

A SMALL MEETING BETWEEN SFH'S OUTSIDE DIRECTORS, INVESTORS AND ANALYSTS

On January 21, 2019, Sony Financial Holdings (SFH) held a small meeting involving investors, analysts and outside directors to encourage understanding of its corporate governance framework. Based on questionnaires received from investors and analysts beforehand, three outside directors at SFH provided information regarding the status of relevant activities and the effectiveness of corporate governance at SFH. A question and answer session was held for each subject.

Date and time: 1:30–2:30 PM on January 21, 2019

Place: Otemachi Financial City Conference Center

Participants: 25 people (12 sell-side analysts and 13 institutional investors)

Sony Financial Holdings:

Outside Directors Isao Yamamoto, Shiro Kuniya and Takatoshi Ito

Managing Director Hiroaki Kiyomiya and General Manager (Investor Relations Dept.) Yasuo Hasegawa

Speakers



ISAO YAMAMOTO

OUTSIDE DIRECTOR

[BIOGRAPHY](#)



SHIRO KUNIYA

OUTSIDE DIRECTOR

[BIOGRAPHY](#)



TAKATOSHI ITO

OUTSIDE DIRECTOR

[BIOGRAPHY](#)

1. THE ROLES AND CONTRIBUTIONS OF OUTSIDE DIRECTORS

—Events leading up to appointments as outside directors and thoughts regarding the appropriate number of concurrent posts an outside director should hold at other companies

Ito: I was appointed to the position of outside director at SFH in June 2018. To my understanding, this was due to my expertise and experience in the fields of macroeconomics, financial policy, international finance and economic theory of Japan. My field of specialty is different from those of the other outside directors, so I feel that I fulfill a supplemental role on the Board of Directors. I am currently fully executing my duties as outside director at both SFH and one other company, as well as serving as a professor at Columbia University and the National Graduate Institute for Policy Studies.

Kuniya: Currently, I am serving as an outside director at four companies including SFH and also work as an attorney. I believe that I am capable of fully accomplishing my duties for each post. While I have received offers from several other companies as well, I do not feel that I can handle any additional responsibilities, so I have declined these offers.

—Collaboration and support framework among outside directors

Kuniya: We held a seminar in which visiting lecturers spoke to members of the Board of Directors concerning Fintech. Additionally, we request the attendance of outside directors at meetings regarding medium-term business plans for each of our operating companies, where we hold real discussions. Furthermore, we regularly provide opportunities to conduct discussions with executive directors.

—Instances during the last year that involved outside directors making poignant remarks or showcasing their expertise

Yamamoto: I demonstrated my own personal expertise during an investment in ClearView Wealth Limited, an Australian company. Within the Board of Directors, we encountered spirited debate regarding value calculation, what degree of investment we should start with and how we should approach creating synergy. Based on Sony Life's resources related to overseas businesses, I recommended that we start with a minority investment.

2. ABOUT SFH

—Discussions regarding dividend policy within the Board of Directors

Yamamoto: Dividend payments are usually worked out based on statutory profit, but life insurance companies have a special characteristic in which statutory profit declines along with growth. Naturally, we held a discussion concerning dividend policies that would fit our growth status based on MCEV. However, dividend policies based on an economic value such as MCEV can be hard for investors and analysts outside of the Company to understand, and I think that we should discuss releasing a dividend policy guideline in the future.

Kuniya: Based on my simultaneous experience as an outside director or auditor at a manufacturing company, profit tends to increase along with sales growth and, it is normal to expect a commensurate rise in dividends. However, in statutory accounting for life insurance, expenses are recorded at the time new policies are acquired, which can be a factor that leads to profit compression. That is the reason we had this discussion.

—Succession plan

Yamamoto: The Nomination Advisory Committee, for which I serve as chairperson, has been actively holding meetings and conducting discussions regarding our succession plan since Mr. Ishii, a director, assumed the office of president. In addition to candidates from SFH, we are also broadly discussing other potential successors from all companies in the Sony Financial Group (SFG) and Sony, as well as individuals from outside the Sony Group. In the case of Group companies, outside directors from SFH participate in meetings regarding medium-term business plans, exchange views and conduct personal interviews. Through the process, we evaluate their qualifications as candidates for president of SFH. In addition, we have recently been discussing candidates for positions in top management other than president in terms of diversity. Moreover, human resource enhancement has become a Group issues in terms of both the overseas development and Fintech domain. We have been talking about this matter while discussing hiring both externally and from Sony, but we also need to hold debates regarding our compensation system in order to secure superior human resources.

■ Question and answer session

Sell-side analyst: You employed MCEV to incorporate growth into your dividend policy but that became a point of debate because it can be difficult to understand as an indicator. You indicated that you had discussed this issue from different perspectives; could you tell us about those other perspectives?

Yamamoto: It is problematic if people think that dividend payout ratios that are too high are hindering our business expansion, even while we are enjoying a period of growth. We have been debating about what levels of capital and capital efficiency are appropriate and have broached the topic of enterprise risk management, but we have not reached any conclusions yet. It will be necessary to consider possibilities of sudden opportunities for growth and issues related to the interest rate environment.

Sell-side analyst: Has Sony Corporation expressed any demand concerning dividend levels?

Yamamoto: We have not received any such demand from Sony. I believe that Sony, as the parent company, is satisfied as long as we utilize capital efficiently. The Board of Directors at SFH is currently holding discussions regarding fundamental approaches.

Sell-side analyst: Ten years have passed since SFH was listed and I wonder if the holding company is functioning adequately as such. The subsidiaries are all growing, but it still does not appear as if group synergy among them has been adequately demonstrated. What is the significance of SFH as a holding company? Additionally, overseas expansion projects, including investment in ClearView Wealth Limited and the joint venture, AEGON Sony Life Insurance Co., Ltd., remain half-finished. It seems as though a lack of human resource development in the Sony Financial Group may be behind this. What are your thoughts?

Yamamoto: SFH was created as a holding company when our listing took place, giving it a unique backstory, and the areas and business challenges for which it is responsible are increasing. We are aware that we must properly manage issues such as group synergy, Fintech and our overseas strategy over the next one to two years including both human resources and capital.

Ito: The three issues mentioned here are important for the Company. We share an awareness of these issues and are currently discussing them within the Board of Directors.

3. REGARDING SONY LIFE

—As outside directors, how do you evaluate progress related to Sony Life’s business model and sales framework?

Kuniya: I do not believe that we, as outside directors, are asked to provide comments on discussions for each project of all group companies, but our objective opinions can be appropriately applied in this regard. Last year, we responded to improprieties of certain Lifeplanner sales employees at Sony Life by helping to establish a governance structure.

—What are your thoughts regarding the results of the investment in ClearView Wealth Limited and how are you involved in overseas expansion projects as outside directors?

Yamamoto: We are approaching an era of 100-year life spans, during which we will likely not be able to cover customer needs through life insurance alone. Therefore, we must give due consideration to the asset management field moving forward. Overseas, life insurance is widely considered to be an inseparable part of asset management, and we understand the importance of expanding our business overseas. Even among other overseas leaders, Australia is an extremely good country in which to expand thanks to its regulations and asset management results. Our collaboration with ClearView Wealth Limited was a learning experience. Last fall, Sony Life advanced into the shop-style independent insurance agency business in Singapore. Moving forward, we want to carefully discuss overseas expansion within the Board of Directors while thoroughly examining related goals.

Ito: Overseas expansion will be imperative in the future as the Japanese market is affected by a declining population. However, the largest obstacle we face is human resources. It may be obvious to say this, but we must provide acquired companies with good human resources to manage them as we should. The issue is whether or not we can properly supervise and maintain motivation at acquired companies. Conducting monetary negotiations at the time of acquisition is also difficult. In the future, we will need to prepare

good human resources and capital in advance so we can move swiftly when faced with good acquisition opportunities.

4. GOVERNANCE RELATED TO THE RELATIONSHIP BETWEEN SONY CORPORATION AND SFH AS A LISTED PARENT AND SUBSIDIARY

—Could you summarize issues related to listed parent and subsidiary pairs? What are your views or advice regarding Sony Corporation’s influence and rising share ownership? Also, what mechanisms are in place to exercise your governance discipline under an overwhelmingly dominant major shareholder?

Yamamoto: As outside directors, we are aware that we have a role to play as representatives who protect the interests of minority shareholders. We are not feeling any pressure from Sony Corporation, the parent company, least of all in terms of management. On the other hand, our collaboration with the Sony Group in matters concerning Fintech will become more frequent moving forward. The expectation within the market is that, compared to other financial institutions, we have a high possibility of being able to produce new results in the area of Fintech.

Kuniya: I do not feel any influence from Sony Corporation at all and have never received any demands concerning dividends or human affairs. Sony Corporation has a high awareness regarding compliance, so it tries to secure a certain level of independence from the financial group, which is certified by the Financial Services Agency.

Ito: The Sony Financial Group is certified by the Financial Services Agency and we believe the reason for listing both the parent and the subsidiary is clear. In terms of business, the Sony Financial Group does not overlap with Sony. My understanding is that, fundamentally, we will continue to operate with a listed parent and subsidiary format in the future.

■ Question and answer session

Institutional investor: This overlaps with the succession plan topic, but how do you view the acceptance of its human resources in terms of your relationship with Sony Corporation?

At the time of SFH's establishment, it was able to establish a dynamic structure by accepting external human resources. How will you manage this in the future?

Kuniya: Before I assumed my role as outside director, I thought that the management structure of SFH fell under the strong leadership of Sony Corporation, but this was not correct. During the period after our listing, the president came from Sony Corporation but the situation is much different now; we have secured a definite level of independence in terms of management. On the other hand, I believe that, in the future, we ought to collaborate with Sony Corporation through active measures such as personnel exchange in business areas including Fintech.

Institutional investor: Sony Corporation's financial conditions have been changing these past 10 years, and I believe that its strategies also have a high probability of changing moving forward due to factors such as the need to complete larger acquisitions. Under these circumstances, as a member of SFH could you elaborate on the advantages Sony Corporation has gained by having the Sony Financial Group under its corporate umbrella?

Yamamoto: That is a better question for Sony Corporation, but, as far as Sony is concerned, the financial group can make stable profit contributions, making its inclusion in the Group advantageous. SFH and Sony have completely different business categories, and Sony Corporation benefits from the independent evaluation of corporate value SFH receives as a listed company. I also believe that separate analysis is effective in terms of valuation, as accounting standards are also different in the financial business.



RELATED LINK

[SONY FINANCIAL HOLDINGS MANAGEMENT SYSTEM](#)



 [A Dialogue between Outside Directors: Corporate Governance at SFH \(The discussion took place in May 2018.\) \(PDF 785KB\)](#)