

Interview With the CEO



President and Chief Executive Officer Daniel P. Amos

Your advertising summarizes AFLAC's products as "Without it, no insurance is complete." Why are supplemental products so valuable to consumers?

Supplemental insurance is valuable because consumers are required to shoulder a tremendous burden of out-of-pocket expenses. And those costs are increasing in both the United States and Japan. In the United States, where there is less personal savings, people count on insurance. In Japan savings are higher but the economy is weak, so our products help protect consumers' savings from the potentially devastating impact from a serious illness or accident.

How will the Internet impact AFLAC's business?

In the United States, the Internet already has benefited us from an administrative perspective. For instance, we have stopped mailing many printed reports to our sales force. Instead, information about production, contests or recruiting is available to our sales force on our secure Web site. We are also looking at new initiatives, such as Internet billing, to improve service to our customers and the efficiency of our

business. However, we do not intend to sell over the Internet in the United States, in part due to concerns of anti-selection since our policies do not have age-specific premiums. In Japan, the Internet has also improved our efficiency. In addition, we were the first insurance company to sell over the Internet there. We can sell online in Japan because we have special Internet products that don't compete with our traditional sales force and our premiums are age specific. As a result, the Internet probably has more potential to impact our business in Japan than it does in the United States.

AFLAC has been very successful in recruiting new sales associates and sales agencies recently. To what do you attribute this success?

In the United States, I attribute it to increased name recognition, which has risen to 87%. The very popular AFLAC duck commercials make people feel good about our company and make them want to know more about us. And when they learn about us from our recruiters, we are able to hire them. I believe another reason for our strong recruiting is that AFLAC has been identified by *Fortune* magazine as one of the best places to work in America for three years in a row. Although our sales associates are independent contractors and not employees, it still sends a message to prospective sales associates that we are a fine company to work with. In Japan, we have concentrated on building our sales force as one of our measures to prepare for deregulation. Our reputation as an innovative and strong company that offers market-leading products and superior compensation does a lot to attract sales agencies in Japan. In addition, rising unemployment in Japan has made commission income a more attractive option for many people seeking work, and that has helped our recruiting.

How well is AFLAC prepared to handle a more competitive environment in Japan following deregulation of its insurance industry?

I believe we are well-prepared for the deregulated environment because we already know how to compete. Back in 1982, we faced our biggest challenge in Japan when we lost our exclusive market position. And then in 1996, distribution was deregulated. We did fine then, and we expect to do very well now. But, that doesn't

mean we haven't prepared. We worked very hard for three years in anticipation of this change. During that time, we developed new products, and we began offering new services. Other companies will enter our market and register some initial sales success. However, what usually happens is that success fades over time as their attention is redirected to their core business.

Supplemental insurance is all we do, and we do it very well. I think we will continue to be the market leader because we offer the best products at the best price, and we pay our agencies the highest commissions.

○ Why is the alliance with Dai-ichi Mutual Life in Japan so important to AFLAC?

▲ First, it proves that it's not easy to compete with AFLAC. Dai-ichi Life had the opportunity to develop its own third-sector products. Instead, they decided to work with us. Second, Dai-ichi Life has a very large distribution system which will help us better penetrate the market. Third, there is not a significant overlap between Dai-ichi Life's customer base and ours. And fourth, I believe the tremendous reputations of Dai-ichi Life and AFLAC will offer a one-two punch that, in my opinion, will bring us great success.

○ How has the weak life insurance industry in Japan affected your business?

▲ In the past, we have had to provide money to a policyholder protection fund. We didn't like this because it penalized us for being a financially strong company. On the positive side, however, the difficulties that several companies have faced have sharpened consumers' focus on the strength of all insurance companies in Japan. And we think that helps us. According to a survey by Nikkei Research and *Nikkei Kinyu Shimbun*, AFLAC was rated number one in terms of disclosure, which suggests that consumers have a great deal of trust in us. When consumers consider our reputation and financial strength, we believe AFLAC stands out in the difficult economy, and that helps our sales and persistency.

○ Why has the AFLAC duck advertising campaign been so successful?

▲ When insurance agents call on a potential customer, a wall goes up. The person says "I don't

want to talk about insurance. I've got all I need." It doesn't matter what company the agent represents. Good agents can climb that wall and make the sale. But if you can find a way to make the wall crumble, you're better off. I believe our commercials knock the wall down a bit because there is a natural reaction to talk about the AFLAC duck. And that gives our sales associate an opportunity to make a presentation. Based on our improved name recognition and sales growth, it's clear that the AFLAC duck campaign has been a tremendous success.

○ There is increasing talk of a U.S. economic slowdown. How is your business influenced by economic conditions?

▲ I guess that if there is any company in the United States that knows how to work in a difficult economy, it's AFLAC. We have operated in Japan's very weak economy since 1992, which has posed many challenges. But, throughout that period, we continued to grow by developing new products and marketing aggressively. All in all, I think we are in very good shape, and I think we will continue to grow. In Japan employment has been weak, but companies have not had massive layoffs. In the United States, layoffs are obviously much more common when the economy weakens. But that usually means more people will consider commission-only jobs as opposed to a salaried position. So, weaker economic conditions might actually help us in recruiting.

○ Your father, Paul Amos, AFLAC's chairman and one of the company's founders, is retiring in the spring of 2001. Talk about what he has meant to the company and how he has influenced you.

▲ He understands marketing, and I think that is where my marketing background came from. He understands that our salespeople are the foundation of the company. That philosophy has permeated my thinking and the thinking of our management team over the years. In this way, he has influenced me as well as the entire company. Also, he reiterates the ideas of doing what is right by our employees and customers, and focusing on the long term from the perspective of our business.