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Aflac Incorporated NYSE:AFL

FQ4 2009 Earnings Call Transcripts

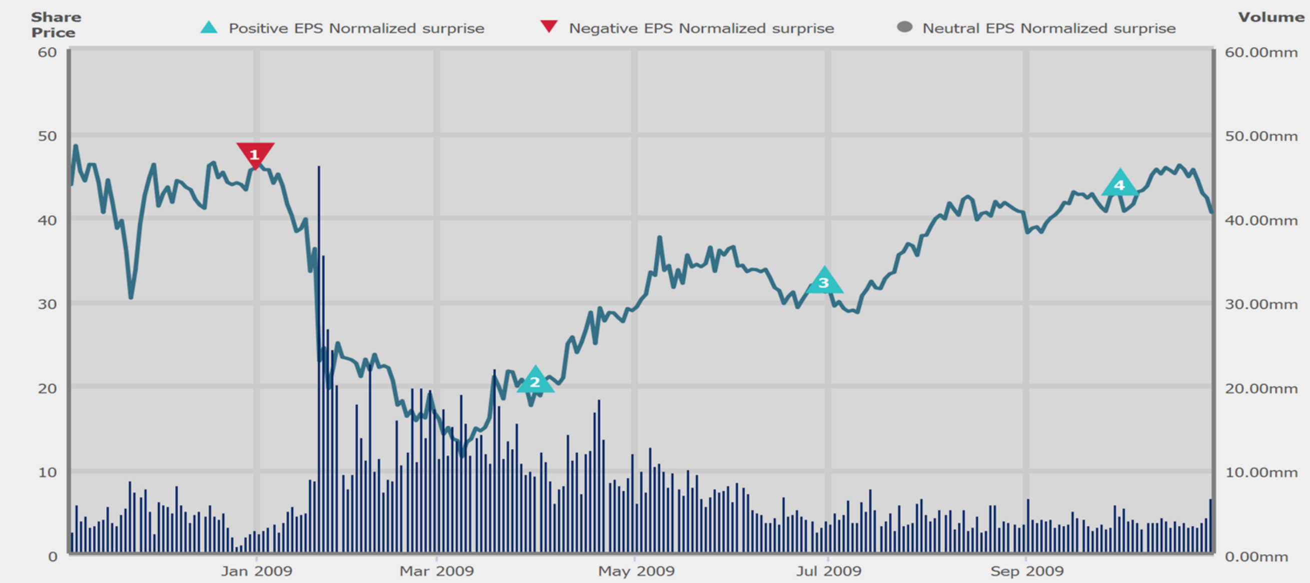
Wednesday, February 03, 2010 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2009-			-FQ1 2010-	-FY 2009-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.15	1.18	▲ 2.61	1.31	4.83	4.85
Revenue (mm)	5002.16	4597.00	▼ (8.10 %)	5004.40	19225.32	18254.00

Currency: USD
Consensus as of Feb-03-2010 12:06 PM GMT

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



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2008	1.00	0.98	▼1 (2.00 %)
FQ1 2009	1.16	1.22	▲2 5.17 %
FQ2 2009	1.13	1.20	▲3 6.19 %
FQ3 2009	1.20	1.25	▲4 4.17 %

Call Participants

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Former Executive Vice President and Head of Corporate Finance & Development

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Presentation

Operator

Welcome to the AFLAC Fourth Quarter Earnings Conference Call. [Operator Instructions] I would now like to turn the call over to Mr. Ken Janke, Senior Vice President of Investor Relations.

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

Thank you, Annie. Good morning, everybody and thanks for taking the time to join us this morning. With me in Columbus is Dan Amos, Chairman and CEO; Kriss Cloninger, President and CFO; Paul Amos, President of AFLAC and Chief Operating Officer of our U.S. business; Jerry Jeffery, Senior Vice President and Chief Investment Officer; and Toru Tonoike, who is President and COO of AFLAC Japan joins us from Tokyo.

Before we begin this morning, let me remind you that some of the statements we'll make 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 they'll prove to be accurate because they are prospective in nature. The actual results in the future could differ materially from those we discuss today, and I'd encourage you to look at our press release from last night for some of the various risk factors that could materially impact future results.

Now I'll will turn it over to Dan who will begin this morning with some comments about the quarter and our operations. I'll follow up with some financial highlights, and then we'll be pleased to take your questions. Dan?

Daniel P. Amos
Chairman & CEO

Thank you, Ken. Good morning, and thank you for joining us. Let me begin a review of last year with the discussion of the Insurance segment starting with Japan. AFLAC Japan posted strong results through 2000. We were happy with the financial performance of our largest earning contributor, and we were extremely pleased with AFLAC Japan's sales results. We had an incredibly strong fourth quarter, and sales significantly surpassed our expectations. In fact, the month of December was the largest December in AFLAC's 35-year history in Japan. Total annualized premium sales in yen were up 14.9% for the quarter and 6.7% for the year, which surpassed our goal of 0% to 5% increase for the year. Additionally, our large block of in force [ph] (09:56) business was marked by strong persistency as expected and our margins again improved.

Our sales growth was mainly propelled by product innovation, effective promotion and channel expansion. Fourth quarter Medical sales were exceptionally strong rising 57.7% over the fourth quarter of 2008. In August, we launched a revision of our popular medical product, EVER. The advertising for this updated EVER product features the AFLAC Duck dressed up as a Maneki Neko or a beckoning cat that is frequently seen in drawings and figurines throughout Asia. The raised paw of this cat is said to attract good luck in the AFLAC's Duck affiliation with the character, links the cat's good fortune with the positive brand image. For AFLAC Japan, the Maneki Neko Duck campaign created an overnight sensation for consumers of all ages. Most importantly, it also help us sell more than 361,400 EVER policies from the time the new EVER plan was launched through the end of 2009, which exceeded our expectations.

We also continued to experience strong sales in the ordinary life category, which was up 45% and accounted for 30% of the sales in the quarter. The positive reception of the child endowment product we introduced in March was largely responsible for the strong life sales in 2009. During the quarter, we sold 27,500 child endowment policies at an average premium of JPY 152,800, which is significantly higher premium than our core medical or cancer products. In addition to new products, we also achieved greater distribution through the bank channel and our new agency recruitment. Bank channel sales continue to improve, and we were a record JPY 2.9 billion in the fourth quarter. That represents a 33% increase over the third quarter of 2009 and a 202.7% increase over a year ago. At the end of December, a total of 353 banks represented AFLAC Japan. We have a very strong position within the bank channel and had significantly more banks selling for us than any other insurer operating in Japan.

We have also been developing our distribution beyond the bank channel. In that regard, traditional agency recruitment remains strong. In the fourth quarter, newly-recruited agencies were 22.4% higher than a year ago. For the year, we've produced the 17.9% increase in recruited agencies. We believe recruiting has not only benefited from the weak economy, but also from the strength of the brand and the relevant products and the improvement in recruiting and training techniques.

As we noted in last night's press release, AFLAC Japan has again targeted flat sales to a 5% increase in 2010. We believe we still have solid momentum in the Medical and Ordinary product categories to start 2010. Also the first quarter represents a fairly easy comparison to last year. However, the comparisons get tougher as the year progresses especially in the fourth quarter.

In addition, we expect much lower sales contribution from an alternative distribution channel, which are primarily telemarketing-based agencies. This type of independent agency has always produced varied sales results. The largest of these agencies has made a large reduction in its number of telemarketers. As a result, we expect these sales contribution to be about $50 million lower this year. We also expect to see a decline in Dai-ichi Life sales. However, we still believe we are positioned to have a good year in 2010, and we remain excited about the opportunities we see in the Japan market.

Let me turn to our U.S. operations. As has been the case for the last several quarters, difficult economic environment continues to post challenges to the U.S. sales growth. As such, we were not surprised that the fourth quarter sales were down 6.3%. For the year, sales declined of 6.4%. As you know, our persistency rate has also been impacted by the extended recession, which was especially true in the first quarter of 2009. However, the persistency rate of the U.S. business improved steadily as the year progress.

Frankly, it's disappointing that our sales have declined for two years in a row. But I have to say that in my 36 years with AFLAC, I have never seen the economy have such an impact on the U.S. business. I am sure many of you could say the same about your business. However, we believe that the disruption in the demand for our product is temporary and reflects the budgetary stress that many U.S. households face. Concerns about job security and the overall consumer confidence levels has impeded our success at the worksite selling. Specifically, the lack of hiring within our existing accounts especially hurt the sales of the veteran agents. But as we have discussed before, we remain convinced of the underlying need for our product is just as strong, if not stronger, than it's ever been.

At the same time, we're determined to further strengthen our business model by focusing on the competitive strength, so that we are strongly positioned when economic stability returns. For instance, we continue to enhance our product line with new introductions last year. In particular, we launched what we refer to as essential cancer and accident products. These new products have been streamlined with lower benefit and premium levels. In short, we believe that they are better suited to the current economy and in the long run, they will give consumers more choice.

We also continue to recruit and train new sales associates to expand our reach in the market. Although agent recruitment declined in the fourth quarter, recruitment was up 10.6% for the full year to more than 28,400 new sales associates. Sales growth from associates in the first year was again better than better in associates, which again prove my point that hiring freezes in existing payroll accounts serves veteran agents who establish and now manage these accounts. The number of new average weekly producers are those who are selling regularly in the first year increased 6.2% for 2009. In addition, new sales associates produced 19.2% increase in new payroll accounts in 2009. This kind of production from new agents indicates that our distribution model is still working and our training is effective.

As you know, we made a strategic acquisition last year that we believe further enhanced our business and position in the marketplace. In October in 2009, we completed the purchase of Continental American Insurance Company, which is now branded as the AFLAC Group Insurance. This acquisition equips AFLAC with an attractive offering of voluntary group insurance products that should enhance the sales opportunities for our traditional sales force of individual associates. At the same time, group products are well suited for distribution by insurance brokers at the worksite.

We believe that broker distribution can enhance accomplishment [ph] (18:07) in our current distribution capabilities. We also believe our broker initiative is taking us in the right direction. Just last month, the survey of 358 brokers conducted by the business intelligence consulting firm found that AFLAC is the number one preferred carrier voluntary insurance among brokers. We were ranked fourth in 2008. This survey also reveals the 25% increase of familiarity among brokers, which was the largest increase of any insurance carrier.

We have also been active in the area of advertising and branding. We just marked the 10th anniversary of AFLAC Duck with this advertising campaign. Thanks to the AFLAC Duck, 94% of the consumers know that AFLAC brand. But as we've discussed of the last several years, advertising and marketing is focused on better explaining the brand, not just promoting it. To that end, we hope that the new animated commercials will help consumers understand more about what AFLAC Insurance is and exactly how our products can help them. Our current campaign is different. It's bold, and we believe it will further help define our brand.

Like last year, our outlook for new sales in the United States remains cautious until we see some stability in the economy. I also want to remind you that we had four extra days production in the first quarter of 2009, which will make this year's first quarter comparison very difficult. As a result, we expect to see a sizeable decline in the first quarter sales of AFLAC U.S.

For 2010, we have again set our target of 0% to 5% increase in growth. Some of you may feel that the 2010 sales target is too aggressive considering the environment. However, I want to remind you that this target is one of the performance measures for officers' bonus compensation. As those of you who know me well should remember that I want to incentivize our officer group for achievement of positive performance. In addition, we still believe strongly in the products we sell. We are convinced that the potential market for our products in the United States is vast, and the consumers will be increasingly receptive to our product once the economy and employment begins to improve.

From a financial perspective, we are very pleased with the fourth quarter of 2009 and the full year. Operating earnings were $1.18 per diluted share, or up 20.4% for the fourth quarter of 2000. Excluding the impact of the yen, operating earnings per share rose 17.3% for the quarter and 15% for the full year. Our full year operating earnings growth was in line with our objective of a 13% to 15% increase before the impact of the yen. Throughout the last two decades, we have consistently achieved our annual target of operating earnings per share. I believe that accomplishment speaks directly to the strength and resilience of the business model.

As we noted in our press release, net earnings in the fourth quarter were again influenced by larger-than-normal realized investment losses. In the fourth quarter, we booked $126 million of GAAP-only impairments on three perpetual securities using the equity impairment model. You'll recall that we were required by GAAP accounting to apply an aging schedule of unrealized losses to those perpetual securities that are classified as below investment grade. If there are no additional downgrades to the perpetual securities to below investment grade in the quarter, then we would not expect any equity impairments or perpetual securities holdings in the first quarter of 2010.

You may have noted that we impaired our remaining holdings of Takefuji senior debt in the fourth quarter. As we discussed, we reduced our exposure to Takefuji last year. Our ownership dropped from a par value of $617 million at the end of 2008 to $363 million at the end of 2009. Last month, we made the determination that the impairment charge was warranted base of the current credit analysis, which suggest that Takefuji may not be able to meet all of its remaining obligations to us. As we noted, net earnings also included the previously announced loss of the exchange of two Lloyds Banking Group securities.

We generated significant capital through our operations last year, which enabled us to absorb investment losses and the impact of the credit rating downgrades. However we concluded it was prudent to strengthen our capital position even further and did so in December with issuance of four $100 million of

30-year senior notes. With significant capital resources of the parent company level, we decided to make a capital contribution at the end of 2009 from AFLAC Incorporated to our principal life insurance subsidiary in the amount of $500 million. We estimate that our year-end risk-based capital ratio was in excess of 475%, which included a contribution of about 40 points from the capital contribution. So even excluding the capital contribution, our ratio was significantly higher than the target of 375% we established in early 2009.

At year end, our total adjusted capital was approximately $1.3 billion above what was required to support an RBC of 375%. Over the long run, our strong capital generation has allowed us to maintain a policy of steadily increasing the cash dividend, even at a time when many companies have either decreased or eliminated the dividend payments.

AFLAC's cash dividend in 2009 was 16.7% higher than they were in 2008. Last year was the 27th consecutive year we've increased the dividend. We would certainly like to extend that track record to 28th consecutive years and more. However, I'd like to reiterate that we have previously communicated before we commit the increase in the dividend in 2010 or repurchasing shares, we feel compelled to closely monitor global financial markets to make sure the worst is behind us.

We will also regularly assess our capital level as measured by the RBC ratio. As much as we would like to see the dividend increase or resume share repurchase, our greatest priority continues to be maintaining a strong capital position. Yet at the same time, we're still very focused on growing earnings. In that regard, we have reaffirmed the earnings outlook we previously communicated in 2010. Our goal is to increase operating earnings per diluted share 9% to 12% before the impact of the yen. We believe the achievement of this goal will result from steady top line growth and continued expansion for AFLAC Japan in the margins.

Overall, I believe AFLAC remains well positioned in the two best insurance markets in the world, the Japanese and the U.S. insurance market share characteristics that make them perfectly suited to the products we offer, and both still present opportunities for growth. Along with the rest of the world, we will likely face challenges in 2010 and beyond but with the operations that continue to perform well and the balance sheet that remains solidly positioned, I have every confidence in our business model and the fundamental need for our products and most importantly the future success of AFLAC. Ken?

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

Thank you, Dan. Let me briefly take you through some fourth quarter financial highlights starting with AFLAC Japan. For the top line, in yen terms, revenues rose 3.4% for the quarter, while investment income was up 1.2%. Excluding the effect of the stronger yen on AFLAC Japan's dollar-denominated investment income, net investment income rose 3.7% in the quarter. The annualized persistency rate excluding annuities was 94%, which was unchanged from the nine months but down from 94.5% in 2008. The benefit ratio continued to improve over last year and was 59.7% in the fourth quarter, compared with 63.6% a year ago. The expense ratio for the quarter was 21.6%, which was up from 20.1% a year ago. The increase in the expense ratio reflected in part increased advertising and promotion, as well as higher debt amortization from the lower persistency rating.

Reflecting the lower benefit ratio, the pretax margin rose from 16.3% to 18.7% in the quarter. Due to the expansion of the margin, pretax earnings increased 18.5% for the quarter in yen, and again excluding the impact of the stronger yen on dollar-denominated investment income, pretax earnings rose 19.8% in the quarter. For the quarter, we invested our cash flow in yen securities at an average yield of 2.26% and including dollars, the blended rate was 2.46%. The lower new money yields in the quarter resulted largely from spread compression and the purchase of higher-rated securities. The portfolio yield for AFLAC Japan was 3.77% at the end of December, down three basis points from September and 13 basis points lower than a year ago.

For AFLAC U.S., total revenues rose 4.3% in the quarter and benefited from the inclusion of the new AFLAC Group Insurance segment. The annualized persistency rate for the year was 72.2% compared with 73.2% a year ago. Although it was lower than a year ago, as Dan mentioned, it improved steadily as the year progressed. The benefit ratio was 53.8% compared with 53.3% in the fourth quarter. The increase in the benefit ratio was due to a year end adjustment of $28 million to IBNR for the accident and cancer product lines. The operating expense ratio was 33.7%, compared with 33.5% in the fourth quarter of 2008. And reflecting the higher benefit in expense ratios, the profit margin for the quarter was 12.5%, compared with 13.2% a year ago resulting in a 1.5% decline in pretax operating earnings for the quarter. In terms of U.S. new money yields, the yield in the fourth quarter of '09 was 6.25%, compared with 9.08% a year ago. The yield on the portfolio at the end of December was 7.17%, down three basis points from September but up seven basis points over a year ago.

Now turning to some other items for the quarter, excluding the effect of FAS 115, the ratio of debt-to-total capital was 22.3% at the end of the year, compared with 18% at the end of 2008. Non-insurance interest expense in the fourth quarter was $25 million, compared with $7 million a year ago. The higher interest expense reflected the debt issuance earlier in the year and the impact of the stronger yen on yen-denominated debt. Parent company and other expenses were $32 million in the fourth quarter, compared with $12 million a year ago. The higher parent company expenses in the quarter primarily resulted from lower investment income at the parent company, and even more so realized foreign currency losses on yen assets that are being held at the parent company and had not been designated as a hedge.

The operating margins improved for the quarter on a consolidated basis. The pretax margin rose from 15% to 16.1%. The after-tax margin increased from 9.8% to 11%. On an operating basis, the tax rate declined from 34.8% to 31.5%. As we noted in the press release, we recently completed an IRS exam. It was for tax years 2006 and '07. Our provisions for tax payments were higher than we had estimated, which resulted in the release of $24 million in the fourth quarter. Since we had accrued those provisions through operating earnings in prior periods, the tax release did flow through operating earnings. For 2010, we would expect the tax rate to return to its prior normal level.

Net earnings per diluted share for the quarter were $0.53, up from $0.42 a year ago. The primary difference between net earnings and operating earnings was again realized investment losses, which were $0.65 per share in the fourth quarter of '09, compared with $0.56 per share in the fourth quarter of '08.

I'd like to point out that on January 1, we did adopt SFAS 167, which will require us to consolidate $6 billion of qualified special-purpose entities and variable interest entities that we have owned for many, many years. These QSPEs and VIEs are trusts that were established for the issuance of reverse dual currency investments or other yen-denominated investments. The trust contained a dollar bond and a swap into yen.

Going forward, we will be marking the swaps to market and the gains or losses on those swaps will be reflected in realized investment gains or losses. As such, the impact from FAS 167 will be excluded from operating earnings.

Importantly, the economics of our investments in these securities won't change, only the accounting for those instruments. There are risk of losses unchanged and is limited to our original investment. Upon adoption, we have made a one-time cumulative adjustment to shareholders equity, which will reduce shareholder's equity by approximately $200 million and will be reflected on our March 31, 2010 financials.

As reported, operating earnings per diluted share rose 20.4% to $1.18, which was ahead of our guidance. The stronger yen increased operating earnings by $0.03 per diluted share in the quarter and $0.26 for the year. Excluding the yen's impact, operating earnings were up 17.3% for the quarter and 15% for the year. If you also exclude the tax benefit of $0.05 per diluted share that flowed through operating earnings, operating earnings per share would've increased 13.8% for the full year which was consistent with our underlying rate of growth for the first nine months of 2009.

Lastly, let me comment on the outlook for operating earnings per share for 2010. As you've heard, we have affirmed our objective for this year of a 9% to 12 % increase in operating earnings per diluted share before the impact of the yen. That would equate to $5.29 to $5.43 for the full year currency, assuming no change in the currency rate from last year. This year we estimate that the one yen change on the average exchange rate for the year will equal approximate $0.035 per diluted share. As such, if we achieve our objective of 9% to 12% growth and the yen average is 90 to 95 for the full year, we would expect operating earnings per share to be in the area of $524 million to $552 million.

We're now ready to take your questions. We'd like to make sure that everyone has opportunity to ask a question, so please limit your questions to one. And Wendy and I will turn it back over to you for the Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question is from Jimmy Mueller (sic) Bhullar. [JPMorgan]

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

I just had a question on recruiting trends in the U.S. Previously, the economy, being weak, actually have been a plus. You've been going recruiting a decent amount this quarter is a downtick. So if you could just address what the caused the decline this quarter and then just comment on your outlook for 2010?

Daniel P. Amos
Chairman & CEO

First of all, recruiting for the overall 2010 was extremely strong. Remember we do have a total training capacity based on our state trainers and their states combined with our district sales coordinators out in the field with the total number of people. We had an extremely strong first three quarters. Those first three quarters are really built up to strong average weekly new producer growth and we felt like the combination of fourth quarter re-enrollment, combined with the volume of people that we've recruited throughout the beginning of the year allowed us to lead up a little bit on recruiting. Now obviously, comparisons from 2009 to 2010 standpoint will be a little bit more difficult. But our overall goal is to continue to grow our producers, specifically focusing on our new producers but also re-engaging and regrowing our veteran producers in 2010. So I am not concerned about the fourth quarter downturn in recruiting. That was planned and projected but at the same time, I think that we will continue to recruit but to do so in a moderate level that allows us to successfully bring home the right number of producers for our business in 2010.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And related to that, on your U.S. business, besides the comps being easier on sales and also just the incentive comp being linked to positive sales growth, are there other things that you're doing that give you confidence that you can actually get a positive sales growth this year? If you could just talk about your, like 0% to 5% guidance.

Daniel P. Amos
Chairman & CEO

The final number that you all get of 0% to 5% represents a large number of levers that we can be moving in one direction or another. We have a tremendous number of initiatives that we have going on that we believe will strongly influence that. Since my tenure here at worldwide headquarters, we're focused on training. We are going to make sure that we are more effectively training both our new agents as well as our veteran agents, bringing out new classes and new things that we think within the economy of this nature will help our agents become more successful with their sales skills as well as with their overall product knowledge and packaging. It happens at a time like this or the needs to be sold at a time like this. We're also focused on the broker and large account market. Really, the final piece necessary for us to be competitive in the accounts over 1000 was the group platform that we purchased through Continental American, now AFLAC Group. So I do believe that those right there are large factors. Third would be the marketing campaign. As Dan mentioned, the You Don't Know Quack campaign, we believe is driving both consumer and business understanding for why the value of our products is necessary for their business and individual. The last part is that I really believe or hope that the first half of the year, the economy's going to continue to be difficult, but I have hope that the second half of the year, the economy will continue to move in the right direction. President Obama stated that small business was a big focus for him. What was going to would happen if we continue to write the vast majority of our accounts in America's smallest businesses. Those businesses thrive the most during the rising economy and are the ones that are hurt the most during a difficult economy. But overall, throughout the history of America, the economy has been very strong and it continues to grow. And so we believe that we are hedging our business in the right direction, that we're in the right market for us and that long-term, we will continue to get back on the right track. The last comment I'll make is that you all put me in a position where my focus is to grow the long-term sales of this company. It's not just about focusing on what first quarter this year will be but doing what's right for this business for the long-term and I believe the initiatives we have in place are about making sure that for the long-term stability of our growth in sales and now just about trying to produce for first quarter of 2010 but really success for the long-term.

Operator

Next question is from Ed Spehar. [BofA Merrill Lynch]

Edward A. Spehar
BofA Merrill Lynch, Research Division

Kriss, I have a question about the capital contribution for the insurance subsidiary. I'm trying to understand why you would put capital down in the sub when the RBC ratio, without the contribution, was 435% or well above what you've talked about as a target. I guess the question is, why not keep it at the holding company unless something bad happens then move it to the sub? Why exercise the option rather than holding it?

Kriss Cloninger
President & Director

If we had the benefit of hindsight, we might have done something differently, but I'm not really sure we would. We've set an objective at the beginning of this year to make sure that we managed the risk-based capital as the highest priority and last year we finished the year at about 475, and we got down to 405 at the end of the third quarter. Many of you expressed concern over the drop between the second and third quarter. I reassured you that we had about $500 million of cash. The holding company I could contribute to the live company to bolster that RBC during the fourth quarter. Going into the fourth quarter, we we're looking at a couple of the rating agencies, talking about changing their methodology for writing perpetual securities and we didn't know exactly what that held in store for us, particularly in the latter part of December. We didn't want to come up to the last two weeks in December and be surprised by significant ratings changes on that category of securities. So really, after we released third quarter results and we went through our analyst meetings and our board meetings and I reflected on what we had to do in 2010, I looked at the strong capital markets in the U.S. and I said, well, okay, I've got about half of my samurai note of 40 billion yen that comes due in July 2010 already refinanced. We've borrowed roughly 15 billion yen earlier in 2009, which covered about half of that. I still had 25 billion yen to go and I said to myself, well, with the strong capital markets in the U.S., and I was told that we ought to explore the capital markets in Japan, that those might open up. So we actually did some inquiries as to whether we could do another samurai transaction in late November, early December in Japan. And we concluded at that time that our usual sources of samurai funds still weren't receptive to foreign financials. So we decided to pull back from the samurai market, and we decided, okay, the strong capital market in the U.S., we were going to go ahead and borrow the extra $400 million in the U.S. in December in the U.S., which we did. And at the same time, we had scheduled a profit repatriation from Japan for about 20 billion yen. So we went ahead and took that into the parent companies, so that gave us 35 billion yen, 36 billion yen of funds of the parent company and then we we're looking at having about $600 million of cash at the holding company and we thought, well, what's the best utilization of that? Well, we don't get any credit for anything if the funds were at the holding company. We don't really have any long-term concern about being able to get capital out of the live company yet, so we decided we would rather have the insurance against rating agency actions on the perpetuals adversely affecting our risk-based capital position so we decided to contribute $500 million to the live company as the most efficient use of funds. So we did it primarily to bolster our RBC position. At the same time, we assured that we got adequate funds at the holding company to pay off the next maturing samurai note. So, that's a long answer to a short question. I apologize but I thought I needed to walk you through the thought process.

Operator

Our next question is from Steven Schwartz. [Raymond James & Associates]

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

I wanted to talk about CIC a little bit. First , any metrics maybe you can offer about the progress that I know you stated that the poll suggested that you were the number one favorite for brokers. But I'm just wondering if there are any metrics you could talk about and how that's progressing in the integration of that, particularly with your agents as well. I'm looking at the sales breakdown for the U.S. There is one area that did increase, that was hospital and indemnity plans. I think CAIC does mini-med. I was wondering if you could touch on that product, what exactly that is? And I'll just leave it at that.

Daniel P. Amos
Chairman & CEO

First of all, CAIC, now AFLAC Group had a tremendous number of enrollment set up for the fourth quarter prior to our purchase and our top two bills were obviously, were integration from a technology and platform standpoint as well as making sure that they were effective in the enrollments they already had set. We were less concerned about attempting to write business from an AFLAC perspective with 2010 really being our launch for an integrated marketing and sales effort. In terms of the metrics that we are taking a look at, obviously, we're less concerned about what business is written in individual versus a group platform. We're more concerned about the totality of the business has grown. That said, we understand that you're going to want to look at things both by channel or as well as by product type. We do not believe that broker and individual are synonymous with group and individual. Those are four different groupings that can be done in either direction and we need to make sure we differentiate on how those are looked at because both individual agents can offer both types of products as well as brokers can offer both types of products and we feel like offering both would be essential for our long-term growth. In terms of the sales of the mid-med product specifically, that product is a different product that is traditionally sold at AFLAC. We have made the decision that we will be shutting down the sale of that product for all future policies at CAIC based on the date of the last business proposals that we had out with brokers. We're going to continue to follow through with the commitments that we have made, but effectively, we are shutting down the sales of that product. Of the sales in the fourth quarter, $26.8 million at CAIC, $6.4 million of those were the MidMed. We did not believe that was a product core to what we wanted. Again, this was a technology purchase for us. The capability to use the group platform and to use the intelligent people they have to help us do group platform benefits with flexibility to meet the needs of large accounts and brokers and otherwise and it was not about trying to get into a major medical or comprehensive medical program. As such, we've made that decision and are moving forward. I hope that answers your question. In terms of the HIP [ph] business that you talked about, that is just AFLAC's HIP[ph]. HIP [ph] continues to be a driving force based on American consumers seeing benefits and their major medical plans continue to erode and so our HIP[ph] business does continue to be a strong reason for sales in the U.S.

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

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On that page, where's the mid-med located?

Daniel P. Amos
Chairman & CEO

It's in that HIP[ph] . I'm sorry, I get a more broken down report than what you guys have put out here. He's showing it to me right now in much more detail and I take it out of the HIP[ph] plan. That small amount is in but it was only represented $6.4 million for the entire year in terms of sales on HIP[ph] because we only took the CAIC numbers for the fourth quarter.

Operator

Our next question is from Randy Binner. [FBR Capital Markets]

Randolph Binner
FBR Capital Markets & Co., Research Division

Just a question on the standalone medical product sales in Japan, obviously it was very successful, 43% of all new sales. Just trying to get some color if there was seasonality there, if there was a year-end push or trying to get the how sustainable that level of sales contribution on that product might be.

Daniel P. Amos
Chairman & CEO

I think it's a chance to let Toru talk and brag a little bit about what else is going on because there's a phenomenon going on in Japan in terms of what has happened from a marketing campaign and also the results of what's happened with new sales, specifically of the new EVER product. So Toru, go ahead.

Tohru Tonoike
Vice Chairman of Aflac Japan

When we started to plan the introduction of the new EVER, which was introduced in late August last year, it took us maybe two to three months to make all the preparations. And we planned it as a sort of multi-faceted plan in which we tried many things. Possible we planned that what our branches and the agents should do in preparation for introduction of the new product, which customer they are expected to sell and how they plan to do it. And we do it individual agents or small independent agents and big affiliated agents separately. So we spent some time on it. Also, we planned the new TV commercial featuring new characters called Maneki Neko cat, which Dan explained a few minutes ago. And also, we planned to time airing the commercials at the right timing. Around the time of the introduction, we ran the commercial. It's very heavenly so that image of the new character, the Maneki Neko cat and our new product is very well received by the general public. Right before the introduction, we land a big press conference, press release of the new product hosted by very famous and popular actress, Aoi Miyazaki. She showed up in a commercial and she is extremely popular in Japan. Thanks to that participation of Aoi, it attracted a large number of the media people, over 200, it is well covered by various media, TV, magazines and newspapers. Also, we created the big character Maneki Neko duck character in the size of 6 feet tall and we made the three of them put in a large bus, and the bus caravan all over Japan for about three to four months. And using that bus, we hosted a town festival-type event in about a dozen places in the big cities. And those events attracted a large number of people. For example, the first one was held at Ropponggi Hills in Tokyo and that event attracted about 20,000 people in two days. So you can imagine how big that participants was. So over time, we were able to build up popularity of the new product. So the sales was very good from the very beginning and consistently kept on growing. That's why the yen number was larger than the former quarters. The momentum continues. I don't think that will go forever but the momentum still continues and we expect it last fairly long. I don't know exactly when it slows down, but...

Daniel P. Amos
Chairman & CEO

Let me say one other thing, Toru. Just to give the analyst some idea of how big this thing is, 20,000 people showing up at a location tells you something, but our commercials have been number one in financial services before. But the actual new commercial with the Maneki Neko duck is the number one commercial in all of Japan, in any category whatsoever beating soft drinks, beating computers, beating anything, And so it has created such a buzz that that on top of having a superior product is what's driving this.

Randolph Binner
FBR Capital Markets & Co., Research Division

If I can speak one more on and another distribution channel there. It seemed like Japan Post is not coming up as much in the conversation. Is there any update on the impact of the new government there on the privatization effort at the Post?

Daniel P. Amos
Chairman & CEO

I have said all along, if you remember back when we got the banking channel and we got the Post, I always said that I expected the real winner to be the banking channel because we had worked in this environment, it had been great for us and it has really taken off and I'd give Cinca[ph] a large credit for what's taking place there. In regard to the Post, we are still working with them, the sales are up over last year, but they're insignificant in relationship to say what the banking channel is doing. But we continue to work with them, we're encouraged that they will continue to grow that market for us, but they are very bureaucratic and they go with their own pace and we have very little control in pushing them. So we just have to kind of follow the line of what they consider acceptable. But I do feel like that we've got a great marketing team working on it and the potential is there. But I don't see any major change in 2010 except for a continued increase.

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

Randy, this is Ken. Let me add just one thing that as Dan mentioned, it's still a small contributor and was less than 1% of sales for '09 which is why we didn't break it out. In terms of what's going on with the current government in Japan, you may have seen that last year, there was legislation put forth to freeze the pending IPOs of the various postal entities and now the government is basically regrouping to see what the best organization might be. For instance, one of the proposals is to have the postal operations be folded into the holding company and then leave the insurance and the banking groups as separate subsidiaries to that. This is all very much in a state of flux and for those of you that consumed the English versions of the Japanese press, I think you'll likely see more and more articles out in the coming months as the government starts floating what may be no more than trial balloons or maybe here in the press about what the future might look like for Japan Post.

Operator

And your next question is from Andrew Kligerman.[UBS Investment Bank]

Andrew Kligerman
UBS Investment Bank, Research Division

I'm trying to frame the Continental American acquisition. Just a few data points, what would be a typical premium for a group account with more than 1,000 employees, that's part a. And part b, is there any type of conflict given that Continental American is more of a broker market, would there be a conflict between your agents and those producers going forth?

Daniel P. Amos
Chairman & CEO

Of course, channel conflict is one of the things that we would immediately want to mitigate. As you can imagine, there are circumstances in the past where other companies have brought together a broker and a field force channel, but that is not worthwhile and I think we have taken and learned from their experience. As you can imagine, there are different products with different commission structures and by giving access to both channels, the field forces as well as the broker channel, to all of those product, we believe that's a first step in mitigating some of that channel conflict. Additionally, we have found a way to deleverage our current commission structure so that we can pay brokers more than they would be receiving if they were to use an enrollment company and by using our AFLAC field force as their enrollment company. So if we can ultimately pay our new brokers a higher level of commissions and at the same time, pay are field force, there should not only be no channel conflict, it should be a win-win situation, in terms of what we were able to bring to get about having the best distribution force now with a budding broker market. In terms of the account sizes and the average premium per count size, we're just not getting into that at this time. First of all, that is based on the previous excess of what Continental American did in their previous account. Based on the varying sizes of those accounts and the number of them, I just think it would be statistically invalid for a company of our size to comment at this time. By FAB[ph] I may be able to give you a deeper set of data on how that works but what I can tell you is that the average premium sizes are within the same range in terms of a per certificate or per policy basis between AFLAC U.S. and AFLAC Group.

Andrew Kligerman
UBS Investment Bank, Research Division

Minus that mid-med product you don't want to continue, so they did about $20 million in fourth quarter. Just in terms of your excitement, did you think you could do dramatically better than that? Do you get really excited, net net with this new platform for Group?

Daniel P. Amos
Chairman & CEO

In the long term, I do believe that the platform for Group will add considerable business, but 2010 is yet to be determined. In terms of the broker market itself, AFLAC has a long history of going head-to-head with the brokers. And as a result, I think it's essential for us to continue to build relationships within that broker market. Ron Agypt and our entire broker team are out working with our AFLAC Group team to continue to build recognition within that market but the majority of the business in any broker market is always going to be written in the fourth quarter. As a result, really and truly, we won't know a lot about how temperate and big that excitement will be until we get to the latter half of the year. So we continue to push it, I continue to have high hopes for it. But again, when you base it on the size of sales that we did in 2010 in our individual or field force channel, it's just so large in proportion to what the broker business is today that don't believe even a large increase is going to have a considerable effect on the overall. But for the long-term viability of the business, I do believe that both channels are continued core channel, 500 and under field force focusing on the sales continues to be the core of what will be but the enhancement of the broker market and large accounts will continue to be something that will help grow the business also.

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

And Andrew, let me comment on National HealthCare because this all kind of ties together. Because of what took place in Massachusetts, there's a big change taking place. But I think it's important to note that we are well-positioned under any particular program that was brought on by either the house or the Senate side. We've still positioned ourselves in a way that whether it's major medical insurance at the worksite or it's National HealthCare at the worksite that ours will help supplement those particular programs, whether it's National HealthCare in Japan or these programs here in the U.S. So I think it's worthy to note as we move through this year or move through 2009, whether there was such discussion about health care that we're still positioned in a way that we should do very well in whatever environment should take place from that standpoint.

Operator

Our next question is from Suneet Kamath.[Sanford Bernstein]

Suneet Laxman L. Kamath
Sanford C. Bernstein & Co., LLC., Research Division

Maybe for Kriss, is the pricing in the underwriting discipline, I guess ultimately the margin on the Group product similar to what you're seeing in terms of the kind of sold by the individual agents in the U.S.?

Kriss Cloninger
President & Director

Overall net margin is pretty similar to the AFLAC traditional margin on health products. The expense ratio is slightly higher, benefit ratios slightly lower, but net net it's a similar margin.

Suneet Laxman L. Kamath
Sanford C. Bernstein & Co., LLC., Research Division

On capital, you talked about maybe not doing anything just yet in terms of buybacks, dividends. You talked about $1.3 billion of stat [ph] capital cushion, if you will, relative to the 375 RBC center and maybe $2 billion of stat [ph] earnings in 2010, maybe a little higher than that. So if you think about that, maybe capital cushion of maybe $3 billion sort of changing over time, how would you think about redeploying capital buybacks versus dividends? And Dan,you mentioned the track record in terms of dividend increases. Is it fair to assume then that you would likely see, if you're going to do anything in terms of capital redeployment, it would likely start with a dividend increase and then buyback or how do you think about that?

Daniel P. Amos
Chairman & CEO

My first comment is what a difference a year makes. But I'll let Kriss answer.

Kriss Cloninger
President & Director

Relative to -- we have a long history, I forget how many years it is, 27 years or 28 years of increasing the dividend every calendar year. And we think for that record to go by the wayside, we believe that we had a strong year in 2009 given the environment. We finished the year at about the same RBC that we entered the year and we went through a lot of trauma in between January 1 and December 31. But then we finished the year strong. And we're not expecting 2010 to be as challenging as 2009. Last year, we told the analyst community and the rating agencies, we expected that we could earn our way through any difficulties and we still believe that to be the case. Given that and given the references to our capital position and the like, we think we will be in a position to consider a dividend increase later in 2010. Relative to share repurchase, we had a consistent share repurchase program in place from 1994 throughout 2008. We purchased shares every year and virtually every quarter during that period of time and we still believe that share repurchase is an effective way for us to use capital we don't otherwise need in the operation. We are in a position yet to say we don't want more capital than -- that we don't want to retain the capital we'll internally generate, we're not yet in a position to say that. But I think it's fair to say that we don't anticipate we'll be raising any external capital. That being said, if the conditions continue to stabilize and improve, then I think our outlook for deploying excess capital or generating will probably be deployed in share repurchase at some point in the future when we are comfortable that we've reached -- just a comfortable level with a reasonably good outlook for the future. So that's our internal view on the thing.

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

Wendy, my clock is telling we're very close to the top of the hour, so we're going to conclude our call at this time. I apologize if we didn't get to everybody who had a question. If you still have a question, feel free to either e-mail Robin Wilke [ph] or myself or call our 800 number and we'd be happy to talk to you and we'll get back with you just as soon as we can. And thanks again for joining us this morning.

Operator
Thank you. This does conclude today's conference. Thank you for participating. You may disconnect at this time.