second quarter of 2020 and year-to-date. Although claims activity have begun to rebound, it remains below longer-term normalized levels. Auto claim reporting lags require up to a year to mature the data. And now with more than a year's worth of pandemic data, our estimates are more refined, which has led to increased IBNR releases. Persistency was down 10 basis points, yet remained strong at 94.7%.

Our adjusted expense ratio in Japan was 20.8%, up 80 basis points year-over-year. We continue our technology-related investments to convert Aflac Japan to a paperless company, which also includes higher system maintenance expenses. Additional telework expenses also added to the higher expense ratio in the quarter. Adjusted net investment income increased 27.4% in yen terms, primarily driven by favorable returns on our growing alternatives portfolio and lower hedge costs, partially offset by lower reinvestment yield on our fixed rate portfolio. The pretax margin for Japan in the quarter was 26.5%, up 450 basis points year-over-year, which was a very favorable result for the quarter. This quarter's strong financial results leads us to expect the full year benefit ratio for Japan to be at the lower end of the 3-year guidance range of 68.5% to 71% given at FAB, and the pretax margin to be at the higher end of the 20.5% to 22.5% range.

Turning to U.S. results, net earned premium was down 3.4% due to weaker sales results. Persistency improved 180 basis points to 80.1%. 63 basis points of the elevated persistency in both the second quarter of this year and the prior year can be explained by emergency orders. So there was no net impact for the quarter year-over-year. 80 basis points of improved persistency in the quarter is attributed to lower sales, as first year lapse rates are roughly twice total in-force lapse rates. Another 30 basis points of improved persistency is due to conservation efforts, and the remainder largely comes from improved experience. Our total benefit ratio came in lower than expected at 43.5% or 80 basis points lower than Q2 2020, which, itself, was heavily impacted by the initial pandemic.

Lower claims utilization impact our estimates for incurred claims as data matures over the course of the year. As our data matures, we increased our reliance on raw data, and with a year of pandemic data behind us, we reduced our IBNR to reflect the lower utilization. This quarter, IBNR releases amounted to 5.6 percentage points impact on the benefit ratio, which leads to an underlying benefit ratio, excluding IBNR releases, of 49.1%. We expect the benefit ratio to increase gradually throughout the remainder of the year, with the resumption of normal activity in our communities and by our policyholders. For the full year, we now expect our benefit ratio to be in the range of 45% to 48% versus our original guidance of 48% to 51%.

Our expense ratio in the U.S. was 36.9%, up 160 basis points year-over-year but with a lot of moving parts. Weaker sales performance negatively impacts revenue, however, the impact to our expense ratio is offset by lower DAC and commission expense. Higher advertising spend increased the expense ratio by 60 basis points. Our continued buildout of growth initiatives, Group Life and Disability, Network Dental and Vision and Direct to Consumer contributed to a 170 basis point increase to the ratio. These strategic growth investments are largely offset by our efforts to lower core operating expenses as we strive towards being the low-cost producer in the voluntary benefits space.

Net-net, despite a lot of moving parts, Q2 expenses are tracking according to plan. In the quarter, we also incurred $5.5 million of integration and transition expenses not included in adjusted earnings associated with recent acquisitions. Adjusted net investment income in the U.S. was up 9.9%, mainly driven by favorable variable investment income in the quarter. Profitability in the U.S. segment was very strong with a pretax margin of 25.4%, with a low benefit ratio as the core driver. With the first half now in the books, we are increasing our pretax margin expectation for the full year. Initial expectations were for us to be towards the low end of 16% to 19%. We now expect to end up slightly above the range indicated at FAB.

In our Corporate segment, we recorded a pretax loss of $76 million, as adjusted net investment income was $45 million lower than last year due to low interest rates at the short end of the yield curve and amortization of certain tax credit investments, which amounted to $30 million this quarter held at the corporate level. Under U.S. GAAP, we recognized a negative impact to corporate NII, but this is offset by a lower effective tax rate for the enterprise. This results in a level of reported volatility to our Corporate segment, but the economic returns on these investments are above our cost of equity capital. To date, these investments are performing well and in line with expectations.

Our capital position remains strong, and we ended the quarter with an SMR above 900% in Japan and an RBC of approximately 600% in Aflac Columbus. Unencumbered holding company liquidity stood at $4.4 billion, which was $2 billion above our minimum balance, excluding the $400 million proceeds from the sustainability bond that we issued in March that reinforced our ESG initiatives and believe that sustainable investments are also good long-term investments.

Leverage, which includes our sustainability bond, remains at a comfortable 22.8%, in the middle of our leverage corridor of 20% to 25%. In the quarter, we repurchased $500 million of our own stock and paid dividends of $223 million, offering good relative IRR on these capital deployments. We will continue to be flexible and tactical in how we manage the balance sheet and deploy capital to drive the strong risk-adjusted ROE, with a meaningful spread to our cost of capital.

With that, I'll hand it over to David to begin the Q&A.

David A. Young
Vice President of Investor & Rating Agency Relations
Thank you, Max. Now we are ready to take your questions. [Operator Instructions] Andrea, we will take our first question, please.

Question and Answer

Operator

[Operator Instructions] The first question comes from Nigel Dally of Morgan Stanley.

Nigel Phillip Dally
Morgan Stanley, Research Division

So I wanted to ask about sales, how they trended throughout the quarter. In the first quarter, they improved every month. February was better than January, March was better than February. So interested in how they trended in the second quarter, both in the U.S. and Japan.

Teresa Lynne White
President of Aflac US

Well, the U.S. [indiscernible] Virgil, did you want to speak to the sales trend?

Virgil R. Miller
Executive VP & President of Group & Individual Benefits Divisions

Yes. Nigel, this is Virgil Miller. Let me share with you about our sales trends we've seen in the second quarter. First, you heard from Fred say that we are very pleased to install in our group side of the business, we trended positive and favorably once again. We're trending right now about 117% of 2019. Looking strong. We're looking good with our buy-to-build platforms. We expected to hit our goals for the end of the year. And then turning to our individual block of the business, it was really driven by our career channel. We ran into some headwinds, as you can see, with career recruits.

Overall, recruiting looks strong though. We surpassed our Q1 numbers with our Q2. We're looking strong with our veteran recruits. One of the things I look at daily is our veterans getting back to business. In Q1, 73%, we were in 2019 level with our veteran average week of producers. In the second quarter, we were at 78%, so showing a favorable increase there, and we're looking for that to increase throughout the second half of the year and have a strong third and fourth quarter. So overall, I would say we're performing just right at plan when it comes to what we're expecting, a little bit behind with the credit channel but exceeding with the group channel.

Frederick John Crawford
President & COO

Now maybe turn to Japan to answer Nigel's question.

Masatoshi Koide
President, CEO & Representative Director

[Interpreted] Yes. This is Koide, Aflac Japan. I will have Mr. Yoshizumi answer the question. But before asking him to answer the question, let me introduce you who Mr. Yoshizumi is.

Mr. Yoshizumi has assumed the position of the Head of Sales and Marketing of Aflac Japan, succeeding Mr. Ariyoshi effective July 1. And Mr. Yoshizumi has more than 30 years of experience in the life insurance sales. And before joining Aflac in January this year, he has had -- he had led the sales division in Manulife Japan and then sit on the position of the CEO of Manulife Japan.

We are very extremely pleased to welcome Mr. Yoshizumi to Aflac Japan Sales and Marketing Division Head since he has very rich leadership experience as well as very extensive experience in sales in Japanese life insurance industry.

Koichiro Yoshizumi
Senior Managing Executive Officer, Executive VP & Assistant to the Director of Sales and Marketing

[Interpreted] Thank you for the introduction. Really great to talk to you all in the U.S. My name is Yoshizumi. And as Mr. Koide just introduced, I have been assigned to lead the sales and marketing division of Aflac Japan effective July 1. And before joining Aflac, I was the CEO of Manulife Japan. However, most of my experience has been -- or the 30 years of my experience has been sales promotions and marketing of life insurance.

The types of channels that I've experienced in sales are captive agent channel, independent agent channel, financial institutions. So all the sales distribution channels that exist in Japan have been my experience. And I'm very honored to be able to heavily spend more opportunity to be able to discuss Aflac Japan sales with you going forward. And once again, great to be here with you.

So now let me start to talk about Aflac Japan's sales results in the first and the second quarter. And under the current COVID situation, let me first of all, touch upon the new medical product that we launched, which was also discussed earlier. As was discussed, we have achieved 48.1% increase year-on-year. And also under this COVID situation, the online acquisition has become very popular and become a common means for application.

As a result, we have been able to have very active moves and active activities under the current environment. And that's what is -- what was covered by Dan, as he said, we are at about 65% of where we were in 2019. And that's it for me.

Nigel Phillip Dally
Morgan Stanley, Research Division

That's great. Just a follow-up on Japan Post as well, given that they've begun to actively proactive -- they've begun proactive sales, any early indications as to how the sales are coming in relative to your expectations? I know you expected to pay some improvement to be gradual but any early color there?

Daniel Paul Amos
Chairman & CEO

Our -- at this particular point, it's too early. But again, I want to reiterate what I said in the first quarter call. Our relationship has never been better with Japan Post. Actually, they're -- the thing they're dealing with is adjusting from corrective matters that they took into account due to sales that the new regime has been addressing to now being proactively getting back to the way they were writing business that was properly done. And so it's taking a little bit longer. But all in all, as we said in our reports, I look for both the United States and Japan to see stronger growth in the second half, assuming there isn't some event that takes place with this variant that we're not aware of. But if that happens, everybody is affected with that.

So I feel good that you're going to see continued growth, more so probably in the fourth quarter than the third, but we don't even know that for sure at this point. So -- but I'm encouraged.

Operator

The next question comes from Jimmy Bhullar of JMP Securities.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, I just had a question on sales as well. And I guess, this is both in the U.S. and in Japan. Has the increase that we've seen in cases recently in both markets? And then also, in the U.S., we've heard of some companies push back their return to work. Have those things affected your views on your sales trends in the second half of the year?

David A. Young
Vice President of Investor & Rating Agency Relations

I think the case -- go ahead, Teresa.

Teresa Lynne White
President of Aflac US

We'll start with the U.S. first. I'll ask Virgil to respond.

Virgil R. Miller
Executive VP & President of Group & Individual Benefits Divisions

Yes. We learned throughout the COVID time that large case market, specifically around where we sell our group products, that they're more used to it and dealing with brokers used to, we would call self-enrollment into virtual enrollments and online engagements. We really haven't seen much impact there at all. Again, with smaller companies in a small market, it's really driven by our career channel. We faced some headwinds, like I said earlier, around recruiting and some of the small businesses not really going face-to-face 100% of the time.

We anticipated that, rolled out virtual tool sets last year. We're able to, as Dan said in his speech, pretty much serve the customer any way possible. We can do it virtually. We can do it online or meeting face-to-face. Now I will tell you this, though, I have yet to see that any of our setup enrollments have been changed from a face-to-face yet. We are managing that very closely. But right now we're still able to get face-to-face enrollments when we have them set up.

Koichiro Yoshizumi
Senior Managing Executive Officer, Executive VP & Assistant to the Director of Sales and Marketing

[Interpreted] Thank you for the question. Now this is from Japan. So let me answer your question regarding Japan.

In Japan, although we have been limiting the number of people, our employees to come on site under the state of emergency, sales activities are continuing. And the state of emergency declaration in Japan is different from the lockdown situation in the U.S. And the purpose of the state of emergency declaration in Japan is to really control the people's movement from one place to another. As a result, there is really not that much impact to our sales activity during day time.

And the current state of emergency declaration is imposed to just Tokyo and Okinawa. And so as we do try to prevent being infected, that those activities are being done with full prevention nationwide. And the areas outside of the state of emergency declaration are able to do the normal course of sales. And on top of that, we have online consultation and applications that have spread nationwide. And that -- those -- these measures have taken root. Under this kind of an environment, we do believe that we can be quite successful in our sales activities.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And if I could just follow up on recruiting in the U.S., you had pretty strong results this quarter, mostly because of the broker market. On the career side, how is the labor market affecting your ability to sort of recruit and retain agents? And is it getting harder? Not so hard? Because the services sector seems like it is coming back overall.

David A. Young
Vice President of Investor & Rating Agency Relations

Can you take that, Virgil?

Virgil R. Miller
Executive VP & President of Group & Individual Benefits Divisions

It's certainly getting harder. As you can see, we came out strong coming out of Q4 going into Q1, our pipeline. Now remember, in recruiting new agents, we've really got to go through a full process, giving them license, having them basically take an exam, and certifying them to understand Aflac products. And we were very strong with our pipeline in Q1. We've seen that pipeline begin to slacken slightly in Q2.

Again, as we said earlier, though, this is why we've made a conscious decision to really recruit brokers. Now why brokers? Brokers already come to the table with license. They're already familiar with our products. We just really need to get them activated in the second half of the year.

Daniel Paul Amos
Chairman & CEO

The one -- this is Dan. The one thing I would add is that I think the U.S. is doing a very good job of bringing back some of the agents who have been licensed with us, have renewals. And basically, because of COVID, have just kind of stopped producing. They've got contest going within. They're coming back. They're the soul of the company, and we need to bring them back, and I think we'll be doing that. And I think Virgil is doing a good job with Teresa in terms of pushing that. And Fred's been very instrumental in it too. So I'm thinking that will continue to come back, which will reflect in the production.

Now the new recruits, as Virgil mentioned, is harder simply because the labor market, as you can imagine, if you're having trouble with people coming to work based on salary, it's even more difficult with commissions. But all in all, we've got a lot of licensed people out there that we just need to get back. And of course, as you're having higher employment, that gives us an opportunity to enroll people at the work site. So we're -- we believe the potential is there and certain that we should see it.

Operator

The next question comes from Humphrey Lee of Dowling & Partners.

Humphrey Lee
Dowling & Partners Securities, LLC

I wanted to focus a little bit more on the claims experience for this quarter and kind of how to think about it. Can you just talk about like what is the overall level of IBNR reserves that you have, not just for COVID but just the overall piece? Like how big were your kind of IBNR reserves in Japan and the U.S. at the end of this quarter and compared to maybe a pre-pandemic level, say, like 2Q '19 or year-end 2019?

Max Kristian Broden
Executive VP, CFO & Treasurer

Thank you, Humphrey. This is Max. We don't go in it to exact the total IBNR levels that we hold. Yes. But I would say that, generally speaking, throughout the quarter, we did experience below expected paid claims. In the first quarter, we had increased month-over-month paid claims that came through. Going into the second quarter, that trend more or less fall. And in April, May and June, we sort of leveled out at a level below what we normally would expect to see. And that, to some extent, together with more raw data used as input into our IBNR models led to the reserve releases that we saw in this quarter. Going forward, we obviously reserve to the -- our best expectation of the future claims results.

Humphrey Lee
Dowling & Partners Securities, LLC

I guess maybe just kind of qualitatively, are you holding more -- are you still holding more IBNR reserves right now compared to a pre-pandemic level?

Max Kristian Broden
Executive VP, CFO & Treasurer

No. We have not changed our reserving practices.

Humphrey Lee
Dowling & Partners Securities, LLC

Okay. I guess my follow-up will kind of stay on that topic. In terms of the lower pay claims, is there any sense that you can help us to think about the actual paid claims in Japan and the U.S., kind of where they were in the second quarter versus maybe during the pandemic? And how do they compare to like a pre-pandemic level of normal paid claim activities?

Max Kristian Broden
Executive VP, CFO & Treasurer

Paid claims activity continues to be below our long-term expectations by policy. And the activity is constrained by simply the activity in the economies. So given the products that we are selling, the coverage that we are providing to our policyholders is protecting them from different kind of life events and also accidents, as an example. And with less people out and about driving, getting into car accidents, less people playing sports, getting into sports accidents, that drives both lower claims utilization on the accident line of policies but also in terms of our hospital indemnity products. So I would say that our claims activity is very much driven by mobility of people.

Humphrey Lee
Dowling & Partners Securities, LLC

But is there any sense like so -- like in sale -- when you're talking about sales, you're able to provide like percentage of 2019 levels. Can you do something similar? Like how many -- like what percentage of claims, I guess, relative to 2019?

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

Humphrey, this is Todd. I think if you look at second quarter 2020 and second quarter 2021, paid claim activity was pretty flat, roughly about JPY 3 billion lower in 2021, and that's reflective of people having restricted movements and what Max just described. That is below, as he said, our long-term expectation for paid claims.

Teresa Lynne White
President of Aflac US

And I would say from the U.S. side, consistent with what Max said, it's based on the type of policies that we -- that people have. So in general, when you look at our short-term disability policies, you may see higher utilizations there, yet you don't see as high utilization on, for example, an accident policy.

Operator

The next question comes from Ryan Krueger of KBW.

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

I guess, Fred, are you able to provide any more color on the elderly care product that you're developing in particular? How it would differ from current medical products that would be purchased by elderly individuals?

Frederick John Crawford
President & COO

Sure. So the care product under development, a couple things that are very important. One is the product risk involved in the -- is not to be confused with what you may be familiar with relative to U.S. long-term care. And there's some very fundamental reasons for that. This is a supplemental product, and it supplements the actual elderly care government support mechanism. And so it's a very specific supplement to that government platform as opposed to broader universal care medical coverage. And it also is being designed to where payments are more on a lump sum basis for some of the lower levels of assisted care. And then when you move into the more significant levels of assisted care, it's more of a defined annuity-type benefit.

The reason I describe it that way is realize you do not have the escalating benefit structures such as health care inflation. You don't have the tail risk that's assumed with more of a lifetime coverage, if you will, once moving into assisted living. Therefore, you're not building nearly the reserves and therefore, don't have nearly the interest rate risk well. So there's several different reasons why this should not be confused, for example, with other types of riskier elderly care support. It really is a supplemental defined mechanism.

The other is it plays directly off the qualifications of the government program, and so it has a more narrow definition of what is covered and what is not covered than you might be used to in the U.S. because it plays off those definitions. Now one thing to keep in mind is that this is the third largest third sector platform in Japan. This is not a new area that's newly developed. It's been in existence. But it's a smaller area of product sales. To give you an idea, it's probably roughly 1/4 of the size of the medical supplemental industry in Japan. The key, however, is that we expect it to grow, that with an aging population and what we believe or at least suspect, will be a gradual shifting of burden on to individuals or their families related to elderly care, that this will be a building platform over time. And so we want to get in there now. We want to get in there with a competitive product, and we want to leverage off of our third sector prominence.

So that is the strategy. We will tell you more about this and build out more around this strategy when we get to our investor conference, because it will be more developed at that time. But it's clearly something we think could be a difference maker in the future as we move forward.

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

I just had one follow-up. Is -- so are the current insurance carriers that offer this, are they mostly, I guess, the domestic life insurers in Japan that you just haven't been in the market in the past and you're now going to enter it?

Frederick John Crawford
President & COO

They are. It's a narrower group of players than you will find with traditional first sector and some of the larger categories of third sector, notably medical, but they are largely domestic players.

One other aspect of this business that's important to understand is that many of the players that build successful market share in this industry don't just sell the care insurance. They also surround the insurance with other noninsurance services that supplement elderly care. A good example would be things like smart home technology that helps prevent frankly, elderly individuals of going on claim or better managing concierge-type service to help the elderly manage the many different moving parts necessary to settle into an assisted living atmosphere.

So alongside this product, we're also building within an incubated business, other care-like noninsurance services because that is one of the keys to building market share. So it's a larger and more expansive platform if you intend to be a leader in this business, which we do. And again, we'll build more color around that as we go forward.

Operator

We have time for one more question, and that question will come from John Barnidge of Piper Sandler.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Can you maybe talk about the market opportunity to do in other states what you briefly talked about for Connecticut?

Frederick John Crawford
President & COO

Sure. There's -- this is Fred again. There's about 10 states right now. In fact, Connecticut was the tenth to put together this medical -- family leave programs in their state. And we do believe that there's the opportunity for this to expand into further states in the future. These require typically fairly expensive legislative activities within each of the states and because these are programs that cover effectively the employees of all the qualified or opted-in employers in the state.

To give you an idea, in Connecticut, we are projecting when you add up the qualified employers who are likely to opt into this program, that the coverage may include as much as a bit in excess of 1.5 million potential participants in the state of Connecticut. So this is a substantial platform, but the nature of it and the nature of the program, and the fact that it is a state-organized benefit program offered up to opted-in employees means legislative activity typically needs to take place. That takes time. And obviously, it can depend on the political atmosphere and the prioritization dynamics within the state legislators.

So right now, 10 states, but we believe it will expand. I think a lot of that expansion, frankly, is going to be based on the success and receptivity of the programs that are already in place. The good news is that Connecticut is a very important client for us. We were very pleased to be awarded that. It's the capabilities of our acquired business from Zurich that allowed us to bid and be qualified to run that program, and we expect to use this as a foothold to entertain additional states.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

That was great, Fred. And a follow-up to that. Yes. I know legislative action needs to occur in the remaining 40 states, but is there an opportunity with the other 9 states that currently have the program?

Frederick John Crawford
President & COO

Interestingly enough, when you look at the other 9 states, some of them outsource it, like handed out to an outsourced provider, others actually do the service internally. And in fact, Connecticut was originally looking to administer internally and then move to an outside provider for greater efficiencies, quality, specialization, et cetera. And so some states do it in-house. Some states outsource it. So there's a mix of providers.

One thing that's important is you're not taking a risk on this. And so some would consider this an extensive PPA platform or administrative-only platform. So you're not really competing on what you would call traditional insurance parameters. You're competing on your ability to administer the technology and service level that you drive to the consumer. So one of the reasons why we like this contract is it really sends a strong statement to the marketplace that if you're an employer, you don't get this kind of contract unless you have premier service capabilities, strong technology and great customer service. Without that, you'd never qualify for these programs. And so that's what we're pleased about.

Operator

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

David A. Young
Vice President of Investor & Rating Agency Relations

Thank you, and thank you all for joining us here today. Looking ahead, we hope you'll join us on November 16 for our 2021 Financial Analyst Briefing. More details will follow. We look forward to speaking with you soon. If you have any additional questions, please follow up with Investor and Rating Agency Relations. And I wish you all continued good health. Thank you.

Operator

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