S&P Global
Market Intelligence

Aflac Incorporated NYSE:AFL

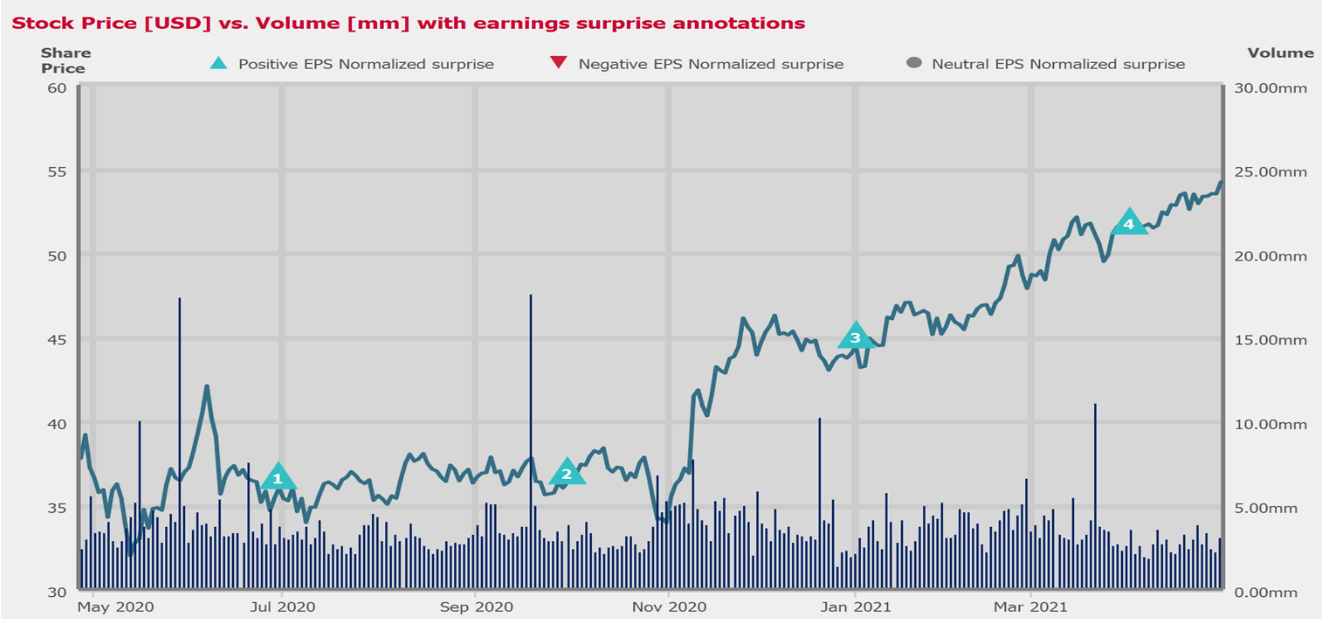
FQ1 2021 Earnings Call Transcripts

Thursday, April 29, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2021-			-FQ2 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.23	1.51	▲22.76	1.24	4.96	NA
Revenue (mm)	5537.12	5869.00	▲5.99	5389.18	21409.82	NA

Currency: USD
Consensus as of Apr-29-2021 6:19 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2020	1.05	1.28	▲1 21.90 %
FQ3 2020	1.14	1.39	▲2 21.93 %
FQ4 2020	1.04	1.05	▲3 0.96 %
FQ1 2021	1.23	1.51	▲4 22.76 %

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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

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Masatoshi Koide
President & Representative Director

Max Kristian Broden
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Presentation

Operator

Welcome to the Aflac 2021 First Quarter Earnings Conference Call. [Operator Instructions] Please be advised today's conference is being recorded. I would now like to turn the call over to Mr. David Young, Vice President of Aflac Investor and Rating Agency Relations.

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

Thank you, Pasha. Good morning, and welcome to Aflac Incorporated's first quarter earnings call. As always, we have posted our earnings release and financial supplement to investors.aflac.com. This morning, we will be hearing remarks about the quarter related to our operations in Japan and the United States amid the ongoing COVID-19 pandemic.

Dan Amos, Chairman and CEO of Aflac Incorporated will begin with an overview of our operations in Japan and the U.S. Fred Crawford, President and COO of Aflac Incorporated will then touch briefly on conditions in the quarter and discuss key initiatives, including how we are navigating the pandemic. Max Broden, Executive Vice President and CFO of Aflac Incorporated will conclude our prepared remarks with a summary of first quarter financial results and current capital and liquidity.

Members of our U.S. executive management team joining us for the Q&A segment of the call are Teresa White, President of Aflac U.S.; Virgil Miller, President of Individual and Group Benefits; Eric Kirsch, Global Chief Investment Officer and President of Aflac Global Investments; Al Riggieri, Global Chief Risk Officer and Chief Actuary; June Howard, Chief Accounting Officer; and Steve Beaver, CFO of Aflac U.S.

We are also joined by members of our executive management team in Tokyo at Aflac Life Insurance Japan. Charles Lake, Chairman and Representative Director, President of Aflac International; Masatoshi Koide, President and Representative Director; Todd Daniels, Director and CFO; Koji Ariyoshi, Director and Head of Sales and Marketing; and Koichiro Yoshizumi, Assistant to 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

Thank you, David. Good morning, and thank you for joining us. At our first quarter conference call 1 year ago, we were facing the early days of the pandemic. At that time, I shared with you actions that we had taken to ensure that we protect the employees, the distribution partners, the policyholders and the communities. I am proud of our response and our ability to handle these challenging times for everyone. Our people first embodies the spirit of corporate culture, which we refer to as The Aflac Way.

Within the pandemic environment, we are encouraged by the production and the distribution of the COVID-19 vaccines. But we also recognize that vaccination efforts are still in the early stages around the world. Our thoughts and prayers are with everyone affected. And we are cautiously optimistic, while also remaining diligent.

There is one essential message that I continue to emphasize with our management team. It is imperative that we control the factors we have the ability to control. And what we don't have the ability to control, we must monitor continually to be ready to adapt. This approach allows us to respond in the most effective way possible.

In the first quarter, adjusted earnings per diluted share increased 26.4%. While earnings are off to a strong start for the year, it's important to bear in mind that they are largely supported by a low benefit ratio associated with the pandemic condition.

Before covering our segments, I'll make a few comments about the overall perspective. Pandemic conditions in the first quarter continued to impact our sales results as well as earned premium and revenues, both in the United States and Japan. We continue to expect these pandemic conditions to remain with us through the first half of 2021, but look for improvement in the second half of the year as communities and businesses further open up, allowing more face-to-face interactions.

Despite the effect that sales in both the United States and Japan have been suppressed considerably due to the constrained face-to-face opportunities, we did not sit still. We continued to make progress in integration of our accelerated investment in our platform while continuing strong earnings performance.

Looking at the operations in Japan in the first quarter, Aflac Japan generated solid overall financial results with a profit margin of 23.1%, which was above the outlook range that we provided at the financial analyst briefing. Aflac Japan also reported strong premium persistency of 95%. Sales were essentially flat for the first quarter with the January launch of our new medical product offset by continued impact of the pandemic conditions. We are encouraged by the reception of the new medical product by both consumers and the sales force.

In addition, Japan Post Group's announcement to resume proactive sales in April paves the way for gradual improvement in Aflac's cancer insurance sales in the second half of the year. We are actively working with Japan Post to ready the platform, recognizing that it will take time to return to the full strength.

We continued to navigate evolving pandemic conditions in Japan, including the recent reestablished state of an emergency for Tokyo, Osaka and 2 other prefectures affected from April 25 through May 11. Restrictions will be tightened to curb the movement of people and group activities during the major holiday known as Golden Week.

Turning to the U.S., we saw a strong profit margin of 27.3%. Aflac U.S. also reported very strong premium persistency of 80%. Max will cover the persistency later. Current pandemic conditions continue to notably impact our sales results, largely due to reduced face-to-face activity. As expected, we saw modest sequential sales improvement in the quarter, with an overall decrease of 22.1%.

In the U.S., small businesses are still in the recovery mode, and we expect that they will be that way for most of 2021. At the same time, larger businesses remain focused on returning employees to the work site rather than modifying the benefits for their employees.

We strive to be where the people want to purchase insurance. That applies to both Japan and the United States. In the past, this has meant meeting face-to-face with individuals to understand their situation, propose a solution and close the sale. Face-to-face sales are still the most effective way for us to convey the financial protection only Aflac products provide. However, the pandemic has clearly demonstrated the need for virtual means. In other words, non-face-to-face sales that help us reach potential customers and provide them with the protection that they need.

Even prior to the pandemic, we've been working on building our virtual capacities. Given the current backdrop, we have accelerated investments to enhance the tools available to our distribution in both countries and continue to integrate these investments into our operations.

In addition, we continue to build out the U.S. product portfolio with previously acquired businesses that serve as a base for Aflac network dental and vision and group life, absence management and disability. While these acquisitions have a modest near-term impact on the top line, they better position Aflac for future long-term success in the United States.

Our core earnings drivers which are persistency, underwriting profits, investment income and expense ratios continue to drive strong pretax margins, both in the United States and in Japan. Both Japan and the U.S., we experienced sequential sales growth in the months of January, February and March. In addition, provided we don't experience a setback in terms of pandemic conditions, we're forecasting a sequential increase in absolute sales in the second quarter over the first quarter in both the U.S. and in Japan.

As always, we place significant importance on continuing to achieve strong capital ratios in the U.S. and in Japan on behalf of our policyholders and shareholders. We remain committed to prudent liquidity and capital management.

We issued our first sustainability bond in March as we seek to allocate proceeds from the issuance to reinforce our commitment to social and environmental initiatives as we balance purpose for profit.

We treasure our 38-year track record of dividend growth and remain committed to extending it, supported by the strength of our capital and cash flows. At the same time, we will continue to tactically repurchase shares, focus on integrating the growth investments we've made in our platform. By doing so, we look to emerge from this period in a continued position of strength and leadership.

I've always said that the true test of strength is how one handles adversity. This past year confirms what I knew all along, and that is that Aflac is strong, adaptable and resilient. We will continue to work to achieve long-term growth, while also ensuring we deliver on our promise to our policyholders. By doing so, we look to emerge from this period in a continued position of strength and leadership.

I don't think it's a coincidence that we've achieved success while focusing on doing the right things for the policyholders, the shareholders, the employees, the sales distribution, the business partners and the communities. In fact, I believe success and doing the right thing go hand in hand. I'm proud of what we've accomplished by balancing purpose with financial results. This has ultimately translated into a strong, long-term shareholder value.

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

Frederick John Crawford
President & COO

Thank you, Dan. I'm going to touch briefly on current pandemic conditions in Japan and the U.S., then focus my comments on efforts to restore our production platform in 2021.

Japan has experienced approximately 575,000 COVID cases and 10,000 confirmed deaths since inception of the virus. Through the first quarter of 2021 and since the inception of the virus, Aflac Japan's COVID impact has totaled approximately 10,500 claimants with incurred claims of JPY 1.9 billion. We continued to experience a low level of paid claims for medical conditions other than COVID as policyholders refrained from routine hospital visits.

There are essentially 3 areas of focus in building back to pre-pandemic levels of production in Japan: our traditional product refreshment activities, online sales driving productivity in the face of pandemic conditions and active engagement with Japan Post to begin the recovery process in cancer insurance sales.

As Dan noted, there has been a positive reception to our revised medical product. This product was designed to better compete in the independent agent channel, where we had seen a decline in market share heading into 2020. Sales of medical insurance are up 34% over the first quarter of 2020 and up 8% over the 2019 quarter. The new product called EVER Prime has enhanced benefits that, on average, result in 5% to 10% more premium per policy versus our old medical product. The product also includes a low claims bonus structure that has contributed to growth among younger demographics.

We have technology in place to allow agents to pivot from face-to-face to virtual sales and an entirely digital customer experience. The agent is not removed from the process. The agent can make the sale and process the policy from point of solicitation to point of issuance entirely online without face-to-face contact. We introduced this capability in October of 2020. And for the month of November, we processed 1,600 applications utilizing this digital experience. In the month of March, that number doubled to approximately 3,200 applications.

Not surprisingly, we are seeing higher adoption rates among younger demographics. On March 26, we launched a national advertising campaign promoting the capability and expect to see increased utilization. We see this capability contributing to productivity even after pandemic conditions subside.

On Japan Post, as Dan noted, we anticipate sales volume will recover gradually in the second half of 2021. Separate from Japan Post activities to revive sales, Aflac Japan is actively supporting recovery in the sale of cancer insurance. This includes reinforcing communication on Japan Post sales policy down to the postal branch level, training and education on our latest cancer products and sales proposal strategies and identifying existing cancer policyholders in the Japan Post system to both explain the benefits of their current products and create an opportunity for potential upgrade. It's important to remember that the Japan Post sales force has been inactive for 18 months. Therefore, product training and sales coaching are critical efforts in the coming months.

Turning to the U.S., there is approximately 32 million COVID-19 cases and 575,000 deaths, as reported by the CDC. As of the end of the first quarter, COVID claimants since inception of the virus has totaled approximately 38,000 with incurred claims of $130 million. Along with infection rates declining from peak levels in 2020, our data suggests hospitalization rates and days in the hospital have trended lower. However, infection hotspots in areas of the U.S. remain. And as is the case in Japan, there is concern over a potential fourth wave of infection.

Executive orders requiring premium grace periods are still in place in 9 states, with 6 states having open-ended expiration dates. Persistency has improved. However, most of that improvement is attributed to the combination of state orders and lower overall sales as we typically experience higher lapse rates in the first year after the sale.

Turning to recovery and restore efforts. We have seen our agent channel and small business benefit franchise hurt by the pandemic. It's important to note that roughly 390,000 of our 420,000 U.S. business clients have less than 100 employees. Critical areas of investment include recruiting, training, technology advancement and product development. Key indicators of recovery include agent and broker recruiting, a build in average weekly producers and traction in the rollout of our dental and vision products.

For the first quarter, we are running at approximately 70% of the average weekly producers during the same period in pre-pandemic 2019. Trends are positive, and we expect to narrow this gap throughout the year, assuming pandemic conditions improve. We are experiencing favorable recruiting numbers, have reopened training centers closed during the pandemic, and veteran agents are reengaging after a difficult year.

We are in the early days of our national rollout of Aflac network dental and vision. Our dental product is approved in 43 states and vision in 41 states, with more states coming online throughout the year. Network dental and vision is critical in the small business marketplace and a key component to agent productivity, along with new account growth, retention and penetration or seeing more employees at a given employer.

This month, we are completing the national training programs, making select product refinements and reinforcing incentives to drive new dental accounts. In addition, we are busy upgrading our administrative platforms to ready for increased volumes. 2021 is the year of launch, learn and adjust, and we expect to see our pipeline, close rate and new accounts gradually increasing throughout the year.

Our premier life and disability platform acquired from Zurich is now operating under the Aflac brand. We have started to see our quoted pipeline build in the last 45 days. However, many employees -- employers are reluctant to move critical benefit plans while sorting through returning to work site and changing workforce dynamics.

In addition, benefit consultants often proceed with caution in a year or so after an acquisition. We need to remain patient over the next few years as we settle into this new line of business. Our competitive calling card is the proven premier service and technology capabilities of the acquired platform, coupled with Aflac Group's core leadership in supplemental work site benefits. We will not resort to winning business via relaxed underwriting and pricing standards in this highly competitive market.

Finally, earlier this year, we launched our new e-commerce direct-to-consumer platform, Aflac Direct. We offer critical illness, accident and cancer and are approved in approximately 30 states with more states and product coming online throughout the year. This platform targets individuals, the self-employed, gig workers and part-time employees. In short, those who are not offered traditional benefit packages at the work site.

We are actively building out a licensed agent call center to better manage conversion rates and control overall economics. With a modest amount of committed marketing dollars, we are attracting about 500,000 visitors per month to aflac.com, which has resulted in 120,000 leads for call center conversion this year. We are currently experiencing a 15% conversion rate once in the call center. This is a data analytics-driven business and core metrics will improve as this model matures.

In terms of the contribution of these businesses to overall sales in 2021, we expect these 3 growth initiatives will make up roughly 10% of sales in 2021 after having contributed less than 5% to 2020 sales. We remain committed to the revenue growth targets discussed at our November investor conference. We expect these initiatives to drive incremental revenue in excess of $1 billion over the next 5 to 7 years.

As these separate initiatives mature, they leverage off each other. Network dental and vision drives agent recruitment and conversion to average weekly producers. Employer paid benefits drives supplemental work site sales, and direct-to-consumer expands our addressable market while being leveraged to funnel work site leads to our agents in the field. In the future, as employees leave the work site, a digital relationship directly with Aflac helps with persistency and customer satisfaction.

To close out my comments this morning, we continue to advance ESG initiatives in 2021. As Dan noted, we issued our inaugural sustainability bond, raising $400 million to be invested towards our path to net zero emissions by 2050 and investments that support climate as well as diversity and inclusion efforts. The bond offering itself is an important step, in that it requires formal processes around reporting, tracking and auditing of qualified sustainable investments. This rigor serves to benefit the control environment surrounding our enterprise-wide ESG reporting and accountability.

In addition, Aflac Global Investments announced late February, a partnership with Sound Point Capital Management to create a new asset management business focused on the transitional real estate loan market. As part of that alliance, we have made an initial $1.5 billion general account allocation to the newly created Sound Point Commercial Real Estate Finance, LLC, with $500 million of that amount dedicated to providing transitional and other debt financing to support economically distressed communities designated as qualified opportunity zones. Aflac will hold a 9.9% minority interest in this newly created investment LLC, with the ability to grow our stake over time in line with future growth of the new venture.

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

Max Kristian Broden
Executive VP, CFO & Treasurer

Thank you, Fred. Let me start my comments with a review of our Q1 performance with a focus on how our core capital and earnings drivers have developed.

For the first quarter, adjusted earnings per share increased 26.4% to $1.53, with a $0.02 positive impact from FX in the quarter. This strong performance for the quarter was largely driven by lower utilization during the pandemic, especially in the U.S., and a lower tax rate compared to last year.

Variable investment income went $24.5 million above our long-term return expectations. Adjusted book value per share, including foreign currency translation gains and losses, grew 20.6%, and the adjusted ROE, excluding the foreign currency impact, was a strong 16.7%, a significant spread to our cost of capital.

Starting with our Japan segment. Total earned premium for the quarter declined 3.6%, reflecting first sector policies paid-up impact while earned premium for our third sector product was down 2.2%, as sales were under pressure in 2020. Japan's total benefit ratio came in at 68.4% for the quarter, down 100 basis points year-over-year, and the third sector benefit ratio was down -- was 58%, also down 100 basis points year-over-year.

We experienced slightly higher 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. Persistency remains strong, with a rate of 95%, up 50 basis points year-over-year.

Our expense ratio in Japan was 21.3%, up 130 basis points year-over-year. With improved sales activity, expenses naturally pick up and our technology-related investments into converting Aflac Japan to a paperless company continues, which also includes higher system maintenance expenses.

Adjusted net investment income increased 6.9% in yen terms, primarily driven by favorable returns on our growing private equity portfolio and lower hedge costs, partially offset by lower reinvestment yield on our fixed and floating rate portfolio. The pretax margin for Japan in the quarter was 23.1%, up 60 basis points year-over-year. A very good start to the year.

Turning to the U.S. Net earned premium was down 4.1% due to weaker sales results. Persistency improved 240 basis points to 80%, as our efforts to retain accounts and reduce lapsation show early positive results. As Fred noted, there are still 9 states with premium grace periods in place. So we are monitoring these developments closely.

Breaking down the 240 basis points persistency rate improvement further. 70 basis points can be explained by the emergency orders in place; 90 basis points by lower sales as first year lapse rates are roughly twice total in-force lapse rates; and the residual of 80 basis points includes conservation efforts executed on last year.

Our total benefit ratio came in much lower than expected at 39.1%, a full 900 basis points lower than Q1 2020. In the quarter, we experienced lower paid claims, especially in the month of January, as pandemic conditions impacted behavior of our policyholders. This is in line with disclosures in 2020, indicating a negative correlation between infection levels and claims generating activities like accidents, elective surgeries and physical exams.

This low activity level related to non-COVID claims accounted for most of the year-over-year drop in the benefit ratio. Our total incurred COVID-related claims also came in lower than expected due to an IBNR release. We estimated new COVID claims at approximately $42 million, and this was offset by an IBNR release of $41 million. As our experience accumulates, we have refined our assumptions, and this led to this IBNR reserve release.

We expect the benefit ratio to increase gradually throughout the remainder of the year, with the resumption of normal activity in our communities and by our policyholders. For the full year, we now expect our benefit ratio to be towards the lower end or slightly below our guided range of 48% to 51%.

Our expense ratio in the U.S. was 38.5%, up 10 basis points year-over-year, but with a lot of moving parts. Weaker sales performance negatively impacts revenue. However, the impact to our expense ratio is largely offset by lower DAC expense. Higher advertising spend increased the expense ratio by 70 basis points along with our continued build-out of growth initiatives, group life and disability, network dental and vision and direct-to-consumer. These contributed to a 110 basis point increase to the ratio.

The strategic growth initiative investments are largely offset by our efforts to lower core operating expenses as we strive towards being the low-cost producer in the voluntary benefit space. Net-net, despite a lot of moving parts, Q1 expenses are tracking according to plan.

In the quarter, we also incurred $6 million of integration expenses not included in adjusted earnings associated with recent acquisitions. Adjusted net investment income in the U.S. was down 0.6% due to a 22 basis point contraction in the portfolio yield year-over-year, partially offset by favorable variable investment income.

Profitability in the U.S. segment was very strong, with a pretax margin of 27.3%, with a low benefit ratio as the core driver. With Q1 now in the books, we are increasing our pretax margin expectation for the full year. Initial expectations were for us to be towards the low end of 16% to 19%. We now expect to end up for the full year towards the high end of this range indicated at FAB.

In our corporate segment, we recorded a pretax loss of $26 million, as adjusted net investment income was $20 million lower than last year due to lower interest rates at the short end of the yield curve. Other adjusted expenses were $7 million lower as our cost reduction activities are coming through.

Our capital position remained strong, and we ended the quarter with an SMR north of 900% in Japan and an RBC of approximately 563% in Aflac Columbus. Unencumbered holding company liquidity stood at $3.9 billion, $1.5 billion above our minimum balance, excluding the $400 million proceeds from the sustainability bond that we issued in March that reinforced our ESG initiatives and belief that sustainable investments are also good long-term investments.

Leverage, which includes the sustainability bond, increased but remains at a comfortable 23%, in the middle of our leverage corridor of 20% to 25%. In the quarter, we repurchased $650 million of our own stock and paid dividends of $227 million, offering good relative IRR on these capital deployments. We will continue to be flexible and tactical in how we manage the balance sheet and deploy capital in order to drive strong risk-adjusted ROE with a meaningful spread to our cost of capital.

And with that, I'll hand it over to David to begin Q&A.

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

Question and Answer

Operator

Your first question is from the line of Nigel Dally with Morgan Stanley.

Nigel Phillip Dally
Morgan Stanley, Research Division

So Max, perhaps we can start on capital management. Capital ratios look very strong. Cash balances, obviously, very high. Concerns regarding credit are dissipating. In the quarter, you bought back more stock than expected. Given that, could we perhaps see some upside to your capital management plans? Or should we view the upside in buybacks this quarter as being a little more tactical in the decision to front-end your annual plans?

Max Kristian Broden
Executive VP, CFO & Treasurer

So Nigel, obviously, as we travel through the pandemic, we're now moving into more, I would call, normal economic conditions and environment, i.e., less impacted over time by the pandemic. That means that obviously, we gain confidence in how we can deploy capital, and you saw that in the quarter.

At the same time, we're not fully out of this yet. And we will continue to look at the -- all the different deployment opportunities that we have. In the quarter, $650 million was a step-up from what we've seen previously, and that reflects our confidence in what we see the franchise driving and coming through over time. And going forward, we will continue to make sure that we hold capital in the right places around the company and deploy capital at favorable IRRs.

Nigel Phillip Dally
Morgan Stanley, Research Division

Great. And just a follow-up on premium persistency as well. In the space where the premium waivers have been lifted, do you tend to see a spike in lapses? Any color there would be interesting. I just wanted to try to get an understanding as to whether there's perhaps a challenge for the remaining states that are yet to lift the executive orders?

Frederick John Crawford
President & COO

Nigel, it's Fred. You do tend to see a bit of a spike in lapse rates when the state orders subside. And we have actually a fairly good amount of historical experience on this, as I might have mentioned in past comments. It's not unusual to have these state mandates put in place during natural disasters and the like. And so we've seen this before.

What I would tell you, however, is when it comes to our financials, we try to account for a level of this in the form of do premium allowance, if you will, meaning the idea of what is an uncollectible amount of premium that may be out there embedded in the book of business that are being suspended, if you will, related to the grace periods. So we try to take that into account such that when you do see these state mandates lifted, there's not a pronounced impact, if you will, or measurable impact to our actual financials, even though you may see lapse rates move around.

Operator

Your next question is from the line of Humphrey Lee with Dowling & Partners.

Hung-Fai Lee
Dowling & Partners Securities, LLC

I guess my first question is on the U.S. underwriting. So Max, in your prepared remarks, you talked about lower claims incidents in January. Do you -- can you share in terms of like how are the number of claims submitted in January or in the first quarter in general compared to kind of the second and third quarter of last year?

Max Kristian Broden
Executive VP, CFO & Treasurer

So I can give you one example. So in the month of January, we had paid claims drop about 28% in the U.S. compared to prepandemic conditions. That's a very significant drop. We saw a significant normalization from that level in the month of February and further normalization in the month of March. This, to a large extent, explains the low benefit ratio in the quarter.

Daniel Paul Amos
Chairman & CEO

And you have to think that one of the reasons for it. And of course, no one knows for sure. But if you think back, we had just had the holidays, and we were seeing on the TV constantly by the government, be careful, don't go out, protect yourselves, we're going to have a spike, and I think that brought in the lower numbers.

Max Kristian Broden
Executive VP, CFO & Treasurer

And one thing I would like to add, Humphrey, as well, as we look forward, is that there are certain of our products, you could see an increase in claims being filed as people go back for their physicals, go back for elective surgeries. Even in the line of cancer, we could see a step-up in terms of claims being filed in the future that did not occur during the pandemic. That's why we view the period that we just have been through as abnormal.

Hung-Fai Lee
Dowling & Partners Securities, LLC

Yes. I guess, like the -- I understand people getting reminded during January, but at the same time, I feel like with states kind of opening up in the first quarter compared to where we were in the second or third quarter that the entire country was pretty much fully locked down, I guess I was just a little surprised to see the first quarter results being so much better than second or third quarter when we're kind of deep in the pandemic. So...

Daniel Paul Amos
Chairman & CEO

Well, I think we were, too. I mean we certainly would have given you closer projections had we thought that was the case. So we were certainly surprised for January. But I think what Max is also saying is February and March, we're on target.

Max Kristian Broden
Executive VP, CFO & Treasurer

Our actuaries also remind us constantly that there is a little bit of a lagging environment, and that is there's a bit of a timing gap, as you can imagine, between the actual incident taking place, i.e., going to the doctor and then the filing of the claim. And so you can see some lagging. So we watch the trends and try to embed that in our forecasting as well.

Hung-Fai Lee
Dowling & Partners Securities, LLC

So there wasn't any kind of IBNR reserves for non-COVID claims that you bought in previous quarter that given the projected incidents never materialized that you had to release. So it's not like that, just simply pure from an incidence perspective?

Max Kristian Broden
Executive VP, CFO & Treasurer

Yes, there was an element of that coming through as well. That moved our benefit ratio by about 1.5 points down.

Operator

Your next question is from the line of Jimmy Bhullar with JPMorgan Securities.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

I had a question on just your sales in the U.S. and Japan through the quarter, and if you saw a noticeable improvement in March versus what was happening in January? And then relatedly, in Japan, what do you think of the impact of the lockdowns as well as the Olympics coming up and could that affect your sales negatively in late 2Q, early 3Q?

Daniel Paul Amos
Chairman & CEO

Well, I'll start and then turn it over to Japan. But in my talk, I said that we saw improvement with January -- February numbers were better than January, and March numbers were better than February, and we expect the second quarter to be better than the first quarter. And that was true in both countries. So from that standpoint -- so let me let Koide or whoever he would like to speak talk specifically about your questions.

Masatoshi Koide
President & Representative Director

Yes. This is Koide from Japan.

[Interpreted] First of all, let me start out with the current situation in Japan, followed by the sales and our business in Japan as well.

Well, first of all, as Fred mentioned earlier, the number of infections in Japan is 575,000, and the number of deaths in total is about 10,000. So compared to other countries, this number is much smaller.

And this is -- the reason why we have been able to control much of the infection is because of the nature of our citizens that we normally wear masks and we care very much about our hygiene. And on top of that, instead of taking the risk, people are really worrying about eating and dining outside, and the restaurants are reducing their business hours, and these things have been very effective.

However, even still then, there has been a number of increase of the new infections in Osaka and Tokyo. And as a result, there is a third declaration of emergency, which was issued on April 25.

However, the third emergency declaration in Japan is not a lockdown. It is much more focused measure. And for example, the state of emergency declaration that was issued this time only covers 4 prefectures, and the period that it covers is up to May 11. So compared with the past state of emergency declarations, it's very much limited in terms of time and location.

However, the government is imposing much stronger restrictions on restaurants and shopping -- large shopping centers that they are asked to shut down their restaurants and shops for the time being.

And the vaccination started in April, starting from the elderly population. And since older population accounts for about 30% of the overall population, we are expecting that this will have a positive effect.

However, the situation of the pandemic is very fluid. Therefore, we really need to watch out for the variance and the vaccination status going forward as well.

And because of the situation and since the COVID-19 infection is still rising, it is very difficult to mention how it is going to be going forward in terms of our projection.

But as you can see, as a result of -- in our results of the first quarter, even under the state of emergency declaration, we have been able to promote our medical insurance, and it's been very effective. And also because of the extent of the use of online proposals and applications, we haven't been able to mark the same level of performance as this last year.

And even from the second quarter and on, we would like to maintain this positive benefit or positive effect from the medical insurance, and we will also be further expanding the use of online proposals and applications. And on top of that, we would also like to be expanding the enrollment through online for group solicitation as well.

And furthermore, we would also like to be using direct mails, which will enhance the non-face-to-face solicitation. And by doing so, we should be minimizing the impact from COVID-19. And that's all for me.

Max Kristian Broden
Executive VP, CFO & Treasurer

One thing I would add that's interesting, just to give you some color on the relative nature of the state of emergency. We sell product through what we would call retail shops, about a little over 20 of those shops are actually owned by Aflac and about 380 of those shops are through affiliate ownership, and we'll do about JPY 6 billion a year in a normal year of production through those shops.

During the peak of the emergency orders in the pandemic in April of 2020, essentially all 400 of those locations were shut. Today, under the state of emergency issued around the Tokyo and Osaka and Kobe area, 13 of those shops are closed. And so it gives you a little bit of a perspective on the difference between the early days of the pandemic and more severe approach to emergency orders and the current period that's trying to balance productivity and businesses remaining open, while at the same time, exercising caution.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. Any comments on how the Olympics would impact?

Max Kristian Broden
Executive VP, CFO & Treasurer

I'm sorry, Jimmy. Can you ask again?

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Yes. I was just on -- like on the Olympics, is there going to be an impact on sales from the Olympics, do you think? Or should that not be much of a factor?

Max Kristian Broden
Executive VP, CFO & Treasurer

Go ahead, Koji.

Koji Ariyoshi
Senior Managing Executive Officer, Director of Sales & Marketing and Director

[Interpreted] This is Koji. We do not think there will be any impact.

Max Kristian Broden
Executive VP, CFO & Treasurer

Yes. That's essentially what I was going to say, is we have not factored in any impact, and so we are not expecting one.

Teresa Lynne White
President of Aflac US

I think the second part of that question was from the U.S. perspective, and I'll just mention this. As we see increase in vaccinations in arms and state mandates being lifted, we are now starting to see the markets open up. We've also opened up our market offices -- sales offices around the U.S. as well. So we're starting to see a lot more activity from a sales perspective.

Virgil, did you have anything else you wanted to add to that?

Virgil R. Miller
Executive VP & President of Individual Benefits Division

No, I'll just reemphasize, Teresa, that as Dan stated and Fred stated earlier, we did see the sequential improvement month-over-month with our sales, which is really driven by activity of opening up the markets and the offices, along with ensuring that we're continuing to drive our average weekly producers month-over-month.

Teresa Lynne White
President of Aflac US

That's it from the U.S. side.

Operator

Your next question is from the line of Tom Gallagher with Evercore.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Just wanted to follow-up on the U.S. just to get a handle on what you're thinking about earned premium. I guess, particularly the commentary about the small businesses still being in recovery mode, large employers focusing on returning employees to work rather than modifying benefits. I guess that commentary sounded a bit cautious to me, but how are you thinking about those issues impacting your sales as -- and overall earned premium? It doesn't sound like you're adjusting your 3-year guidance for earned premium of flattish? Is it changing the trajectory of what you expect for '21 versus '22? Just a little more elaboration on those issues.

Daniel Paul Amos
Chairman & CEO

Well -- go ahead.

Max Kristian Broden
Executive VP, CFO & Treasurer

Well, shorter answer is it's not. We -- meaning, we have not adjusted our guidance or even really the path of that guidance, while down for the reasons we've talked about, most notably just simply sales being down. It is actually essentially on plan, meaning it is meeting our expectations and what we thought would take place, Tom. So we're not adjusting any of our thoughts for the roll forward.

Daniel Paul Amos
Chairman & CEO

Because persistency is 80%, doing better than we thought.

Max Kristian Broden
Executive VP, CFO & Treasurer

Yes, it is doing better. And -- but I would say, overall, it's coming in just as we thought might happen.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Okay. And then just a follow-up on the benefit ratio. Max, can you give a sense for when you talk about very favorable in January and then gradually elevating, was March back up to around 48%, 49%? Or was it still below that? And is there still the possibility that 2Q is going to trend favorably based on the trend you saw in March?

Max Kristian Broden
Executive VP, CFO & Treasurer

The total benefits ratio is, obviously, heavily impacted by quarter end actuarial review studies. But I would say there's just tracking sort of paid claims. We were getting closer to a normal level in the month of March, still not all the way up to what I would say to be prepandemic levels, but we're getting fairly close.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Okay. So slightly favorable, but much closer to that level?

Max Kristian Broden
Executive VP, CFO & Treasurer

And that is factored into when we then look at our full year benefit ratio, as we sit here today and we look out for our benefit ratio, we obviously incorporate a whole host of different factors when we look at the full year, including the possibility of some pent-up demand in terms of claims being filed as well. I've touched earlier on that, including a potential increase in cancer claims. That's factored into our revised guidance of being towards the low end or slightly below the 48% to 51% for the benefit ratio for the full year in the U.S.

Operator

Your next question is from the line of John Barnidge with Piper Sandler.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

The last time Japan Post was proactively selling cancer insurance, the world looked a whole lot different. Can you talk about digital tools? I mean you talked about the new medical product and digital tools that help with distribution there. But can you talk a little bit about the digital tools you're working to bring to Japan Post as they work to ramp up proactively selling the product, please?

Koji Ariyoshi
Senior Managing Executive Officer, Director of Sales & Marketing and Director

[Interpreted] Currently, digital tools are into both for medical insurance and health insurance. The younger generation uses more the digital tools, it is being very much used by younger people.

Regarding the Japan Post, we are preparing them to start using the digital tools. And we already have a plan to get started with the test marketing in some part of the JP.

And Japan Post really has an intention that wanting to emphasize using the digital tools. So I'm sure that they will be fully leveraging the digital tools going forward. And that's it for me.

Max Kristian Broden
Executive VP, CFO & Treasurer

Yes, even though -- what's interesting is even though sales were somewhat suspended in the system during this period of recovery for Japan Post, the alliance never stopped. And that's important to understand. And so other areas of the alliance, including investing in the distribution platform, investing in mutual technology, certain investment in venture-related strategies, the entire governance structure and regular meetings with executive management and with frontline management, none of that was suspended. It kept moving forward. And much of it was designed around advancing technology and advancing process improvement between the 2 parties, taking advantage of this pause in the action to be ready to come back into market.

Operator

Your next question is from the line of Michael Ward with UBS.

Michael Augustus Ward
UBS Investment Bank, Research Division

I just had a quick question on the idea of delayed cancer screens. I know you've kind of touched on incidents or frequency but I was wondering if you had any updated expectations on the trend in cancer severity once the economy reopens? Just on the idea that delayed screenings are delaying the detection or worsening cancer conditions. And I thought maybe if you had some historical experience managing premium grace periods from natural disasters, maybe you've kind of seen this happen before.

Max Kristian Broden
Executive VP, CFO & Treasurer

I don't think that we have really gone through such a prolonged time, something like COVID and the impact that, that has had. We saw in the very beginning of COVID that cancer screenings dropped significantly. That then started to normalize. So it's still sort of difficult to fully sort of see or have a clear expectation of what the impacts may or may not be.

We are trying to be conservative in the estimates that we have and our expectations for what the different outcomes could be in general. I would also remind you that generally, severity does have a little bit of an impact on our claims, but it's relatively small, where primarily frequency is really what drives our benefit ratio.

Operator

Your next question is from the line of Ryan Krueger with KBW.

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

I had a follow-up on the Japan Post. Can you just give any -- I know it's early and there's a lot of uncertainty, but can you give any sense of, at least directionally, how meaningful you think their sales could be this year? And maybe how many years it might take for them to rebuild back to prior levels?

Daniel Paul Amos
Chairman & CEO

Yes. I think it's too early for us to tell. But what I would -- Fred mentioned this, but I want to reinforce it, is we've got as good a relationship with the new management team as we had, if not better, with the old management team. And being large shareholders that they are, they're also very interested in their stock and what they've invested in. And so it's a win-win opportunity.

And I think it will be coming back but when you -- we're in uncharted waters with all of this COVID stuff. And so it's hard for us to go out when we don't know about it as well. But look, this is not in any projections, but my gut just tells me and it's just mine, so for what it's worth, but that it's going to do very well, and it's going to be a little slow in the second quarter. And then they're going to ramp it up.

The one thing I've seen with the Japanese over the years is they tend to analyze, reanalyze, reanalyze again and then all of a sudden move at once. So you don't -- in the U.S., we kind of ease into it, add a little more, add a little more and then it builds. If you take both groups at the starting line, the U.S. will always take off first. But at some point, halfway through that, Japan will, all of a sudden, decide, we're ready to go. And they will boil out and then all of a sudden go to that point.

I believe we're in that stage right now. I believe that will go through the first quarter. But I think by the end of the year, you're going to see them coming back and pulling out. Aflac Japan is a little bit more reluctant then to say all of that. So I am not speaking on their behalf, but I've been doing this for 31 years. And I just have a real good feeling that also Japan Post wants to make money, and they need to do those things. And Aflac's products with cancer insurance are something that consumer wants and needs. So when you add that to it, I would say there's a good chance.

Now the downside is, something goes wrong with the -- with COVID or something like that. But that's not limited to us. If that happens, that happens to every business out there today. So I'm sure you take that into account. But if you exclude that, I feel pretty good about what's going to be taking place.

Operator

Your final question comes from the line of C. Gregory Peters with Raymond James.

Unknown Analyst

This is [indiscernible] calling in on behalf of Greg Peters. Maybe just one question on the Japan paperless initiative. Just curious if the adoption of digital has any acceleration of that initiative? And -- as well as are there any other social and environmental initiatives that you're pursuing related to the $400 million bond?

Max Kristian Broden
Executive VP, CFO & Treasurer

I think in terms of the Japan paperless initiative, it's on track. It's moving well. As you might recall, it's a JPY 10 billion, roughly 2.5-year investment. And I would say we're probably in the range of JPY 3 billion, perhaps approaching JPY 4 billion of investment to date. It's designed to take about 80 million pieces of paper out of the system. And it's largely oriented around our policyholder services platform, where when the application starts in a paper form, it remains in a paper form through the processing environment.

And so we're looking to get that out of the system, and that benefits cost structure. It benefits business recovery because you can move information around the country of Japan, which can be prone to natural disaster, as you know, and so -- and then also finally has environmental benefits, of course. And so that's a big initiative. We expect to save about JPY 3 billion a year in the way of expenses, and it remains on track. And it is closely tied to the digitization of the platform. It's essentially one and the same. It's one of the major efforts, if you will, that's involved in overall digitization of the platform.

In terms of the $400 million sustainability bond, yes, we have very well-articulated and dedicated plans for the investment of those funds. They largely surround classic sustainability investments, meaning climate, climate-related renewable energy investments. They also include, among other things, investments in opportunity zones in areas that suffer from a lack of income equality. And so those are largely the areas that we're targeting.

And as you may know, in the sustainability bond, so-called green bond, et cetera, marketplace, there's very strict and well-defined requirements around what you invest in, the qualification of those investments, the tracking of those investments and the yielding of benefits from those investments. And so while it's a $400 million bond, my point in my comments was it's a much bigger effort for the company because it serves to set the entire structure up for broader-based investment, far greater than $400 million over time, particularly the utilization of our general account on ESG efforts.

Daniel Paul Amos
Chairman & CEO

And we would expect to earn favorable risk-adjusted returns on these investments.

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

Thank you, and I believe that wraps up our call. I want to thank everyone for joining us today. If you have any follow-up questions, please feel free to reach out to the Investor and Rating Agency Relations teams, and I look forward to seeing you soon, hopefully, and also talking to you in the near future. Thank you.
[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]