S&P Capital IQ

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Aflac Incorporated NYSE:AFL

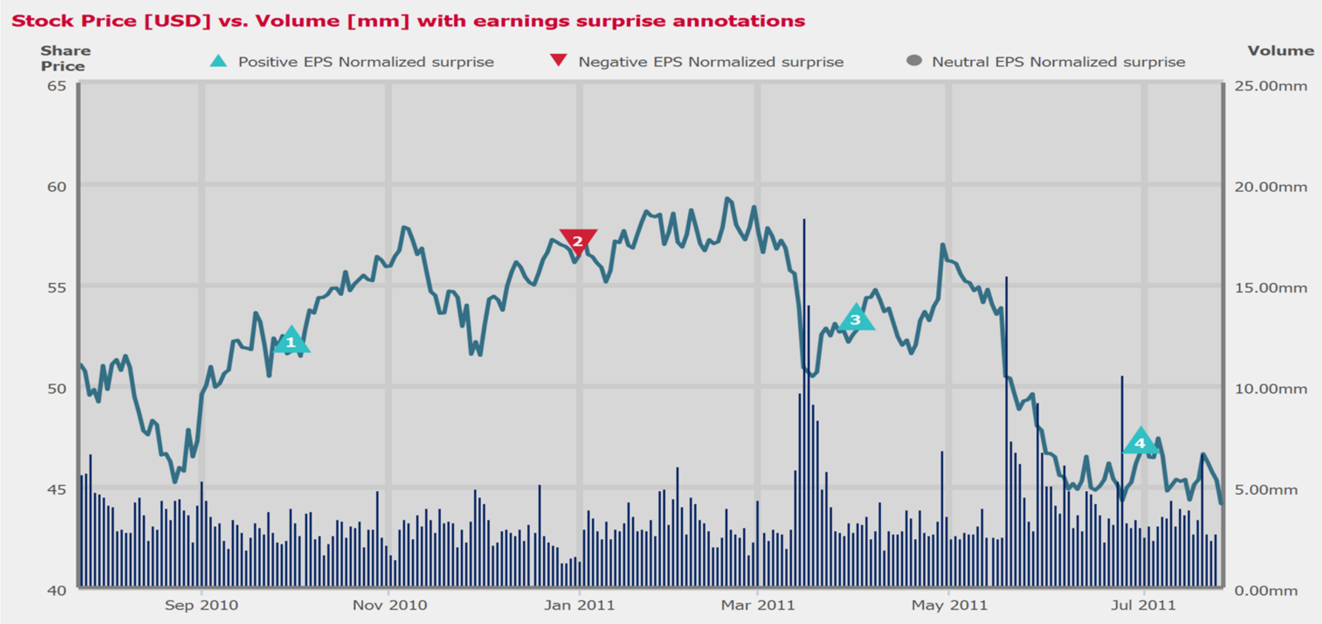
FQ3 2011 Earnings Call Transcripts

Thursday, October 27, 2011 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2011-			-FQ4 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.60	1.66	▲3.75	1.53	6.37	6.60
Revenue (mm)	5949.70	5987.00	▲0.63	6106.46	23276.17	24676.11

Currency: USD
Consensus as of Oct-27-2011 1:12 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2010	1.39	1.45	▲4.32 %
FQ4 2010	1.35	1.33	▼(1.48 %)
FQ1 2011	1.51	1.63	▲7.95 %
FQ2 2011	1.54	1.56	▲1.30 %

Call Participants

EXECUTIVES

Daniel P. Amos
Chairman & CEO

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

Kriss Cloninger
President & Director

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

Tohru Tonoike
Vice Chairman of Aflac Japan

William Jeremy Jeffery
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Presentation

Operator

Welcome to the Aflac Third 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 Robin Wilkey, Senior Vice President of Aflac Investor Relations.

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

Good morning, and welcome to our third 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 U.S. Operations; Ken Janke, Executive Vice President and Deputy CFO; Jerry Jeffery, Senior Vice President of Fixed Income; and Toru Tonoike, who's President and COO of Aflac Japan, who's joining us from Tokyo.

Before we start this morning, 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're prospective in nature. Actual results could differ materially from those we discuss today. We encourage you to look at our quarterly release for some of the various risk factors that could materially impact our results.

Now I'll turn the program over to Dan, who will begin this morning with some comments about the quarter and our operations in Japan and the U.S. I'll then follow-up with a few financial highlights for the quarter and the first 9 months, and then we'll be taking your questions. Dan?

Daniel P. Amos
Chairman & CEO

Thank you, Robin. Good morning, and thank you for joining us today. I'm pleased with Aflac's overall financial and operational performance in the third quarter. I believe we've established a solid foundation toward achieving our annual operating earnings growth and capital strength objectives.

I'll begin this morning with a review of our operations in Japan. Aflac Japan generated strong financial results for both the third quarter and the first 9 months of the year. Revenue growth in yen rose 4.8% for the quarter and 4.1% for the first 9 months. Although investment yields declined on new money, we saw solid earnings growth for the quarter and for the first 9 months. We are particularly pleased with the tremendous sales momentum in the quarter. The new annualized premium sales rose 22.2% to JPY 42.3 billion for the quarter, which significantly exceeded our expectations. Even more impressive, production in the third quarter set all-time quarterly records. For the first 9 months of the year, total new annualized premium sales rose 13.9%.

Third quarter bank channel sales by far exceeded our expectations, generating JPY 14.5 billion in production. That represents an increase of 146.6% over the third quarter of 2010 and a 90.7% increase over the second quarter of 2011. Bank sales in the third quarter accounted for 34.4% of total sales.

We are proud of Aflac Japan's outstanding sales results. This is particularly true following the challenges from the devastating earthquake and tsunami. Keep in mind that for several months after the disaster, Aflac Japan shifted sales and marketing resources. That included relocating both people and budget from the nonbank channel to the disaster-stricken areas. Some of the negative impact from this natural disaster that held back our traditional sales force was masked by the strong bank sales in the second and third quarter.

Let me remind you how the bank sales progressed. As I mentioned, we believe that more banks would step up their effort in selling Aflac products once other banks experienced success, and that's exactly what happened. While shinkin and regional banks were early adapters in terms of selling our products, we've seen new annualized premium dramatically increase in the mega banks who started selling the products.

These strong bank sales reflect Aflac Japan's impressive ability to develop relevant products such as WAYS, our unique hybrid whole-life product, that appeals to banks and Japanese consumers alike. WAYS has been a primary driver of Aflac Japan's remarkable sales increase. As you are aware, the average premium for our WAYS policies sold through the banks, the primary distributor and outlet for the product, is about 10x the average premium for the cancer and medical product. That makes WAYS a very strong contributor to Aflac Japan's top line growth that has contributed to the continued rapid growth of bank sales in 2011.

WAYS generated a third quarter sales increase of 362.8% for the same period in 2010 and a 99.3% over the second quarter of 2011. Sales of WAYS accounted for 31.7% of Aflac Japan's total sales in the third quarter. Without the discounted advanced premium option where policyholders pay all their premiums upfront, the profit margin for WAYS is about 14%, which is more than double the profit margin for child endowment. With the discounted advanced premium option, WAYS profit margin is enhanced around 18%. It's important to note that 90% of the customers at the bank elect to pay premiums upfront through this payment option.

Sales of cancer insurance were solid, particularly WAYS (sic) [DAYS], the new base cancer product introduced in March, WAYS Plus (sic) [DAYS Plus], which upgrades older cancer policies. In the third quarter, new annualized premium for the cancer insurance rose 8.5%. What's even more telling, however, is the number of cancer policies sold on a stand-alone basis increased an impressive 32.7%. Clearly, the success of DAYS has been somewhat overshadowed by the lower average premium, which is about 15% less than the older base policy. The premium difference is largely due to the fact that the new policy does not have cash surrender value option.

As our traditional sales force focused on selling the new cancer product, medical sales declined. Despite this decline, the medical category still accounts for 25 -- 20% of our total sales. Importantly, we maintained our position as the #1 seller of cancer and medical products in Japan. That affirms Aflac's reputation as a strong product innovator and trusted brand.

The solid platform we've established with these 2 pillar products has allowed us to leverage our competitive advantages, such as branding and administrative efficiencies. As anticipated, third quarter sales of child endowment product continued to decline for the second consecutive quarter, posting a decrease of 8% in the quarter. For the remainder of the year, we expect child endowment sales to continue declining as the distribution channels focus on selling WAYS and our new cancer product, DAYS. Also keep in mind that we're selling the child endowment product for more than 2 years, so we've already cycled through the first major pass at selling this product to the most eligible targeted, marketed families with young children.

As we look to the remainder of the year, if sales in the fourth quarter are flat to the fourth quarter of 2010, our expectation would be that sales would increase 10.1% for the year and I am confident we will achieve that or better.

Now let me turn to the U.S. operation. We are very pleased with Aflac's U.S. performance from both a financial and a sales perspective. Revenues rose 4% for the quarter and 3.7% for the first 9 months. Persistency continued to be strong. While earnings growth was down slightly for the quarter, earnings for the 9 months grew 2.7%, which was in line with our expectations. Aflac U.S. generated a 5% increase in new annualized premium sales for the quarter and a 5.7% increase for the first 9 months. These results had benefited significantly from the addition of group products to Aflac U.S. product portfolio. In fact, group product sales have exceeded our expectations for both the third quarter and the year.

Our sales and marketing areas, which are more closely aligned than ever, have synchronized their efforts by creating strategies that continue to benefit our sales results. You will recall that in January, we rolled out Smart Launch, which is a coordinated sales and marketing effort. With these campaigns, we analyze our existing accounts to determine which accounts are most likely to need a particular product. We then align our field force resources to strategically and effectively target these accounts with that product or products.

Following the success of the first quarter launch of our dental product, we rolled out the Smart Launch to promote critical care and recovery product mid-second quarter. As a result, sales of the critical care and recovery were up 11.9% in the third quarter. We will maintain this successful initiative to promote more products.

On the distribution side of the strategy, field force recruiting continued to benefit from targeted national advertising campaign, generating a 10.4% increase in recruits for the third quarter. This marked the third consecutive quarter of double-digit recruiting gains, generating an 11.4% increase for the first 9 months. Also, our distribution strategy has grown through the addition of group product platforms, which has also helped us make inroads into the growing our market initiatives with brokers. It's too early to say we turned the corner. However, I believe that given the challenging economic environment, our success in expanding our distribution network and achieving a sales increase of more than 5% for the first 9 months is outstanding for the U.S.

Now let me update you on Aflac Incorporated results. Overall, we're pleased with Aflac's consolidated performance. Operating earnings per diluted share rose 14.5% to $1.66 for the quarter, an increase of 15.4% to $4.86 for the first 9 months. Excluding the benefit of the stronger yen, operating earnings per diluted share rose 8.3% for the quarter and 8.1% for the first 9 months, keeping us in line with the 2011 earnings per share objective of an 8% increase before the impact of the yen. Our better-than-expected results in the quarter benefited from the continued expense management, especially in Japan.

Turning to our investment activities. I want to update you on what we've accomplished in the third quarter. As you will recall, we stated in the second quarter that we believed our proactive investment de-risking program is largely behind us from a realized loss perspective. That assumed that we live in a static world. However, we obviously operate in a dynamic economic environment, which means we need to be especially vigilant in monitoring our portfolio, and this is exactly what we've done and will continue to do.

Let me remind you how successful we've been in substantially de-risking our investment portfolio from January of 2008 and the end of the third quarter. Over this period, we have dramatically cut our holdings in foreign and financial investments in the PIIG (sic) [PIIGS] countries from 5.9% to 2.4% of the total portfolio. We've also lowered our investments in perpetual securities from 14.7% to 7.4% which is about half. I'd like to point out that none of the perpetual securities we currently own are in the PIIG (sic) [PIIGS] countries. Additionally, our investment in financial exposures have been meaningfully reduced from 42% to the total of 28% in the portfolio.

I also want to update you on some of the steps that we've taken to mitigate interest rate risk impacting our solvency margin. First of all, we sold a portion of our JGB holdings classified as available for sale. We then purchased the same amount of securities and placed these purchased securities as held to maturity. Furthermore, all new money purchased of the JGBs this quarter have been placed in held-to-maturity category. Recognizing that our economic environment is continually evolving, we are paying particular attention to the investment governance through enhanced risk management and investing policies. We will continue to closely assess the securities we hold and if we determine they are no longer appropriate for the investment portfolio, we'll take action and move them off the balance sheet.

With both operating segments doing well, I've devoted most of my time this year to the investment area. Our objective is for Aflac to be a world-class investment organization that pays particular attention to the needs of the insurance operations through the effective ALM and capital adequacy management, as well as the expectation of shareholders through investment income growth. It goes without saying that this objective is in the best interest of the policyholders.

The changes prompted by the financial crisis has highlighted the need for the enhanced global analysis and state-of-the-art investment systems. In response to this, our priority is to add to the talent of the investment management team and improve the overall investment function. At the Financial Analyst Briefing in May, we told you as far as our investment function goes, everything was on the table.

We felt the first thing we needed to do was to hire a Global Chief Investment Officer. Ultimately, out of 100 candidates we screened, we selected Eric Kirsch. Through his 3 decades of industry experience that includes Bankers Trust, Deutsche Asset Management and Goldman Sachs, Eric has proven to be a very strong team builder and leader. I think that having the expertise and presence on the ground in New York is an integral part of Aflac's future investment success. Eric understands the investment risk and the challenges we face, and we think he's an excellent addition to the Aflac team. He officially joins Aflac on November 1. And we expect that by the time we release fourth quarter earnings, he will have evaluated the investment function and be able to expand on Aflac's future global strategy.

Now let me make a few comments about our capital position. As we've communicated over the past several years, maintaining a strong risk-based capital or RBC ratio remains a top priority for us. Although we have not yet completed our statutory financial statements for the third quarter, we estimate the RBC will be within the range of 500 to 540 at the end of September. Additionally, we estimate that the solvency margin ratio will be within the range of 555 to 575, based on the revised calculation methods for the quarter ending September 30, 2011. These strong capital ratios demonstrate our commitment to maintaining financial strength on behalf of the policyholders and the bondholders.

Our strong capital position has enabled us to increase our cash dividend to shareholders for the 29th consecutive year. I am very pleased with this action by the Board of Directors, which increases the cash dividend by 10%. Our objective is to grow the dividend at a rate that is in line or somewhat better than the earnings per share growth. I believe dividends are an important component of the value we provide to investors.

Another way to reward shareholders is through share repurchase program. In the third quarter of 2011, we purchased 1 million shares, bringing the number of shares purchased for the first 9 months to 5.1 million. We anticipate purchasing 6 million shares in 2011. And in 2012, we anticipate our share repurchase activity will increase.

With 3 quarters of the year complete, we continue to believe we are well positioned for another year of solid financial performance. Our earnings outlook for the year remains unchanged. Our objective is an 8% increase in earnings per share, excluding the impact of the yen. As such, we expect fourth quarter earnings per share, excluding the impact of the yen, to increase 7.6%. Our fourth quarter earnings will be impacted by higher expenses, particularly in marketing and IT initiatives, following 3 quarters where we've held back on the spending, particularly in Japan.

Looking ahead, I want to reiterate our expectation that 2012 operating earnings per diluted share will increase 2% to 5% on the currency neutral basis. We anticipate this 2012 earnings per share objective will establish a new baseline for earnings growth. This 2% to 5% range reflects the integration of investment losses and the low interest rate associated with the proactive investment de-risking program on a GAAP basis. Remember, we told you we believed our proactive investment de-risking program was substantially completed in the second quarter, and we continue to believe that today. I am already looking for 2013 and beyond when we expect the rate of earnings growth to improve over 2012. Hopefully, all the major de-risking is over.

I am very pleased with Aflac's financial and operating results for the quarter in the first 9 months. And I can tell you the global financial challenges that we've seen, especially with the changes in the investment environment, have only served to reenergize my enthusiasm as CEO of the company, and I still wouldn't trade places with anybody as CEO in the world. Robin?

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

Thanks, Dan. Let me briefly go through some third quarter numbers starting with Aflac Japan. Beginning with the top line, in yen terms, revenues were up 4.8% for the quarter. Investment income was up 0.9%. The persistency rate improved in the quarter with the annualized rate, excluding annuities, for the first 9 months of 2011 at 94.4% compared with 94.1% a year ago. In terms of quarterly operating ratios, the benefit ratio to the total premiums rose slightly over the year. It was 70.0% in the quarter compared to 70.4% a year ago.

The expense ratio for the quarter was 18.7%, down from 19.2% in the third quarter of 2010, reflecting a delay in spending on several projects that will be started later in the year, including IT and marketing initiatives that Dan alluded to. Reflecting the lower benefit and expense ratios, the pretax profit margin rose slightly from 21.2% to 21.7% in the quarter. With the expansion of the margin, pretax earnings increased 7.5% in yen terms. For the quarter, we invested our cash flow in yen securities at 2.12%. Including dollars, the blended rate was 2.26%. The portfolio yield was 3.42% at the end of September, down 9 basis points from the end of June and down 22 basis points from a year ago.

Now let me turn to Aflac U.S. Total revenues rose 4.0% for the quarter and the persistency rate improved significantly and was about 76.0% in the quarter. The annualized rate for the 9 months was 75.9%, up from 72.6% a year ago. The increase in persistency in large part reflects a return to a more normalized number following the loss of a large account at the end of 2009, resulting in the lower-than-usual persistency numbers throughout 2010.

In looking at operating ratios for the quarter, the benefit ratio to total premiums increased over last year. It was 59.1% in the quarter compared to 58.1% a year ago. The higher benefit ratio is largely the result of increased claims in the quarter, reflecting a return to a more normal utilization rate after claims in Q1 and Q2 were unusually low. The operating expense ratio increased slightly, going from 30.5% a year ago to 31.1%. IT and other expenses increased slightly during the quarter in line with our expectations. The profit margin for the quarter was 16.4% compared to 17.7% a year ago. As a result, pretax operating earnings declined 3.8% for the quarter. In terms of U.S. investments, the new money yield for the quarter was 5.77% versus 5.69% a year ago and the yield on the portfolio at the end of September was 6.72%, down 4 basis points from the second quarter and down 24 basis points from a year ago.

Turning to some other items in the quarter. As you will have read in the press release, we will adopt the new DAC guidelines on January 1, 2012. Based on December 31, 2010, the retrospective adoption of this accounting standard will result in the estimated after-tax cumulative charge to the company's retained earnings of approximately $500 million to $700 million, or 4.5% to 6.3%, of shareholders' equity as of December 31, 2010. We also estimate the adoption of the standard will result in an immaterial increase in income in '11, '12 and all the preceding years impacted by the retrospective adoption. These numbers largely reflect the nature of our business with our sales associates being 100% commission-based, and approximately 70% of our DAC expenses that we capitalize are commissions. The remaining 30% is associated with administrative costs. And of these administrative unit costs, 75% of these will continue to be capitalized under the new DAC guidelines.

Noninsurance interest expense in the third quarter was $44 million compared to $37 million a year ago. This higher interest expense primarily reflects the impact from our debt issuance of $750 million senior notes 2010 in 3Q 2010, and the Samurai notes that we issued in July of this year. Parent Company and other expenses increased from $11 million to $15 million in the third quarter.

Total company operating margins showed a slight increase, reflecting improved profitability of Aflac Japan, and pretax margin went from 19.4% to 19.6%. After-tax margin improved slightly from 12.7% to 12.8%. On an operating basis, the tax rate was 34.5% compared with 34.6% a year ago. Net earnings per diluted share for the quarter were $1.59 compared to $1.46 in 2010.

Realized net investment after-tax losses were $0.07 per share this quarter compared to $0.01 share gain in 2010. During the quarter, we realized investment gains of approximately $200 million net of tax from the sale of several securities, including the remaining holdings of our Portuguese financial institutions; a portion of our U.S. Treasury holdings that we've sold; and a part of our swap program with JGBs in which we sold a portion of JGBs that were classified as available for sale, repurchased these and put them in held to maturity. We also had $108 million net investment realized losses attributable to impairments of certain debt and perpetual securities.

As reported, operating earnings per diluted share rose 14.5% to $1.66. The stronger yen increased operating earnings by $0.09 per diluted share for the quarter. Excluding the yen impact, operating earnings per share increased 8.3% for the quarter.

Lastly, let me comment on the earnings outlook for 2011. As you've heard Dan say, we reaffirmed our objective for 2011 of an 8% increase in operating earnings per diluted share, excluding the impact of the yen. With that in mind, if operating earnings per share increased 8% for the year and the yen averages

75 to 80 for the remainder of the year, the fourth quarter, we would expect operating EPS to be, for the fourth quarter, $1.45 to $1.52. Now that compares to First Call estimates of $1.55. Remember what Dan said. In both the U.S. and Japan, we expect IT expenditures related, and also marketing and advertising expenditures to increase substantially in the fourth quarter. Using the same foreign currency exemption also, we would expect for the year operating earnings will be $6.30 to $6.37 per diluted share.

Now we're going to turn to your questions. To be fair to everybody, please remember to limit yourself to one question and only one follow-up that relates to your initial question. Now we'll be able -- we will be happy to take your one question.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Jay Gelb of Barclays Capital.

Jay H. Gelb
Barclays PLC, Research Division

I wanted to touch base on the Japan sales growth outlook. First, I just want to clarify, when you're talking about 10% new sales growth, that's for all of Japan for 2011. Is that correct?

Daniel P. Amos
Chairman & CEO

That is correct.

Jay H. Gelb
Barclays PLC, Research Division

Okay. And then you mentioned potentially flat sales growth overall in Japan for the fourth quarter of 2011. But given the momentum in WAYS, we're doubled on a linked quarter basis in the third quarter. It would have to drop by a significant amount in 4Q. Is that what you expect?

Daniel P. Amos
Chairman & CEO

I think what you want to know is, if fourth quarter equals third quarter, which was the biggest quarter in the company's history, sales would be up 14% for the fourth quarter, which would give us a 14% increase for the year. I'm not willing to commit to that. What I do believe is we will exceed last year's production, which at the beginning of the year I didn't think we would be able to do. Now how much better we'll do than that, I'm not sure. But that gives you a range to know.

Operator

Our next question is from Randy Binner of FBR Capital Markets.

Randolph Binner
FBR Capital Markets & Co., Research Division

Just on the credit side, I was wondering if the recent European deal could affect how statutory impairments are taken, and what I mean is there maybe haircuts locked in over there. I don't think those haircuts relate to bonds you own directly, but there is a difference generally associated with the hybrids between GAAP and statutory impairments. I just wanted to get some color if the situation over there now may change the way that the GAAP versus stat works in the credit portfolio.

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

Randy, this is Ken. Let me start the answer on this and we'll see where it goes. Just as a reminder, the different impairment treatments for perpetual securities is on a GAAP basis only and it's purely price based. So it will largely depend on how the perpetual Tier 1 and upper Tier 2 assets are valued in the market on a go-forward basis. There were a couple of the securities, one in particular, that we would have impaired under the equity model this way -- this quarter, but we did have credit concerns, which is why we took credit impairments for -- on a GAAP, FSA and a stat basis. So I think it's a little bit too early to see how this all plays out. We're all certainly encouraged that there was a deal struck and that they're continuing to work the problem. Fortunately for us, we don't have any direct Greek exposure any longer. But again, we'll just have to monitor it. I don't think it will have any direct impact though on how we take the impairments unless the credit views change.

Randolph Binner
FBR Capital Markets & Co., Research Division

That's great. And a quick follow-up, is there an update that you have on the overall difference in the hybrids between GAAP and the stat impairment?

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

There -- I don't have that number in my head. I'd have to -- we'll have to get that and I'll ask Robin to pass it on.

Operator

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

Edward A. Spehar
BofA Merrill Lynch, Research Division

Kriss, I was hoping you could provide some more detail on the outlook for free cash flow for the company, not just this year and next, but sort of on a more normalized basis. And I think there is some controversy about the relevance of U.S. statutory earnings for dividend capacity for the company. And so I was wondering if you could give us some sense of how to think about this. And just free cash flow, meaning, what you could use to buy back stock and pay dividends over time.

Kriss Cloninger
President & Director

Okay. Ed, let me just start out with that and I'll try not to make the answer too long. But let me kind of say that our current outlook is that we will spend and -- I think you're getting primarily to share repurchase. As you know, we declared an increase in dividend of about 10% this quarter. That's going to take our dividend expenses paid out of the parent to around $600 million a year. Recall that we haven't changed the dividend at all since the financial crisis started. We've increased the dividend every year and share repurchase has been the variable in our utilization of free cash flow. Historically, pre-financial crisis, our share repurchase commitment approximated the amount we were able to get out of Japan via profit repatriation. And I think that the amount of profit repatriation will continue to be a primary driver of the funds available for share repurchase. Now to some extent, statutory capacity and profit repatriation are highly correlated. Japan does form the substantial percentage of our statutory earnings, but there are some things that we are not able to allocate to Japan like corporate interest expense and shareholder dividends that are funded in large part out of statutory cash flow, not counting profit repatriation. So let me just say that in our minds, we correlate proper repatriation and funds available for share repurchase quite significantly. I was pointing out to Robin just this morning that 2007, we repurchased about $575 million of stock, and we basically doubled down in 2008 and bought almost $1.5 billion when you guys convinced me we had excess capital, late 2007, early 2008. And then the financial crisis hit and everything changed. And when we started taking realized losses on investment securities, that impacted FSA-basis earnings and stat earnings and all earnings. And we had to cut back on profit repatriation and therefore, we had to cut back on share repurchase. And we didn't do any share repurchase in 2009 and not again until the beginning of the fourth quarter of 2010. We have resumed share repurchase in 2011, as you well know. And this year we intend -- we expect to buy about 6 million shares and spend about $300 million. Next year based on our current best estimates, we anticipate repatriating somewhere around JPY 45 billion, which at today's exchange rate should approximate about $600 million. And we would expect to commit that amount to share repurchase. Now I'll say I want to get away from quoting a number of shares. I'd rather go toward dollar amounts because -- at current exchange rates, so to speak, because the share price has been volatile. And I'll let you guys make an estimate of what you think the price we buy is going to be, the price per share, so I'll let you determine the number of shares. But guidance as far as share repurchase at, say, the mid-70s in the yen-dollar exchange rate is going to be around $600 million or better stated, on a yen basis, about JPY 45 billion. In 2013, we think we can double approximately our profit repatriation to about the JPY 90 billion to JPY 95 billion level. So what that means is that we'll be able to double share repurchase between 2011 and 2012, and double it again in 2013.

Right now, that's the best guidance I can give you. And I thought about trying to get into the details behind all this but, Ed, I'd need a 1/2 hour session with flip charts and all that, and they won't give it to me right now.

Edward A. Spehar
BofA Merrill Lynch, Research Division

Just a quick follow-up, is that level of -- if you think about that level of repatriation in 2013, is that a normal level? I mean, when we think about cash flow, how do we think about a normal free cash flow level relative to what we see, which is the U.S. statutory earnings number?

Kriss Cloninger
President & Director

Yes, I would say it's relatively normal. I think it's somewhat conservative perhaps. Keep in mind that our past allocation or distribution of free cash flow has been roughly somewhere between 1/3 dividend, 2/3 share repurchase, or maybe a 70-30 split. So I think you can think of normal share repurchase as being approximately twice our dividends, assuming that we have no substantial increase or no substantial investment -- additional investment losses.

Operator

Our next question comes from Steven Schwartz of Raymond James.

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

Just a quick follow-up on that, Kriss. That was $1.2 billion in 2013, maybe $600 million in 2012.

Kriss Cloninger
President & Director

Yes. That's right. Or Steven, I said really JPY 45 billion and roughly JPY 95 billion in '13 is our current target.

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

Okay. And then I'm going to cheat here and I'm going to ask another little follow-up from the first question. Maybe Toru could address this. But the sales in Japan, the mega banks, I guess I'm wondering how much of this is really, like when the insurance companies first came into the market, low-hanging fruit for the mega banks. And then how do you kind of think about that relative to expansion, if you will, to even more branches, because you're still not in any way, shape or form saturated the number of branches to the best of my understanding.

Tohru Tonoike
Vice Chairman of Aflac Japan

Let me answer to your question this way. Out of the third quarter this year, about 80% of the total branches of mega banks have sold at least one policy per month. And that sounds -- may sound a large number, but if you think about that, one policy during the month is not a big number. And mega banks employees are getting very used to that, selling insurance products. So I think there's a lot of potential in the future.

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

Okay. And then if I may just for Jerry. Jerry, can you talk to Dexia, not necessarily what you did there but kind of the process? I'm interested because I'm having a hard time figuring out what exactly was guaranteed and whether or not this may be a template going forward for other banks that may need help.

William Jeremy Jeffery

Former Senior Vice President of Fixed Income Investments

Well, in Dexia you picked a particularly complex example, but our exposure to Dexia has been included in the Dexia Bank Belgium part of the agreement. And as you may know, there are 3 separate entities that are emerging from the Dexia organization. Dexia Bank Belgium is actually now a bank which is owned by Belgium, and it is a deposit-taking institution. It is not the so-called bad bank, which migrated into the French -- a couple of the French agencies picked that up. So it's still very early days but the characteristics of it is, this is a Belgian-owned banking institution and a deposit-taking institutions, which we view as a positive step.

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

No, I get that, Jerry. I guess my question is, is there some type of visibility with regards to how the types of debt that you have there are being treated? For example, I've had people tell me that everything is guaranteed. You would expect a -- well, you can't do it under GAAP, but you would expect a write-up as opposed to a write-down. And obviously that didn't happen. So I'm trying to figure out how exactly your debt will be treated by Belgium or the European common market, whoever it is.

William Jeremy Jeffery
Former Senior Vice President of Fixed Income Investments

Well, there's no visibility that the debt will be guaranteed by the government, if that's what you're after. And it's owned by the government but not guaranteed.

Kriss Cloninger
President & Director

Steven, our accountants are really -- they don't let us write things up that have been impaired either. So we don't get that benefit.

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

No, no, I understand that, Kriss.

Kriss Cloninger
President & Director

Okay.

Daniel P. Amos
Chairman & CEO

And Steven, one last thing on the sales for the bank, especially the mega banks. We've got one mega bank that's coming on strong in the fourth and first quarter. And then we will have pretty well covered the mega banks to a great degree. Toru said they can continue to grow but your question was, did they -- is it a surge? And the answer is yes. The surge is going on right now to some degree.

Operator

Our next question is from Andrew Kligerman of UBS.

Andrew Kligerman
UBS Investment Bank, Research Division

In the press release, there's a quote that goes, "The outstanding sales results" -- and we're talking about Japan. "The Outstanding sales results in 2011 will create difficult comps in 2012." And I'm wondering if I should read into that, that maybe sales might even be down in 2012. Is that the right read?

Daniel P. Amos
Chairman & CEO

No. It's just too early for us to tell at this point, because I don't know what the bank channel is going to pull in, in the fourth quarter. And what I'm saying is, is that the third quarter came in so much better than we ever dreamed with the 22% increase, that we're trying right now to gauge that and it'll take us. But I'm putting on notice that the comps are so difficult that it creates some issues for us that we're worried about. And so we'll have to monitor it and see. But I do expect it continue to be strong in the fourth quarter and certainly the first quarter because remember, they set their objectives on a 12-month basis. It starts April 1, so they won't tell us what their projections are. But I can say that what their projections were, they far exceeded what they thought. And so I will have to look to the bank channel as a separate channel going forward. I think, as I mentioned, the nonbank channels, a lot of the expenses that occurred -- because remember, 5% of our production came from the affected area. We put a lot of additional funds and resources there to help the people, so we had to tighten the budget in other places. We continue to let the money flow at the bank channel. So I expect next year, not to have that resource issue in terms of money. So the nonbank channel -- so we're going to break the 2 out for you to let you look at it. And hopefully, we'll have a lot better insight on the fourth quarter conference call to be able to tell you what 2012 looks like. Toru, do you have any other comments?

Tohru Tonoike
Vice Chairman of Aflac Japan

No. I don't think so.

Andrew Kligerman
UBS Investment Bank, Research Division

Okay. And so then, with the WAYS product now becoming what appears to be the leader in terms of Aflac sales, 10x the premium of the other products you mentioned, that 14% to 18% margin there, it's lower than your other products. So when I look at the total benefits divided by total revenues in Japan, you're at 59.6. A year ago you were at 59.6 again. Should I assume that we're kind of done with the improvements in this benefit ratio, that we're going to see something a little flatter or even maybe going up?

Kriss Cloninger
President & Director

I think in line with our guidance that we provided at the FAB meeting, we said the 2012 benefit ratio might go up between flat and 50 basis points. We have had more production of WAYS than we built into our projection, but probably less child endowment. And child endowment was the biggest drag on that benefit ratio improvement. WAYS though does have a benefit ratio that's higher than health, but its profit margin is a lot closer to health than child endowment was. So what I think is, you're going to see some modest deterioration in the margin, I wouldn't expect more than 1%, but somewhat faster increases in revenue than you would otherwise have seen if we were producing only health business. And it is adding to the total profit of the company and I think our profit guidance is remaining unchanged, and we do expect 2013 to be on an uptrend.

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

Andrew, this is Ken. Just another side to that, remember that with the higher premium life contracts like child endowment and WAYS, the expenses are lower as a percentage of revenues. So somewhat offsetting the higher benefit ratio will be a lower expense ratio, which is why you won't see too much change in the margins.

Daniel P. Amos
Chairman & CEO

And just to prove that we're moving away from the child endowment, one of the mega banks that has just decided to go full-blown for us, we've encouraged them to just introduce WAYS and not fool with child endowment, and they agreed to do so. So there's an example of where we're shifting to the product that could be 18%. Because remember, I said 90% of the policies that are sold with WAYS in the banks are sold with the advanced premium. So that's going to be much better for us that they won't be fooling with that. So we're gradually moving away from that. But we haven't stopped it -- the endowment because we still write with WAYS an endowment for every policy we sell. Or I should say for every 5 policies we sell, we add a cancer or a medical with it.

Operator

Our next question is from Colin Devine of Citi.

Colin Wayne Devine
Citigroup Inc, Research Division

I'm wondering if we could talk a little bit about the other sales channels in Japan, both the affiliate, corporate and then the individual independent. In your traditional sort of corporate agencies, I guess they've now declined for the 14th consecutive quarter. Perhaps you can talk a little bit about what's going on there. And is that just a channel that perhaps run its course? And then the other one, on the individual independents, it seems pretty much every quarter now, the tails are growing at a much slower pace than associates. And I'm not sure what's happening there unless what you're reporting as licensed associates may also include the bank reps. Maybe we can just get some clarification.

Daniel P. Amos
Chairman & CEO

Toru, you want to start on that?

Tohru Tonoike
Vice Chairman of Aflac Japan

Yes, let me comment on that. The traditional agents, both corporate and -- affiliated corporate and individuals, are not doing very well this year. They're affected to some extent by the earthquake and the tsunami which happened in March this year. As Dan mentioned, 5% of our business came from that affected area. And that -- a major part of that 5% was used to be sold by these traditional agents. That's one reason. And also, after the earthquake for some period of time, their business was disrupted through that limitation on the usage of the supply of the electricity and the disrupted traffic lines, et cetera. And so this year -- and also many of the corporate affiliate agents lost their opportunities to do the group marketing, typically done in early April. So many factors have affected them negatively this year. So if you take out those negative factors, I think their performance this year is not -- is better than it seems to be. So we're trying to reenergize the corporate affiliates as well as the individuals. So hopefully, they can start growing again in the next year and going forward.

Daniel P. Amos
Chairman & CEO

And I was looking up, the number of individual corporate agencies hit an all-time high in the third quarter to 18,091, so that's from 17,759 in the second quarter.

Colin Wayne Devine
Citigroup Inc, Research Division

Okay. And I thought the corporate affiliates were at 1,862. Isn't that what's in the...

Daniel P. Amos
Chairman & CEO

It's individual and independent corporate. Corporate affiliated are 1,862, which is down slightly but...

Colin Wayne Devine
Citigroup Inc, Research Division

So they're the ones that have shrunk for 14 quarters, and I was just trying to understand what was going on there.

Daniel P. Amos

Chairman & CEO

Well, I think that to some degree, the other distribution channels have had some impact on them, that creating this is not new now, but the individual agents certainly affected it to some degree and then the bank channels affect it to some degree as well. So I think all of that together has had some impact. But I've said our greatest asset is probably a liability in terms of percentage growth with the corporate agencies, because it was so big in the early years that it doesn't play as big a role today.

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

Colin, this is Ken. A couple of the other factors that have influenced it, remember that the affiliated corporate agencies largely sell to very large payroll accounts. And those -- employment at those accounts really has not increased materially during the time that Japan's economy has struggled, but our penetration rates have steadily risen. So it's not the market that it used to be in terms of large employers. And we've also had privacy legislation there like we have here that has made it a little more challenging to conduct the kind of campaigns we did in the 80s and early 90s. And that's why we had shifted a lot of our distribution to those that have more face-to-face contact with ultimate customer, including the individual agents and now the bank channel.

Colin Wayne Devine
Citigroup Inc, Research Division

Okay. And then just on the question about the number of licensed sales associates, does that include the bank reps, because I'm trying to reconcile the [indiscernible] there?

Daniel P. Amos
Chairman & CEO

No, it does not include the bank reps.

Colin Wayne Devine
Citigroup Inc, Research Division

Okay. Why do you think that sales associates have been growing so much faster, and this has been just a trend for many years, than sales?

Daniel P. Amos
Chairman & CEO

Why do I think what now?

Colin Wayne Devine
Citigroup Inc, Research Division

The number of sales associates generally grows significantly faster than sales through the...

Daniel P. Amos
Chairman & CEO

Because I think the economy -- people don't have jobs as easily and they're willing to look at going to work on a commission basis, whereas they wouldn't have considered it when you had higher employment.

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

Well, and remember, too, Colin, when we recruit an agency, that agency will have multiple licensed sales associates working there, so it gets magnified. If you hire one agency, you may get 6 or 7 salespeople out of it.

Operator

Our next question comes from Mark Finkelstein of Evercore Partners.

A. Mark Finkelstein
Evercore ISI, Research Division

Maybe just to rightsize this issue that I think Andrew was asking about. If the margin on WAYS is 18% with advanced premiums, what is the comparable revenue margin on new sales for cancer and medical products?

William Jeremy Jeffery
Former Senior Vice President of Fixed Income Investments

It's close to -- it's mid- to low-20s.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. Mid- to low-20s. And then I don't recall you addressing this. If you did, I apologize for missing it. But in the second quarter, you talked about the cash at the holding company and the tax issue related kind of the lack of foreign tax credits from the Japan business, and there was a column that the holding company cash, I think, net of the debt is around, call it, $700 million. Can you just give an update on where are we at with the holding company cash position? And how do we like frame out this issue around taxes and foreign tax credits?

Kriss Cloninger
President & Director

All right. Well, I did talk to the tax guys. And what we determined was that if we not had the de-risking that we had in the fourth quarter of 2010 and in the first quarter of 2011, our profit repatriation would have been some higher by roughly $875 million, and our federal tax payments out of Aflac U.S. would have been lower by about $450 million. So we're talking about a net impact on available cash to the live company at the U.S. level of roughly $1.325 billion. Now as you said, the holding company had, as I recall, roughly $700 million in cash. The share repurchase we've done and the dividend we paid in the third quarter came primarily out of holding company cash. We had a little bit of leftover yen proceeds out of our most recent Samurai offering that we did convert to available cash for the holding company in dollars, but order of magnitude that's kind of what's it's been.

A. Mark Finkelstein
Evercore ISI, Research Division

How much cash do you have at the holding company right now?

Kriss Cloninger
President & Director

Between $400 million and $500 million.

A. Mark Finkelstein
Evercore ISI, Research Division

And should we look at that $400 million to $500 million as largely kind of an amount to deal with this tax issue? Or do you see that as above and beyond that amount?

Kriss Cloninger
President & Director

No. That's over and beyond that. We deal with the tax issues at the live company level because that's where the taxes are assessed.

Operator

Our next question comes from Joanne Smith of Scotia Capital.

Joanne Arnold Smith
Scotiabank Global Banking and Markets, Research Division

I just want to shift the focus a little bit back onto the U.S. Just I'd like to get a sense of what the competitive dynamics are in the market right now, and also if you could address where the biggest source of the growth from the independent agencies or agents in terms of the group products. But what is the actual average-sized organization that you're paying or that you're bringing on in that operation?

William Jeremy Jeffery
Former Senior Vice President of Fixed Income Investments

I can first address the competitive landscape. We have seen a tremendous number of new entrants attempting to come into the market, primarily entrants that are attempting to leverage themselves out of major medical or at least open up new facets of their business as a result of continued pressure on margins with medical loss ratios continuing to go up, as well as the broker market continue to push certain companies to offer those products so that they can raise their total revenue they're taking in. That said, we don't think it's had an adverse affect on our sales in any way. In fact, we believe that our recent competitive focus, especially on our traditional competitors, has worked very well for us. And we believe that, if anything, the additional companies coming into our industry will help raise the overall penetration of the market rather than creating market share wars. So I feel good about our competitive positioning at this time, and I think that, that has been buoyed to a great extent by our ability to compete in both ends of the market. The acquisition of CAIC, as Dan said in his speech, has exceeded our expectations both for the quarter and for the year, and so Aflac Group is doing very well. We have a minimum group size there of 100. We make rare exceptions to that. So the average case size that we're writing in Columbia is north of 100. We don't actually give out specific numbers, but I'll tell you that we focus on selling accounts that are really 500 and over in that particular market. And again -- was there any aspect of your question, Joanne, that I missed?

Joanne Arnold Smith
Scotiabank Global Banking and Markets, Research Division

No. I'm just trying to get a sense because I know that there's a lot of companies that sell employee benefits, 401(k), et cetera, and they've been trying to move into the voluntary market. And I'm wondering what you're seeing from those competitors. I understand about the major medical players, but I'm looking more towards the insurance, similar to more your company, where they haven't necessarily had a big presence in the voluntary market before.

William Jeremy Jeffery
Former Senior Vice President of Fixed Income Investments

We're not seeing -- I mean, I'm really not seeing anything. It doesn't mean they're not winning cases and that they're not creating relationships, but in terms of our 70,000-plus agents who are out there -- and I've just come back from our national convention being with all of our top people from across the country, and I did not hear one thing about new competitors or entrants that were outside the major medical field.

Operator

Our next question is from John Nadel of Sterne Agee.

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

I have a relatively simple question, I think. Setting aside sales comps, would you prefer to have $1 of sales today or tomorrow?

Kriss Cloninger
President & Director

I'd always rather take $1 today.

Daniel P. Amos

Chairman & CEO

Yes. I would, too.

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

If you all want to follow-up with any questions, please call us in the office and we'll be here. And thank you very much.

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