S&P Global
Market Intelligence

Aflac Incorporated NYSE:AFL

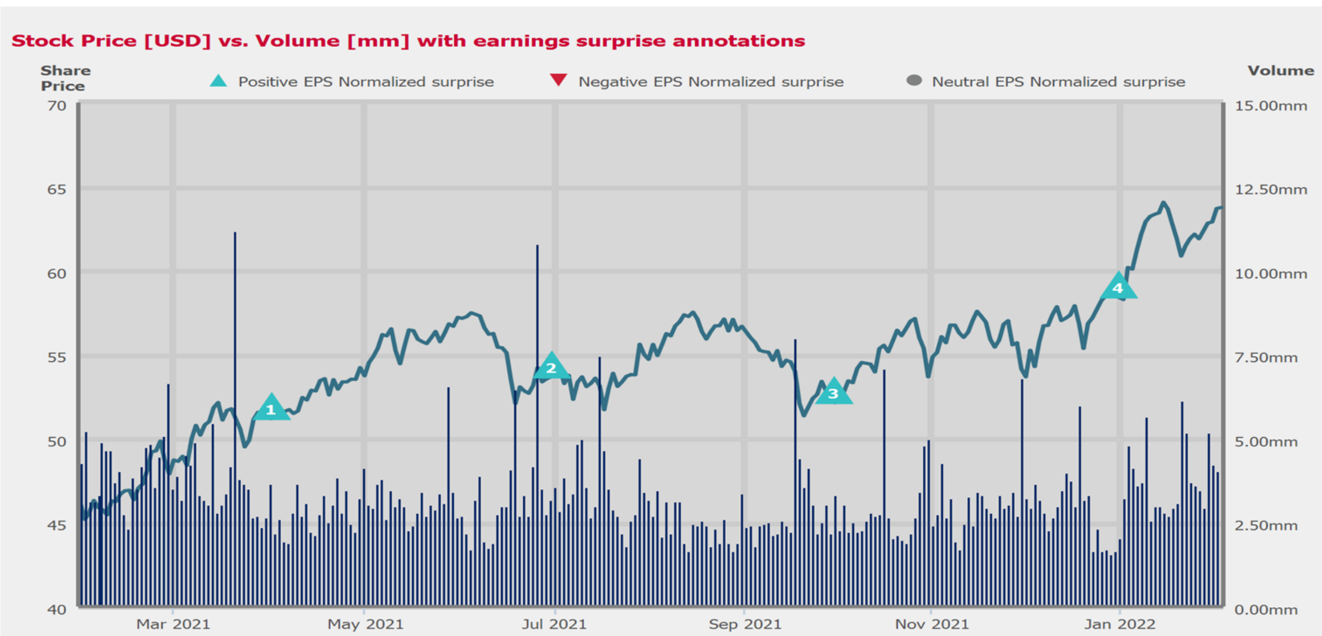
FQ4 2021 Earnings Call Transcripts

Thursday, February 03, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.26	1.33	▲5.56	1.33	5.91	5.94	▲0.51	5.26
Revenue (mm)	5239.91	5433.00	▲3.68	5175.40	21613.62	22106.00	▲2.28	20431.14

Currency: USD
Consensus as of Feb-03-2022 8:12 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2021	1.21	1.51	▲1 24.79 %
FQ2 2021	1.28	1.59	▲2 24.22 %
FQ3 2021	1.32	1.56	▲3 18.18 %
FQ4 2021	1.26	1.33	▲4 5.56 %

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Call Participants

EXECUTIVES

Daniel Paul Amos
Chairman & CEO

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

Frederick John Crawford
President & COO

Koichiro Yoshizumi
Deputy President, Director of Sales & Marketing and Director - Aflac Life Insurance Japan

Masatoshi Koide
President, CEO & Representative Director

Max Kristian Broden
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Presentation

Operator

Good day, and welcome to the Aflac Incorporated Fourth Quarter 2021 Earnings Call. [Operator Instructions]. Please note this event is being recorded.

I would now like to turn the conference over to David Young, Vice President of Investor Relations. Please go ahead.

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

Good morning, and welcome to Aflac Incorporated's fourth 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 both countries. 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 quarterly 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; Brad Dyslin, Deputy Global Chief Investment Officer; 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 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 of 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 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

Good morning, and thank you for joining us. 2021 was another year of uncertainty with vaccines incrementally gaining some momentum as the year progressed. There were hopes that the severity of COVID-19 would fade and allow us to return to some type of normalcy. Unfortunately, 1 year and several variants later, the normalcy has been -- yet it did not remain idle.

We have worked hard to adapt using virtual technology and seize the opportunity to accelerate investments in our platform. Considering what the global and national business landscape has experienced over the last 2 years, I think Aflac has been very fortunate with some tailwinds, while simultaneously working hard to achieve our objectives and continue our strong earnings performance.

While Max will address the quarter in more detail, I'd like to highlight some of the items for the year. Adjusted earnings per diluted share, excluding the impact of foreign currency, increased 21% in 2021. This result was largely supported by the continuation of the low benefit ratios associated with the pandemic conditions and better-than-expected returns on alternative investments.

We were pleased with this result, especially when you consider the pandemic pressure on revenues, accelerated investment in our core technology platforms and initiatives to drive future earned premium growth and efficiency. 2021, Aflac Japan generated solid overall financial results, with an extremely strong profit margin of 20.2% and solid premium persistency of 94.3%. We continue to navigate Japan's evolving pandemic conditions, including various degrees of COVID-19-related restrictions that created headwinds for our face-to-face sales opportunities.

Especially given this backdrop, I am encouraged by Aflac Japan's annual sales increase of 7.7%. This reflected the first quarter introduction of our medical product, EVER Prime, and the September launch of our new nursing care product. Amid evolving pandemic conditions, we continue to enhance and actively leverage our virtual sales technology to connect with customers as we monitor the recovery of face-to-face sales.

Our goal in Japan is to be the leading company for living in your own way. This approach captures how we tailor our products to fill consumers' needs during the various stages of their lives, reaching them where and how they prefer to purchase insurance. This includes through our agencies, strategic alliance and banks as well as virtually.

Aflac Japan continues to offer various measures of support to Japan Post Group as they gradually increase proactive sales activities and gear up for the start of their new fiscal year in April of 2022. This will include the transfer of approximately 10,000 Japan Post company employees to Japan Post Insurance. These employees will handle only Japan Post Insurance products and most importantly for us, Aflac Japan's insurance or cancer insurance.

We expect this continued collaboration to further position the companies for the long-term growth and gradual improvement of Aflac cancer insurance sales in the interim.

Turning to Aflac U.S. We saw a strong profit margin of 22.8%. This result was driven by lower incurred benefits and higher adjusted net investment income, partially offset by higher adjusted expenses. I am pleased with the 16.9% annual sales increase, especially considering the constraint face-to-face activities continues to be somewhat of a headwind in the U.S. as well.

Aflac U.S. also continued to generate strong premium persistency of nearly 80%. In the U.S., small businesses have gained some incremental ground toward recovery, and we expect this to continue gradually. Within the challenging and small business and labor market, we continue to engage our veteran agents.

At the same time, larger businesses appear to be more resilient given their traditional reliance on online virtual self-enrollment tools and we are making ongoing investments in the group platform. Excluding our acquired platforms, 2021 group sales are more than 104% of 2019 group sales. We remain focused on being able to sell and service customers whether in person or virtually. As part of the VISION 2025, we seek to further develop a world where people are better prepared for unexpected health expenses.

Fred will provide more detail, but as we seek to fill the needs of customers, businesses and our distribution, we continue to build out our U.S. product portfolio with Aflac network Dental and Vision and Premier Life and Disability. These new lines modestly impact the top line in the short term.

In combination with our core products, they are better positioned Aflac U.S. for future long-term success. Depending on continued progress in the pandemic conditions, we remain cautiously optimistic for continued sales improvement in the U.S. The need for our products we offer is as strong or stronger than it has ever been. At the same time, we know consumers' habits and buying preferences have been evolving, and we are looking to reach them in ways other than traditional media and outside the worksite. This is part of the strategy to increase access, penetration and retention.

I've always said that the true test of strength is how one handles adversity. While the pandemic has been and continues to be this type of test, I am pleased that 2021 confirmed what we all knew. Aflac is strong, adaptable and resilient. In both Japan and the United States, we look for ways to be where people want to purchase insurance.

Related to capital deployment, we place significant importance on continuing to achieve strong capital ratios in the U.S. and Japan on behalf of our policyholders and shareholders. When it comes to capital deployment, we pursue value creation through a balance of actions, including growth investments, stable dividend growth and disciplined and tactical stock repurchase. It goes without saying that we treasure our record of dividend growth. The fourth quarter's declaration marks the 39th consecutive year of dividend increases.

Additionally, the Board approved a first quarter dividend increase of 21.2%. Our dividend track record is supported by the strength of our capital and cash flows. At the same time, we remain tactical in our approach to share repurchase, deploying $2.3 billion in capital to repurchase 43.3 million of the shares in 2021.

Keep in mind, in addition, we have among the highest return on capital and the lowest cost of capital in the industry. We have also focused on integrating the growth investments we have made in our platform. As always, we are working to achieve our earnings per share objective, while also ensuring we deliver on our promise to the policyholders.

By doing so, we look to emerge from this period in a continued position of strength and leadership. I want to point out that the world has changed in many ways that surprises even the most cynical, but what it hasn't changed is the fact that the pandemic or no pandemic, people are facing the same illnesses, accidents and health conditions every day, only now COVID has been added. This means that the need for our products is even greater now. And we are committed to being there for them in their time of need.

I don't think it's coincidental that we've achieved success while focusing on doing the right things for the policyholders, the shareholders, the employees, the distribution channel, the business partners and the communities. I am proud of what we've accomplished in terms of both our social purpose and financial results, which have ultimately translated into strong long-term shareholder return.

Now I'll turn the program over to Fred. Fred?

Frederick John Crawford
President & COO

Thank you, Dan. I'll reflect briefly on 2021, but will focus my comments on growth and efficiency initiatives in 2022.

Beginning with Japan, COVID conditions continue to negatively impact our business. We expect sales to build from 2021 levels. However, there are currently 34 prefectures and soon to be 35 prefectures subject to COVID prevention measures that can have the effect of restricting economic activity.

There are no restrictions that directly impact the sale of insurance or our operations. However, consumers are naturally more reluctant to engage in face-to-face meetings with prevention measures in place. As we look to 2022, we're focused on the following: first, strengthening of our associates channel through increased policy solicitations at the worksite, marketing new products to existing policyholders and building market share in nonexclusive agencies where we have been historically weaker. The associate channel responds to periodic medical and cancer product refreshment, but we believe these efforts will defend sales in this channel at 2021 levels despite it being a year without a major product refresh.

Following on Dan's comments regarding Japan Post, we have seen proposal activity to potential customers grow materially during 2021. We are a long way from recovering to the volumes enjoyed in 2018. However, as part of our organization-wide coordination with Japan Post Group and building on past initiatives, we ran a test pilot initiative during the fourth quarter that provided sales process management tools and practices to Japan Post in support of customer-centric engagement.

This initiative was implemented by model Post offices and led to increased written proposal activity and ultimately increased sales. Through our strategic alliance framework, the Japan Post companies have agreed to a nationwide campaign to roll out the best practices learned from our fourth quarter initiative. As the campaign will be linked with the transfer of 10,000 postal network sales employees to Japan Post Insurance this April, we are confident this will result in a meaningful level of recovery as compared to 2021.

In terms of product development, we ended 2021 with a little over JPY 1 billion in sales of our new nursing care product. We are introducing targeted incentive programs and TV advertising that profiles the mental and financial burden of caring for an aging parent. In addition, we plan to launch a new work leave or short-term disability product in March. The new short-term disability product targets small- and medium-sized businesses that tend to have less comprehensive coverage. We expect both products to combine for 5% to 10% of our sales in 2022.

Turning to operations. We are focused on initiatives designed to stabilize our expense ratio in the face of declining revenue as sales recover and we continue to run off first sector interest-sensitive product. These initiatives include a transition away from paper-based processes to digital, IT modernization and reimagining Policyholder Services, our largest operating platform within Aflac Japan.

Turning to the U.S. COVID conditions are not expected to be the headwind faced in 2021. We can't control the risk of new variants, but we plan to return to near-normal operating conditions as we enter the second quarter, while cautiously following CDC guidelines. We are seeing promising new business formation and associated momentum in sales. Having spent time with our agents and brokers in January, the overall energy among our distribution partners gives us confidence results will certainly build from 2021 levels.

Dan covered our core small business and group voluntary results. We are focused on continued recovery in our agent-driven small business franchise. Recruiting is critical, as is converting recruits to average weekly producers. Recruiting was up 17% in 2021. However, on the back of a significant jump in small business broker appointments, which unlike agent recruiting, takes time to convert to producing new business. Our broker-sold group voluntary business performed at a higher level than pre-pandemic 2019. It's important to note that we are one of the few companies that focuses specifically on driving voluntary product through specialized VB brokers and in partnership with leading benefit administrators. In 2021, group sales through brokers, which tends to focus on the mid-to-large marketplace were 1/3 of Aflac's total U.S. sales.

Turning to our building platforms. Our network Dental and Vision line of business continues to develop. We now have over 7,000 agents trained with 50% of 2021 quote activity occurring in just the last 4 months of 2021. Sales were $23 million in 2021, with an additional $15 million of voluntary products sold alongside, capturing what we refer to as the halo effect. Today, we have a network of 90,000 providers, of which 15,000 are proprietary and the remainder leased. We expect to double the size of our proprietary dental network in 2022.

Controlling the quality and design of our network is critical as we seek to create a competitive advantage and move upmarket into broker-sold business. Our Premier Life and Disability business ended the year with $62 million in sales and has carved out a strong reputation as having unique client care model, advanced leave management capabilities and a building referral network as consultants and clients realize bigger is not necessarily better. Not included in these sales results, we officially launched our Connecticut Paid Family Medical Leave administrative platform and hope to see additional states entertain outsourcing PFML administration.

Our consumer markets business recorded sales of $39 million for 2021. The platform is in expansion mode, with plans to add network Dental, Vision and Hearing along with senior market products in 2022. Later this quarter, we expect to roll out through select brokers, our new Aflac Pet insurance powered by Trupanion. We are targeting the larger case market and believe our solution is superior to the competition and leverages the best of both a powerful worksite brand and a recognized leader in pet insurance with a unique value proposition. Operations will continue to be a key area of execution with the goal of bending the expense ratio curve in the next few years.

You can see from my comments, we are clearly in building mode along with platform modernization. Investments include stabilizing in our small business enrollment tool, modernizing our dental and vision platform to handle increased volumes and migrating off a legacy group voluntary platform, armed with an expanded product portfolio. These are a few of the initiatives elevating our current expense ratio, but as discussed at our Investor conference, we'll turn the corner in the next few years moving from the higher end of our forecasted range to the lower end, come 2024.

Commenting on our investment operations, we completed our strategic asset allocation work in 2021 and are now executing on that strategy. Together with corporate finance activities at the holding company, we are confident we have engineered a prudent approach to our U.S. dollar program in Japan. The program is constantly refined and optimized driving yield, maintaining diversification, lowering hedge costs, reducing exposure to negative settlements, all while sheltering our investors' exposure to a weakening yen.

While late in the game as compared to some in the industry, our disciplined approach of building an alternative portfolio resulted in strong variable investment income last year. We understand these portfolios are likely to give back some of the gains in the last year, but we are off to a strong start in generating the favorable returns expected from these portfolios.

Finally, I'm very pleased with the progress made on ESG front in 2021. We are now a PRI signatory. We have returned to the Dow Jones Sustainability Index and last week were once again named to the Bloomberg Gender-Equality Index. Great progress and more to come.

I'll now hand off to Max to cover financial performance. Max?

Max Kristian Broden
Executive VP, CFO & Treasurer

Thank you, Fred. For the fourth quarter, adjusted earnings per diluted share increased 19.6% to $1.28, with a $0.05 negative impact from FX in the quarter. Full year adjusted earnings per diluted share of $5.94 was 19.8% higher than a year ago. This strong performance for the quarter and full year was largely driven by lower claims utilization due to pandemic conditions.

Variable investment income ran $0.13 per share above our long-term return expectations for the quarter and $0.40 per share for the full year, a very good outcome for our growing private equity portfolio. Adjusted book value per share, including foreign currency translation gains and losses grew 7.7% year-over-year. And the adjusted ROE, excluding the foreign currency impact, was 13.6% in Q4 and 16.1% for the full year, a satisfactory result and significant spread to our cost of capital.

Starting with our Japan segment. Total net earned premiums for the quarter declined 4.3%. And for the full year, it was down 3.9%. Policy count in force declined 1.8%, which better reflects our overall growth in our business. Low new sales and a slight uptick in lapse rates were the main drivers for earned premium decline.

Japan's total benefit ratio came in at 67.3% for the quarter, down 160 basis points year-over-year, and the third sector benefit ratio was 57%, also down 160 basis points year-over-year. For the full year, the benefit ratio was 67.2%, down 270 basis points year-over-year. We experienced a slightly greater than normal IBNR release in our third sector block as experience continues to come in favorable relative to initial reserving.

This quarter, it was primarily due to pandemic conditions constraining utilization and a slightly higher lapse rate within our medical block. Adjusting for greater than normal IBNR releases and in-period experience, we estimate our normalized benefit ratio for Q4 to be 68%. Persistency remained strong with a rate of 94.3%, down 80 basis points year-over-year. Our expense ratio in Japan was 22.6%, down 40 basis points year-over-year. Good cost control in combination with higher-than-expected NII have helped our expense ratio despite the overall decline of policies in force and earned premium. For the full year, the expense ratio increased 30 basis points to 21.5%.

Adjusted net investment income increased 16.8% in yen terms, primarily driven by favorable returns on our growing private equity portfolio and lower hedge costs, partially offset by a lower reinvestment yield on our fixed rate portfolio. For the full year, adjusted NII was up 17.6%. The pretax margin for Japan in the quarter was 24.7%, up 380 basis points year-over-year, a good result for the quarter. For the full year, the pretax margin was 25.2%, supported by a very low benefit ratio and stronger-than-expected variable investment income.

Turning to U.S. results. Net earned premium was down 1.3% as lower sales during the pandemic continues to have an impact on our earned premium. For the full year, earned premium declined 2.5%. Persistency improved 30 basis points to 79.6%, driven partially by emergency orders continuing in certain states. Our total benefit ratio came in lower than expected at 46.7% or 490 basis points lower than Q4 2020.

Lower and deferred claims utilization impacts our IBNR held for incurred claims within a year. And as we get in more data, our long-term models increase reliance on source data, both leading to IBNR releases. This quarter, the IBNR release amounted to a 1.5% net impact on the benefit ratio, which leads to an underlying benefit ratio, excluding IBNR releases of 48.2%. Our expense ratio in the U.S. was 43.8%, up 30 basis points year-over-year. Q4 seasonally experiences a higher expense ratio as business activity and enrollment picks up towards the year-end. For the full year, the expense ratio was up 90 basis points to 39.5%.

Our continued build-out of growth initiatives, Group Life and Disability, network Dental and Vision and the direct-to-consumer contributed to a 120 basis points 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.

We also incurred $6.1 million of integration expenses associated with recent acquisitions, which are not included in adjusted earnings or the reported expense ratios. Adjusted net investment income in the U.S. was up 8.2% in the quarter and 7% for the full year, mainly driven by favorable variable investment income. The U.S. segment reported a pretax margin of 16.1% for the quarter and 22.8% for the full year, with a low benefit ratio as the core driver of improved results in both periods.

In our corporate segment, we recorded a pretax loss of $155 million as adjusted net investment income was $109 million lower than last year due to low interest rates at the short end of the yield curve, lower amortized hedge income and changing value of certain tax credit investments. These tax credit investments run through the NII line for U.S. GAAP purposes with an associated credit to the tax line.

In the quarter, the impact to NII was a negative $104 million and the offsetting credit to GAAP taxes was a favorable $80 million, leading to a net impact to our bottom line of a negative $23 million in the quarter. To date, these investments are performing well, above our cost of capital and in line with expectations. Our capital position remains strong, and we ended the quarter with an SMR north of 950% in Japan and a combined RBC north of 600% for Aflac U.S.

Unencumbered holding company liquidity -- holding company liquidity stood at $4 billion, $1.6 billion above our minimum balance. Leverage remains at a comfortable 22.4% in the middle of our leverage corridor of 20% to 25%. In the quarter, we repurchased $625 million of our own stock and paid dividends of $217 million, offering good relative IRR on these capital deployments.

For the full year, we repurchased $2.3 billion of our own stock and paid dividends of $888 million for a total of $3.2 billion of capital returned to shareholders. We will continue to be flexible and tactical in how we manage the balance sheet and deploy capital in order to drive strong risk-adjusted ROE with a meaningful spread to our cost of capital.

Before closing, I'd like to reiterate the outlook given at FAB for our key value drivers for the time period 2022 and 2023. With that, I hand it over to David to begin Q&A.

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

Thank you, Max. We are now ready to take questions. But first, let me ask that you please limit yourself to 1 initial question and a related follow-up to allow other participants an opportunity to ask a question.
And with that, Jason, if you will, open up the line to our first caller.

Question and Answer

Operator

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

Nigel Phillip Dally
Morgan Stanley, Research Division

I wanted to start on network Dental, Vision, Group, Life and Disability. I appreciate the color on sales [I guess between] how those results compare to your expectations. And as we look to 2022, do you have a number in mind as to what portion of total U.S. sales would come from those platforms?

Frederick John Crawford
President & COO

Nigel, this is Fred. Let me try to address it, but then I'll ask Teresa and Virgil to weigh in with any comments they have. But -- so first of all, with PLADs, extremely pleased. We call it PLADS, Premier Life and Disability and Leave Management. Not only did they hit the sales expectations that we had when acquiring the property, but they advanced beyond that, particularly with the state of Connecticut contract for leave management, which is not an insignificant contract from a revenue standpoint.

We don't include it in the traditional measure of sales only because it's not linked with an actual life and disability contract, but it's a meaningful business and one that certainly wasn't expected when we made the acquisition. So we couldn't be more pleased.

The other thing I would note is that we successfully renewed 100% of our contracts this year, with a 4% average pricing increase across the board. And that was very good news. Our team -- our PLADs team pays very careful attention to the quality of service and quality metrics as they lead into renewal period, and that proved to really, really benefit us on the renewal side.

I say that because the earned premium, which is as important as the sales, is tracking on or better than our expectations as well. So both sales and retention are very good. Again, as we peel the onion back on that property, having acquired it and folded it in over the last year, the news just gets better on that property. Very good platform, very pleased.

Dental and Vision, of course, we had -- remember, we bought a TPA, but really needed to build from scratch the actual dental and vision product, along with the network. And so we very much have been in building mode on that property. I would say the sales in 2021 were below the expectations we were expecting coming into the year, but were not due to necessarily bad performance. It was more a conscious decision to roll that business out carefully and also had timing-related issues with entering those products onto our enrollment tool.

Remember, with Dental and Vision, we're actually starting out in the small business community with our agents. So we're selling into 100 and less employees. And that means it has to be not only approved by all the states, which we did throughout the year, but also has to be installed on our enrollment platform, which takes time and energy to put that on available in all states. So you had a pretty big lift with that product. And it's fair to say that COVID conditions impacted the small business world, which meant it impacted the agent delivery model from a distribution, and it just so happens that we decided long ago that our first entry point with Dental and Vision was with the small business agent-driven model, and we did not anticipate COVID.

So it was behind what we originally had forecasted. But I can tell you that we're extremely pleased with it. One thing that we're really pleased with that has outperformed is the halo effect I mentioned. Selling $23 million of network Dental and Vision, but then selling an additional $15 million of voluntary product associated with the Dental and Vision sales, that exceeds our halo expectations. We would expect to have a halo effect of around 30% and to be north of 50%, approaching 60%, 70% is well above our expectations. I don't think it's going to stay at that level, particularly as we go more aggressively upmarket, but still very pleased with that halo effect. So all in all, I would say, very good.

Now in terms of what percentage of our sales next year, we've been climbing gradually north of 10% of sales heading towards 13% to 15% of sales. And in 2022, I would expect to be in that range. So let's just call it 10% to 15% of sales.

Obviously, in some ways, we don't want that percentage to be too high because we fully expect the rest of our business to grow significantly as well. But I think that's not a bad estimate.

Teresa Lynne White
President of Aflac US

Fred, you actually covered most of what we would cover. So I do agree in 2022, this is Teresa, we will see about 13% to 15% of our buy-to-build as a percentage of U.S. sales. And we're actually just expecting as we continue to move out by 2025, about 20% of sales, U.S. sales will be buy-to-build property.

Nigel Phillip Dally
Morgan Stanley, Research Division

That is great. And just as a follow-up, I just want to stick on the U.S. career agency recruiting. Broker recruits were up meaningfully. Career agent was under pressure. Is that a reflection of the labor markets? And should we be thinking about that as a headwind for 2022? Or are there other initiatives to try to accelerate that from here?

Daniel Paul Amos
Chairman & CEO

Virgil, you take that, but let me just make sure I'm very clear on something that I -- just listening to Teresa, I want to make sure it's clear. Nigel, when you asked the question, you asked specifically to our Life and Disability business and our Dental and Vision. When we say 13% to 15%, we consider our buy-to-build properties to be those 2 properties plus the build of our direct-to-consumer platform. So just note that we consider those 3 businesses when we quote you 13% to 15%, just to make sure we're clear on that.

Sorry, Virgil, why don't you or Teresa take the recruiting question.

Teresa Lynne White
President of Aflac US

I'll let Virgil take that question.

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

Okay. Well, thank you for the question, Nigel. Actually, we're very pleased with where we're sitting with the recruiting. I think you noticed, as you indicated in your question, that we achieved about 17.5% growth, but we changed our focus. If you think about it, there were some headwinds with the labor market. So instead of just relying on new recruits, which we were able to recruit over 10,000, we did pivot our -- and evolve our model to focus on those small brokers. We activated over 5,000, and we're starting to see them perform going into the second half of last year. So we're very pleased, as you can see, to contribute to our overall increase in productivity.

So -- as I look, going into 2022, I expect to see more of the same. It's going to be a combination of new recruits, but we will continue our focus still though in that small broker space also.

Operator

The next question comes from Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So a question just on sales in Japan. And obviously, it seems like sales have bottomed and they recovered a little bit, obviously, still depressed versus historical levels. But is it possible that in the early part of 2022, you actually take a step back given some of the restrictions that the government's imposed in Japan and you don't see the ongoing improvement that we've seen recently?

Koichiro Yoshizumi
Deputy President, Director of Sales & Marketing and Director - Aflac Life Insurance Japan

[Interpreted] Okay. This is Yoshizumi of Japan. Thank you for the question. So it is true that the quasi-emergency measures for 34 prefectures, and today, I think it will be 35 prefectures. So it is true that there are some impact to our sales. However, as we promoted online sales, virtual sales last year, actively, we are also enhancing that these virtual sales again this year. And this virtual sales plus the real or the physical sales have been established as sort of like hybrid sales, and we will be promoting this method.

Frederick John Crawford
President & COO

Yes. I think one thing I would add is just then -- this is Fred. Again, to remind you, there are various grades, if you will, of level of severity that the government will put in place, prefecture by prefecture, the most severe being the state of emergency. When we talk about 35 prefectures being under prevention measures, that is one step below the state of emergency level. And it's important to note that the Government of Japan is really trying to balance containing, of course, the virus without dampening economic activity, and they're trying to play that balancing act. And so even state of emergencies have been a little less restrictive than in the early days of COVID. And these cautionary practices in the prefectures, in and of themselves, don't really restrict our activity and our ability to sell and meet with potential clients and so forth.

The issue that's hard to measure is if you are a citizen of Japan, and you live in a prefecture that is in a -- where there is a prevention measures that are being put in place, do you feel less comfortable meeting face to face and conducting business in a normal way. And that's very difficult to measure, but we see it in our results. And so there's no question there's a bit of a headwind as we head into 2022, but it's certainly not as severe as state of emergency, and it's definitely not as severe as the early days of COVID.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then just on Japan as well, can you just talk about what's going on with the Post? And what's your expectation of longer term being able to potentially expand that relationship beyond cancer?

Frederick John Crawford
President & COO

I'll let the Japan team fill in some of the blanks and talk about it. But as I mentioned in my comments, first of all, there is no specific plan to expand products. However, again, remember, we consider our cancer business in Japan Post to be a line of business. And so for example, when we upgrade cancer products or add riders or feature to cancer products, we do that within the Japan Post system.

As you may know from some of our comments at the Investor Conference, what we're really excited about is we're starting to introduce concierge noninsurance services to support our cancer business. This involves a cancer policyholder being able to call into a concierge line and be tapped into noninsurance services that support their needs, whether they are going on claim or preventions or detection needs, care needs, even oncologist recommendations, these types of services.

So all of that product capability that we house within a company we called Hatch Healthcare. All of that will be available to Japan Post policyholders and will help with both retention and growth. So no new product lines, but the cancer line continues to expand and develop within the Japan Post system.

And I'll let my colleagues in Japan talk about the momentum coming off our fourth quarter pilot exercise and looking at 2022.

Koichiro Yoshizumi
Deputy President, Director of Sales & Marketing and Director - Aflac Life Insurance Japan

[Interpreted] So this is Yoshizumi, once again. And in specific, what we refer to by pilot is to take examples of branches and sales offices that are doing well and not doing well. And especially those that are doing well is taken as the model for all the other sales offices and outlets. So what we normally do is to reflect the successful sales offices' practices to other sales offices. And the 3 particular initiatives that we are planning to do is to give guidances to those sales professionals, conduct training and then also enhance proposal capabilities.

And by going through the PDCA cycle, we will be improving each of these initiatives. And then as we have conducted a pilot in the fourth quarter, we were successful and since we have seen some success in the fourth quarter, we are going to be promoting our sales in 2022 by using similar measures.

Frederick John Crawford
President & COO

Yes. And I might add just to put a little bit of numbers behind it because I know there's sort of a question, what do you mean by improved? But just to give you an idea, when looking at those model offices and our results in this test pilot program in the fourth quarter, when we moved from third quarter results to fourth quarter results, we had over a 50% increase from third quarter to fourth quarter, both in the number of proposals put forward and the resulting sales. And so it was clearly successful. And so what the executive teams and sales teams are doing between our team and Japan Post is they're sitting down, analyzing those results and now looking at more of a national spread of that platform. But it was a very tangible increase and gets us excited about some increased momentum in 2022.

Operator

The next question comes from John Barnidge from Piper Sandler.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

My question, it seems like when we enter each new quarter, the expectation is for claims normalization to occur over the future quarter that hadn't occurred over the last 1.5 years. But can you maybe talk about how claims utilization, especially in the U.S., but also in Japan, has trended as the Omicron variant has emerged and probably COVID fatigue sets in.

Max Kristian Broden
Executive VP, CFO & Treasurer

Thank you, John, and thank you for pointing out that my prediction about the claims utilization has been wrong for the last year. Throughout the year of 2021, and I'll start by talking to the U.S., we did see a gradual increase in claims utilization each quarter with very, very low claims utilization in the first quarter, and then we saw a little bit of a -- and that continued quite frankly, throughout the second quarter and then we started to see a normalization in the third quarter and then into the fourth quarter as well.

We're not fully back to normal. But I would say when I look at, for example, paid claims data for the fourth quarter, then November was higher than October and December was higher than November. And we are getting back very close to what I would deem sort of normal claims utilization starting the year of 2022 for the U.S. So that means that I do think that we are fairly close to normal claims utilization going forward. It's also the fact that the -- we did have a correlation between infection rates in the society and claims utilization, and what Omicron has done is that, that correlation has pretty much broken down.

And I think that is due to people are living in a much more normal life. You see mobility coming back to more normal levels. And with that, people are getting into accidents, they are going for physical checkups, et cetera, and that is sort of driving a more normal claims pattern and behavior among our policyholder base in the U.S.

So that is why I do believe that we are going to come back to sort of a more normal claims utilization pattern for 2022. And we do expect that our benefit ratio in the U.S. will fall within the sort of normalized range. So we do expect that we will be within the 48% to 52% benefit ratio in the U.S. for 2022.

When you go to Japan, you have a somewhat of a similar pattern, but it has lagged the U.S. You don't see the reactions as quick as you do and the changes as quick as you do in the U.S. and you don't see the ups and downs as much as we have seen in the U.S. So you have a much more flatter and more prolonged pattern of claims utilization in Japan.

We are still -- in Japan, we are trending a little bit below, but not significantly below what we would deem to be sort of our -- sort of normalized claims utilization. I hope that helps.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

It does. And then my follow-up, as you think about pet insurance for '22, how meaningful of a contributor do you think that will be?

Frederick John Crawford
President & COO

So a couple of things about the pet insurance products. So as I mentioned in my comments, later in the quarter, we expect to launch. We're taking a very targeted approach and that is we're launching in what we characterize internally as our premier broker platform. These are some of the largest brokers in the country that deal particularly with typically larger companies, think of it as 1,000 employees and larger, that's also where a lot of the employee benefit base demand is for pet insurance. And we expect there's a lot of pent-up expectation for the product. There's a lot of momentum around pet insurance in the worksite. So we do believe there's going to be a lot of interest.

Now remember, in terms of our results, recognize that we don't book any earned premium, if you will, or sales on that product. That earned premium and sales is booked by Trupanion. Our rationale for putting our brand on it powered by Trupanion is that it creates -- it first, it checks a box in terms of having a pet insurance product, which many of the brokers and their clients like to see and have interest in. But also it creates an opportunity to have a more unique conversation and broader capability when we're in finalist presentations on voluntary benefits overall. So it really helps create more energy around our broader voluntary products and once again, looking for that halo effect.

So that's our expectation. We don't have really specific sales expectations other than it's going to be gradual, because we want to get it right. And when you come into the premier broker world with a new product, you don't have too many chances to get it right. You need to get it right out of the gate. You need to measure 3 times and cut once. And the reason is because if it doesn't get off to a good and controlled start, it can be problematic in that community of brokers and we don't want that to happen.

But it's a very unique product, those of you who are familiar with Trupanion. I'm sure you've read the news recently that they were excited to announce an alliance with Chewy, which is really bona fide their unique value proposition. We think this is a different type of a product. We think this is not simply a check-the-box pet insurance product. We think the special value proposition, veterinarian-driven type product set is a unique differentiator. And we've coupled it even with benefits where you, as an employee, can purchase a rider that pays you for your out-of-pocket costs if your pet is sick and you need to take off work and experience some of the same out-of-pocket costs that come with human health conditions.

So we really have built a unique value proposition. We think it's a differentiator, and we think it will create more fulsome conversations when selling our broader voluntary platform.

Operator

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

Humphrey Lee
Dowling & Partners Securities, LLC

My first question is regarding the Japan Post employee kind of transferring 10,000 of them to Japan Post Insurance. How should we think about the required time for them to ramp up? And how should we think about the potential impact on kind of the sales outlook?

Frederick John Crawford
President & COO

I think it's best for our Japan colleagues to address that. So Yoshizumi-san, the transfer of postal salespeople to Japan Post Insurance and how that flows through and is there any ramp-up period?

Masatoshi Koide
President, CEO & Representative Director

[Interpreted] This is Koide of Aflac Japan. As you mentioned, there will be 10,000 people or salespeople moving from Japan Post Company to Japan Post Insurance in April, and this is being planned. And what is -- what is very important about this is that after these people are transferred to Japan Post Insurance, they will only be selling Japan Post Insurance product and Aflac cancer products.

And since their people's moves are in April and preparation is going extremely well towards April. However, right after their move in April, there may not be a significant impact. However, once they get used to it, there will be a gradual increase in the momentum of sales. So what we are expecting is that after this transfer occurs, and then perhaps in the second half of this year, there will be some more momentum in sales.

And let me just add a little bit more information that these 10,000 salespeople that are currently working for Japan Post Company is already -- are already selling our cancer sales -- cancer insurance. Therefore, they do have the experience and the knowledge of cancer insurance. That's all from me.

Humphrey Lee
Dowling & Partners Securities, LLC

That's helpful. Just staying on Japan. So you talked about some of the countermeasures for COVID is not really restrictive and one of the bigger question would be how kind of the consumers will react given the current environment. I think I read somewhere that the lawmakers are looking at potentially more restrictive countermeasures for COVID and also the consumer confidence has been dropping in Japan. I was just wondering if you can elaborate a little more if there are more restrictive measures to put in place and the consumer confidence if it continues to drop, like should we see -- could we see a more dampened sales outlook for 2022?

Daniel Paul Amos
Chairman & CEO

This is Dan. Let me -- I want to make a couple of comments. Number 1 is, it hadn't been stated, but they have -- 90% of the people have been vaccinated in Japan. And so the -- as we've seen with the new variants, the death rate is much lower and there's improvement. I don't think we have any specific answers at this time, I'll let them answer in terms of what the government will require. But I think it's -- you're going to see the death rate and the issues trend down instead of up because we're seeing everybody vaccinated compared to the United States. Now some states, of course, are higher than others, but there is a movement in that direction.

You also may have saw the Johns Hopkins report last week that a lot of these things that they're doing in regard to trying to control the variant has not worked very well. And so I think you're going to see more movement back to normal. We certainly, as a corporation, both in Japan and the United States, are moving in a gradual, but -- for example, we had a meeting of 1,000 people of our salespeople. We tested them all before they came. Some didn't want to come, but over 800 showed up. After it was all said and done, we had about 15 cases of COVID in the United States for that particular meeting, which was really, if you took 1,000 people at random, that would be a relatively low number.

So I think you're seeing things move back in Japan. We're back to over 50% of the employees are at work. They'll have to give you the exact number, but it's over 50%. So I see things moving back more to normal. Koide, would you take that question, please, and talk a little bit about it?

Masatoshi Koide
President, CEO & Representative Director

[Interpreted] This is Koide once again. And it is true that even in Japan, the number of new cases are on the increase. However, as Fred mentioned earlier, the current infection prevention measures that are being issued is much milder than the state of emergency that the government has issued a long time ago.

And the Government of Japan is aiming to strike a balance between prevention of the infection, at the same time, promote economic measures and activities. And therefore, the government is extra careful about whether to issue even severe or like emergency measures. So as a result, we are not -- there is no plan of Japan issuing very severe measures, such as lockdown, or any severer measures than the state of emergency that the Government of Japan has issued a while ago. So there is no change -- no plan for the change in laws either. That's all for me.

Frederick John Crawford
President & COO

Yes. One thing, not to pile on. This is Fred. But one thing I would say, just in terms of the basis of your question, is you always want to be careful about the correlation of economic activity in Japan and the sale or demand for our products. Right now, really, what we're talking about is the practical implications of meeting face-to-face and having a naturally higher close rate meeting face-to-face.

But it is, after all, a pandemic, and so you would imagine that supplemental medical disability product, even elderly care and cancer product, that there will be a natural level of elevated demand and awareness for these types of products given pandemic conditions. So it's really more a practical execution issue than it is a demand and economic issue in my view.

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

Thank you, Humphrey. And Jason, I believe that was our last call, we've gone past the top of the hour. For anyone that has any follow-up questions, though, I'd please ask you to contact Investor and Rating Agency Relations. We'll be happy to help you.

Thank you all for your time today and look forward to speaking to you soon. Thank you.

Operator

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