S&P Global
Market Intelligence

Aflac Incorporated NYSE:AFL

FQ4 2019 Earnings Call Transcripts

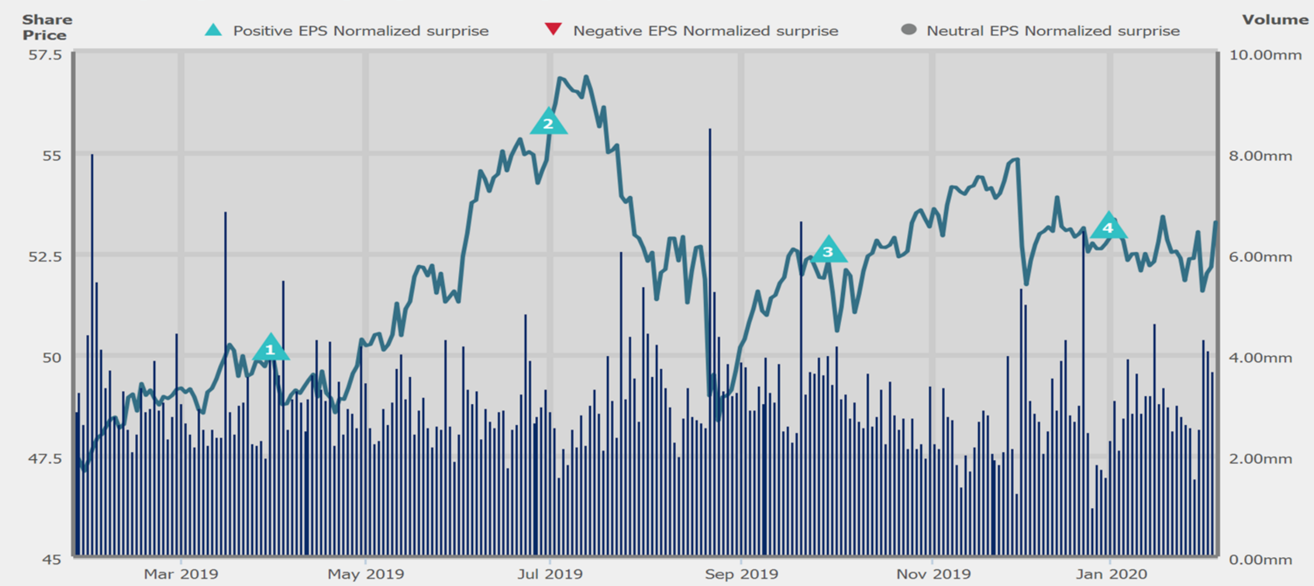
Wednesday, February 05, 2020 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	1.02	1.03	▲0.98	1.11	4.42	4.44	
Revenue (mm)	5519.95	5603.00	▲1.50	5375.11	22145.13	22307.00	

Currency: USD
Consensus as of Feb-05-2020 10:30 AM GMT

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



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	1.06	1.12	▲1 5.66 %
FQ2 2019	1.07	1.13	▲2 5.61 %
FQ3 2019	1.07	1.16	▲3 8.41 %
FQ4 2019	1.02	1.03	▲4 0.98 %

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Call Participants

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Chairman & CEO

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

Eric Mark Kirsch
Executive VP, Global Chief Investment Officer & President of Aflac Global Investments

Frederick John Crawford
President & COO

Koji Ariyoshi
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Max Kristian Broden
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Presentation

Operator

Welcome to the Aflac Fourth Quarter 2019 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, Nicole. Good morning, and welcome to our fourth quarter call. This morning, we will be hearing remarks from Dan Amos, Chairman and CEO of Aflac Incorporated, about the quarter as well as our operations in Japan and the United States. Then Fred Crawford, President and Chief Operating Officer of Aflac Incorporated, will follow with more details about our operations. And Max Broden, Executive Vice President and CFO of Aflac Incorporated, will discuss our financial results.

In addition, joining us this morning during the Q&A portion are members of our executive management team in the United States. Teresa White, President of Aflac U.S.; Eric Kirsch, Global Chief Investment Officer; Rich Williams, Chief Distribution Officer; and, Al Riggieri, Global Chief Risk Officer and Chief Actuary. 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.

Before we start, let me remind you that 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. The earnings release is available on the Investors page of Aflac's website at 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, and good morning. Thank you for joining us. Let me start the morning off by saying that the fourth quarter rounded out another great year for Aflac in terms of earnings, capital and overall financial strength. I'm especially pleased with the company's financial performance in 2019. Financially, Aflac is as strong as we've ever been in our 65-year history. Our capital position, by any measure, is robust. Our investments are high quality and diversified, and we have among the highest return on capital and the lowest cost of capital in the industry.

Total pretax adjusted earnings increased 2.5% which is even more meaningful when you consider that we have continued our extensive investment in our core technological platforms and initiatives to drive future earned premium growth and efficiencies. Investing in growth and innovation will continue to be a critical strategic focus for 2020. Fred and Max will provide more detail in a moment.

In 2019, Aflac Japan generated strong overall financial results. As we anticipated, full year third sector and first sector protection sales were down in the mid-teens, predominantly reflecting reduced sales of our cancer insurance through Japan Post following the strong launch of our revised cancer insurance in 2018. Earned premium growth for third and first sector protection products was 1.3% which was in line with our expectations.

As you may have seen last Friday, the new management of Japan Post Group held a press conference in regard to the submission of its business improvement plan to the Japanese government. This update includes additional measures that Japan Post Group management is undertaking to restore the public trust and address concerns raised by the sale of Japan Post Insurance products. Understandably, the new management of Japan Post Group has placed this plan as a top priority management issue. And we would expect sales of Aflac Japan's cancer insurance through Japan Post distribution to be secondary, especially during the first half of the year.

Based on comments from Japan Post and our review of monthly trends, we expect very little production in the first half of 2020. The level of recovery in the second half of the year is uncertain, but we will provide updates as we learn more. Importantly, we assume the possibility of low production with slow recovery in our forecast. Therefore, our guidance for Aflac Japan's earned premium and pretax earnings does not change materially from our 2020 outlook call. We continue to expect the decline in the range of 0.7% in the third and first sector protection earned premium for 2020.

As we think about distribution, we look forward to working with Japan Post's new leadership to continue deepening the strategic alliance relationship for the long term. To that point, Aflac Japan's executives met in January with Japan Post's new leadership as part of the established strategic alliance framework. The discussions were positive, and the Japan Post Group presidents expressed their desire to further enhance the strategic alliance to the benefit of both organizations over the long term. In addition, Fred and I will be meeting with the CEOs of Japan Post Group in March. As I said earlier, we look forward to working with Japan Post's new leadership to continue deepening our strategic alliance for the long term.

Aflac Japan's medical insurance focused upon a rider strategy in 2019. While various factors affected sales that Fred will address shortly, the positive medical insurance sales results reinforce my confidence and our position as Japan's #1 provider of cancer and medical insurance, insuring 1 out of every 4 households.

As we have discussed in the past, the government of Japan is debating social security reform for all generations as part of its growth strategy plan for dealing with the shrinking and aging population under the concept of 100-year life society. The government is debating key social security issues including potentially increasing co-pays by elderly. As this debate continues, the public will be even more focused on the need for supplemental insurance. And the environment in Japan will continue to evolve.

Against this backdrop, we take a longer-term perspective when it comes to our business, and we will continue to focus on maintaining our leadership by leveraging the experience, expertise and scale and efficiencies developed over the last 45 years in Japan to bring value and protection to our policyholders. At the same time, we are continuing to fully engage our wide-reaching distribution networks. Our traditional agencies have been and remain vital to our success as do our alliance partners.

Now turning to Aflac U.S., we are pleased with our strong financial performance which was consistent with our expectations and reflected elevated expenses as a result of the ongoing investments in our platforms, distribution and customer experience. While sales were slightly down for the year, coming off record sales in the prior year, earned premium growth was 1.8%. Ultimately, we seek to grow earned premium growth.

It is evident that there are macro elements at play. Strong salaries and employment means fewer people that are willing to take independent commission sales roles. This dynamic continues to distrain both sales agents recruiting and ultimately sales to an extent. But keep in mind, workers continue to convey a significant need for Aflac's benefit solutions in the workplace, and we are well positioned to capitalize on this opportunity.

Our broker strategies are taking hold, opening the door for more sales opportunities at larger accounts. Additionally, we are fortunate to have such a strong independent field force which is truly distinctive within our industry. We will continue to work with our agents to equip them with the tools that they need to be productive and to have a successful career with Aflac.

We have also been encouraged by the advancement in our direct-to-consumer platform and associates partnerships which are still in the initial stages. Taking all factors into account, we continue to expect Aflac U.S. to generate earned premium growth in the range of 1% and maintain stable persistency in 2020. We will continue to invest in product development and efforts to facilitate producer growth and productivity, including the measured rollout of Aflac Dental and Vision that was initiated in January.

Aflac has historically been known for its organic growth. However, we recognize that prudent investment is critical to our growth strategy and to driving efficiencies that will impact the bottom line for the long term. With this in mind, we will look for other opportunities to accelerate growth through measured buy-to-build transactions.

We balanced reinvestment in the core business with a focus on increasing the dividend and repurchasing shares. I am pleased with the Board's decision to increase the first quarter 2020 cash dividend by $0.01 per share which is 3.7% increase over the fourth quarter of 2019. This increase is coming off the 37th consecutive year of dividend increases in 2019 where we increased the dividend $0.01 each quarter, generating a 3.8% dividend increase for the year. These increases recognize the stability of our earnings and capital generation and demonstrates our commitment to rewarding our shareholders.

We expect share repurchase will be in the range of $1.3 billion to $1.7 billion in 2020, with the range allowing us to be more tactical in our deployment strategy. As always, this assumes stable capital conditions and the absence of any compelling alternatives. We remain committed to maintaining strong capital ratios and maintaining a strong risk-based capital ratio in the U.S. and solvency margin ratio in Japan on behalf of our bondholders, our policyholders and our shareholders.

Through Aflac Incorporated subsidiaries in Japan and the United States, we have the privilege of helping provide protection to more than 50 million people. In both countries, we have earned our position as the leading supplemental insurer by paying cash fast when policyholders get sick or injured. Looking ahead, we believe our strong earnings growth will reflect the underlying earnings power of our insurance operations in Japan and the United States. It will also reflect our prudent approach to deploying excess capital in a way that balances the interest of all stakeholders. As always, we are working to achieve our earnings per share objectives while also ensuring we deliver on our promise to our policyholders.

Now I'll turn the program over to Fred who will cover more on the operations and then Max to cover our financial results in more detail. Fred?

Frederick John Crawford
President & COO

Thank you, Dan. I'll focus my comments on market color and key areas of execution in Japan, the U.S. and global investments and connecting to our 2019 results and outlook for 2020.

Let me first start with Aflac Japan. While the focus has been understandably on Japan Post and cancer sales, there have been additional market developments during 2019 that have shaped our product and distribution strategy for 2020. As Dan noted, we were pleased to end 2019 with an increase in medical sales. This is noteworthy as the medical product marketplace faced natural headwinds, specifically a change in corporate tax law late in the year that impacted products sold as part of a company benefit program and a measurable increase in competitive pressure as the traditional life players continue to pivot towards medical products after being hit hard by the low rate environment. These same dynamics continue in 2020. And as a result, we have adjusted our product and marketing strategy accordingly.

Our 2020 product launch plans include the introduction of a fresh approach to cancer riders that greatly simplifies the product design by bundling coverage riders for ease of sale and meeting customer needs. This enhancement is also available in the Japan Post system and is tailor-made for their unique distribution model once returning to full strength.

We've decided to accelerate our medical product refresh from 2021 launch into 2020, launching in the fourth quarter. While this will have a modest impact on 2020 sales, it positions us better as we head into 2021. The refreshed product expands coverage and fills a gap with nonexclusive agencies that offer higher premium and more expansive benefit structures to their clientele. This move accelerates approximately JPY 3 billion of product launch spend into 2020.

As discussed during our outlook call, we have also set aside funding to strengthening the associate channel, our largest sales contributor. Investment includes technology and marketing spend in order to leverage our 22 million policies in force and 30,000 corporate groups to upsell and cross-sell more effectively.

Finally, in an environment of low interest rates and related pressure on premium growth, we continue to work on our long-term expense structure. We are building out agile teams focused on customer experience enhancements, administrative efficiency and go-to-market productivity improvements. For example, the work of our agile teams have successfully reduced Japan's product launch cycle by over 3 months. Separately, we have a medium-term plan to go paperless in our main operating centers and ongoing digital initiatives that require continued investment over the next few years. We believe the most accurate way to track our expense ratio is when adjusting for paid-up policies. We anticipate our adjusted expense ratio will trend down gradually beginning in 2022 time frame. While we are early in the year, Japan's accelerated investment is not expected to change our guidance range for the segment's 2020 pretax margins.

Turning to the U.S., as medical and group benefit carriers pursue voluntary business and attempt to go downmarket, we believe it's important to build out a presence on the first page of the employee benefit marketplace. An initial step in that direction is our entry into network dental and vision. Along with entering a growth market, we believe this portfolio expansion will increase producer productivity and assist with recruiting and retaining agents and expand broker access. We are taking a methodical approach beginning in 2020 with introduction in select states following by a national launch in 2021. We expect to generate $300 million to $500 million in incremental revenue over the next 5 to 7 years.

Argus, our recently acquired dental and vision TPA platform ended the year with annual revenue of $84 million and normalized pretax margin of approximately 5%.

We expect this to be a growth area for the company as Argus has a strong reputation for servicing Medicare and Medicaid dental and vision members. In fact, last week, we issued a press release under the Argus brand announcing the awarding of 4 new partnerships administering dental and vision benefits to new Medicare Advantage members. Like any TPA model, this is a scalable business with strong return potential but has naturally reset our reported expense ratio by approximately 60 to 80 basis points.

We are actively investing in a consumer markets platform for the digital sale of insurance direct to consumer along with partnerships that leverage lead generation for agent-assisted sales. We are up and running with sales of $45 million in 2019. We are making important investments in a fully digital experience from acquisition to administration to policyholder experience including a digital claims capability. We expect production through this platform to double in the next 3 years. Our U.S. outlook has assumed roughly 40 to 50 basis points of expense ratio drag in 2020 as we build out network dental and vision and consumer markets platforms.

We continue to invest in our operating platform in the U.S. with 2 critical deliveries anticipated in 2020. The first is an upgrade to our enrollment platform used by our agents and focused on the small business market. Upgrades are expected to provide more intuitive functionality and speed. The second is a successful migration onto a modernized platform for Aflac Group, which is our fastest-growing segment. Modernization includes scalability and automated back-end processing and billing functions. We just recently began placing new groups on our modernized platform. These projects along with other key initiatives are also supported by an agile work environment.

Overall, we anticipate expense ratios will remain elevated in 2020 and '21 then trending down beginning in the 2022 time frame as the top line responds to our key initiatives and we begin delivering on expense efficiencies.

Turning to Aflac Global Investments. As Eric noted at last year's analyst briefing, where it makes sense, we will explore team lift-outs, joint ventures and equity stakes in asset managers that will then manage a portion of our assets. In January, we closed on a minority investment in Varagon Capital Partners, a leading direct lender to middle-market companies. Our equity stake includes a mandate for up to $3 billion invested in middle-market loans over the next 3 years. The mandate is consistent with our overall general account investment strategy. Our minority equity investment will be held within our U.S. investment subsidiary, with any associated returns running through the corporate segment. At this early stage, we do not expect a measurable impact on our 2020 outlook for investment income or earnings.

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

Max Kristian Broden
Executive VP & CFO

Thank you, Fred. We finished the year with a solid Q4, reporting adjusted EPS of $1.03, up 1% year-over-year. Underlying earnings continue to come through strong with no significant items to call out in this quarter. As previously guided, expense ratios ticked up in both operating segments due to seasonality and, as Fred detailed in his comments, our continued strategic platform builds.

For the full year, adjusted earnings per share increased 6.7% to $4.44, the strengthening yen benefiting earnings for both the quarter and the year by $0.02. As a result, adjusted earnings per share on a currency-neutral basis rose 6.3% to $4.42 per share which was at the upper end of our upwardly revised guidance of $4.35 and to $4.45 at the end of Q3. Adjusted book value per share, including foreign currency translation gains and losses, grew 10.6% in both Q4 and for the full year. The adjusted ROE, excluding the foreign currency impact, was a strong 15.1% for the full year 2019.

Turning to our Japan segment. Total earned premium for the quarter declined 1.6%, reflecting first sector policies paid-up impact and to-pay medical policies sold in 2017 reaching paid-up status as well. However, we continue to focus on driving the quality and value of new business. As a result, our earned premium for the first sector protection and third sector products increased 0.6%.

Japan's total benefit ratio came in at 70% for the quarter, with third sector benefit ratio coming in at 60.1%. Both of these ratios are up on a year-over-year basis as these ratios will naturally bounce around a bit on a quarterly basis, and the comparable benefit ratios last year were very low. Looking at the full year numbers, we are reporting a stable third sector benefit ratio and a decline in our total benefit ratio supported by mix shift.

Overall claims trends are still tracking favorably but were less of a tailwind this quarter. Digging into the details, a lower lapse rate on our cancer insurance block led to an increase in future policy benefit reserve, and we also experienced a slight uptick in incurred claims. We do not see this as a trend but rather quarterly noise.

Our expense ratio in Japan was 21.7%, 90 basis points higher than in Q4 last year due to technology investments as well as sales and marketing spend. The ratio is also impacted by the lower reported earned premium. Net investment income declined 1.4% in yen terms. Unlike the previous few quarters, there was no significant call income or alternative investment returns in this quarter to call out. The pretax margin for Japan in the quarter was 19.8%. For the full year, we recorded a very strong pretax profit margin of 21.3% toward a high end of our forecasted range.

Turning to U.S. results. Earned premium was up 1.1% despite weaker sales results and 100 basis points decrease in persistency which we view as temporary result of a large case volatility and replacement of an administrative partner. Our total benefit ratio came in at 49.1%, in line with recent claims trends and mix of business shift toward our accident product. Our expense ratio in the U.S. was 39.9%. While the fourth quarter is a seasonally higher period for expenses, the increase of expenses in Q4 is due to lower unit cost capitalization, higher DAC amortization and the inclusion of Argus which carries a structurally higher expense ratio in its benefits management business.

Net investment income in the U.S. declined by 1.6% due to onetime benefits -- sorry, due to onetime benefits from call income last year that did not recur this year. Maintaining consistent net investment income is a very good result on the back of sending excess capital up to the holding company as the final step in our planned RBC drawdown.

Profitability in the U.S. segment was impacted by the previously discussed elevated expense ratio, which pushed down the pretax profit margin to 16.8% in Q4. For the full year, the pretax profit margin held up well and came in at 19.4%. In our Corporate segment, the main driver of improved results is higher levels of amortized hedge income driven by our enterprise corporate hedging program. Amortized hedge income contributed $27 million on a pretax basis to this quarter's earnings with an ending notional position of $4.9 billion. As a reminder, this program reduces the exposure to the yen, lowers the absolute level of hedge costs and reduces our exposure to volatility in hedge costs, ultimately improving the risk-adjusted return on capital for the group.

For 2020, we would expect the segment pretax profit for the full year to be a loss of $55 million to $65 million. This is $5 million higher than communicated on outlook call due to an updated and refined internal allocation of expenses with no impact on our total earnings.

In December, we successfully executed a $38 billion of global yen issuance with a weighted average coupon of 80 basis points. The proceeds will be used to redeem $350 million of 4% senior notes maturing in 2022, reducing our run rate interest costs by $11.2 million on a pretax basis and extending our debt maturity profile.

Turning to capital. Japan's estimated solvency margin ratio remains above 1,000%, and our estimated U.S. risk-based capital ratio at quarter end was north of 500%. With the announcement of our Japan branch conversion to a subsidiary, we pledged to remove excess capital out of the U.S. entity, targeting 500% RBC by the end of 2019. The fourth quarter marked the successful completion of our RBC drawdown plan where we moved $1.75 billion of capital from Aflac Columbus to Aflac Incorporated, supporting our capital deployment and risk management activities. As we've noted previously, we have room for additional capital optimization as the risk profile of our U.S. business suggests an RBC closer to 400% is more appropriate.

We ended the quarter with approximately $3.4 billion of capital and liquidity at the holding company, net of prefunded debt. This is slightly lower than previously guided form. The deviation is primarily driven by a voluntary pension fund contribution to maintain strong funding levels on the face of lower discount rates and our decision to tactically buy back some additional shares. In the quarter, we repurchased 8.9 million shares for approximately $470 million. There is no change to our guidance for repurchase of $1.3 billion to $1.7 billion in 2020.

Finally, let me comment briefly on guidance. With our full year 2019 results in the books, there are no material changes from our 2020 outlook call this past December. While there are natural movements in our plan, we affirm all material segment margin contributors including ranges for benefit ratios, expense ratios, net investment income and pretax profit margins. In addition, we affirm our range for share repurchase and EPS guidance, recognizing we have adjusted the currency-neutral range for a final average exchange rate of JPY 109.07 to the dollar. As you may recall, our outlook call guidance was set at assuming JPY 110 to the dollar, thus we have adjusted our guidance accordingly to $4.32 to $4.52 per share.

Now let me turn the call over to David for Q&A. David?

David A. Young
Vice President of Investor & Rating Agency Relations
Thank you, Max. [Operator Instructions] We will now take the first question, Nicole.

Question and Answer

Operator

First question is from the line of Nigel Dally of Morgan Stanley.

Nigel Phillip Dally
Morgan Stanley, Research Division

With medical, Fred, you highlighted the competitive nature of the medical market. From what I understand, medical has been competitive for some time, for years. But from your comments, it appears conditions have heated up some more. I just wanted to make sure I've got that right? And if so, is it just more crowded, more participants? Or are we also seeing some companies actually get more aggressive with pricing as well?

Frederick John Crawford
President & COO

Yes, it's -- thank you, Nigel. It's not more competitors. Really, more specifically, what we've seen is some of the large and respected domestic life insurance players have moved towards refreshing their medical products as well as enhancing compensation or basically incentives, if you will, around the sale of medical product. We think this is understandable given that the interest rate environment has made it very difficult to sell yen-based life insurance products. And so that's really what we're starting to see take place. We have distribution -- unique distribution through exclusive agency arrangements, and so most of what we see in the way of competitive dynamics is in the nonexclusive agencies that we sell through and perhaps, to a lesser degree, some of the banking channel which is very small for us right now.

And so that's why the new product refreshment is meant to be more competitive but also particularly make us more competitive in nonexclusive agencies. Interestingly, it's not really a pricing war. It's really more enhancing and enriching benefits, going after a marketplace that's able to pay more premium for enhanced and broader coverage capability. And so that's the gap we're looking to fill, and that's where we see the competition.

Operator

Next question is from the line of Andrew Kligerman.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Just going back to capital [deployment]. So what would be the timing -- I guess per Max' commentary of getting the RBC down to 400%, now being in excess of 500%, what would be the timing of getting that figure down? And I guess your guidance implies about a 71% -- 70-ish percent capital return this year. Why not pick it up a little bit more?

Max Kristian Broden
Executive VP & CFO

So Andrew, first of all, let's step back and realize that we just finished the drawdown of the capital that was generated through the branch conversion. And we are now in a position to, for the first time, have a clean blue book that we are printing that we then can take to regulators, to rating agencies, et cetera. So we will then have clean financials on a statutory basis that we can discuss with these constituents. So we will have these discussions throughout the year. And we don't feel that we have a rush to bring it down to the 400% range. Right now, given where we are in the cycle, we feel that holding strong capital levels is a benefit to us. So I would expect the -- to travel downwards towards 400% over time. We will not initially pull capital out, but rather, we would like to see that the growth of the business will consume that capital and take us down to the 400%.

Andrew Scott Kligerman

Crédit Suisse AG, Research Division

I see. So growth of business, not so much extracting the capital?

Max Kristian Broden
Executive VP & CFO

Correct.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Okay. And I think, Fred, you were alluding earlier to group business. Could you talk about some of the initiatives there and the potential to impact premium in the United States?

Frederick John Crawford
President & COO

So the reference that I made in my comments was, what we have been seeing for a while now, not surprisingly, and particularly if you listen to other true group carriers' calls, we're seeing competitors in that space look to move into the voluntary space and look to move downmarket, sometimes with success, sometimes without. That also leads to a level of bundling at times where true group players and even health players will bundle voluntary product with their core offering.

And so what we have been doing is looking at making sure that we have an answer to that type of competitive dynamic. First and foremost, our voluntary benefit programs on a group basis tend to be very competitive and desired by employees and HR professionals. And so we tend to do very well in that space. It's the fastest-growing part of the company. But in order to combat bundling-type dynamics, we need to have a broader solution that includes dental and vision and also true group life and disability. Right now, we have a partnership on true group life and disability where we offer the product and partner with DRMS on the administrative side. And we need to involve that -- evolve that platform so that it's more competitive and able to fight off that type of dynamic. So again, we are competing very well in that space, but we think we have more opportunity to grow if we build out those programs.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

And Fred, do you think that at some point, in the next 2, 3 years, you could see a very material impact on the top line from the group product like group life and group disability?

Frederick John Crawford
President & COO

Too early to tell on that topic. I think right now, our focus primarily is driving earned premium growth in the dental and vision space because obviously we've made a transaction in that space, built out the platform and we're starting to -- starting to build out that state-by-state platform to generate $300 million to $500 million of premium over the next 5 to 7 years. And so that's right now the focus. I would say, to a lesser degree, we would expect to pick up earned premium over the next 3 to 5 years under the direct-to-consumer and lead generation platform. Those are incremental adds. Remember, our core business, we still intend to grow earned premium there through the blocking and tackling of building out our platforms in group voluntary as well as the individual voluntary business. But incrementally, it's focused right now on dental and vision and on consumer markets. True group will evolve over time, but it's too early to pinpoint earned premium on that at this point.

Operator

Next question is from the line of Jammi Bhullar of JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

So I had a question on Japan sales, Dan. Obviously, you had mentioned and everyone expected cancer sales to be fairly weak given the full situation. I thought medical sales were a little weaker than expected as well. And you mentioned the tax change that might have hurt demand. What's your view on how that product is performing? And then also, given that you're updating the product later this year, should we assume that as the year goes on, sales growth will moderate because people might -- or agents might wait until the new product to start pushing it again?

Daniel Paul Amos
Chairman & CEO

I think Aflac Japan can take that question. So let's see over there. Who would like to, Koji or Koide, how would you like to do this?

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

[Interpreted] Okay. This is Koji. I will speak. So let me explain a little bit about the medical insurance. So for our exclusive agencies, the new rider that we've implemented last year has worked very well for the coverage for our existing policyholders. And so this has worked positively. However, in nonexclusive agencies our competitors have expanded their coverage, and that has really been hitting us hard. So that is the reason why the positive or the increase of the medical has slowed down and comes to a weaker sales. And because of this -- the current situation where nonexclusive agencies are expanding, and that negative impact could also impact our exclusive agency. So what we will do is to make improvements in our new medical insurance by having a more enriched coverage to really be able to be competitive. And in terms of the actual coverage that we plan to offer. Since this is before the filing to the FSA, we are not able to disclose the details. However, what I can say is that we would like to increase our competitiveness to the top level. That's all from me.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And Fred, anything on just the likely weakness as you go through the year, people -- the agents sort of holding back from pushing the product in anticipation of the new offering?

Frederick John Crawford
President & COO

I don't think we expect any material dynamic in that respect, either holding back or what have you. I think right now, our cancer product, particularly with the -- I'm sorry, our medical product with the rider strategy remains very competitive in our core associate platform. I think I would remind everybody that since we moved to a rider strategy, the reported sales naturally declines because you're selling a rider, and we only count the rider premium as a sale as opposed to the full policy. So please keep in mind that we continue to add economic value throughout the year by maintaining policies, having better persistency and then adding riders to our core policies. So economically, we continue to push forward on medical even though the sales look a bit dampened due to the rider strategy. That hasn't changed. That will still remain popular. We just think this particular gap in our product is a good one to fill, so we've accelerated it into 2020.

Operator

Next question is from the line of Humphrey Lee of Dowling & Partners.

Humphrey Lee
Dowling & Partners Securities, LLC

I have a question related to U.S. sales. So in your prepared remarks, you talked about sales being a little bit soft. And I understand it's the dynamics of some of the agency and broker relationship kind of management that you've done throughout 2019. But I was just wondering, have you seen any kind of changes in competitions as well and kind of how you -- we should think about it as you kind of go into 2020?

Frederick John Crawford
President & COO

I'll ask Rich Williams to take that for us.

Richard L. Williams
Executive VP & Chief Distribution Officer

Okay. Thank you, Humphrey, for your question. So first of all, as we've discussed at FAB in September, our results finished the year as expected. And we had shared the drivers in 2019 being exiting partnerships, large case volatility and some headwinds with average weekly producer. On a positive note, our broker sales growth as well as our consumer markets contribution are 2 areas that we're very pleased with. And also, as we finish the second half of the year, as we focus on producer growth, we're encouraged to see career recruiting grow in both those quarters. From a competitive dynamic, as Fred alluded to, with medical and group benefits carriers getting into the space, this is another opportunity for us to be at the table, and we're excited about our progress with dental and vision and the ability to also offer life and disability. So what I would say is we're seeking balance, both on our core supplemental products and also being able to provide benefit solutions on the front-page benefits.

Humphrey Lee
Dowling & Partners Securities, LLC

Understand. And then in terms of the elevated expenses in the coming couple of years, like should we think about it in terms of elevations more like towards the upper end of your guidance range for 2020 and 2021 before kind of normalizing in 2022? Is that the way that we should think about it? Or could the elevation be above and beyond what your kind of guidance range as upper end?

Frederick John Crawford
President & COO

I would say we certainly don't see it above and beyond the upper end of our range. It will naturally fluctuate within the range. But usually when we set those ranges, it's plus or minus around our actual financial plan target. Those plans can evolve, and of course, performance can evolve. But I would not fix a rate at some spot within the range. What I can say with confidence is we wouldn't expect to be above it. And again, these investments are all -- I think where you're going to see eventual benefit in the expense ratio is really driving the top line. Most of the investments that we're making, both operationally as well as, of course, in the incremental projects that we have around dental and vision and direct-to-consumer are meant to drive the top end or the revenue side of it. And that's where I think we'll start to achieve a turnaround in the expense ratio.

Operator

Next question is from the line of Erik Bass of Autonomous Research.

Erik James Bass
Autonomous Research LLP

First just one follow-up, I think, on Humphrey's question. Fred, you mentioned no change to 2020 Japan margins despite bringing in some additional product launch spend related to accelerating the medical product timing. Is there something offsetting this? Or does it just push you a little bit towards the lower end of the range?

Frederick John Crawford
President & COO

We do have a little bit of an offset in the sense of a little better revenue dynamic as persistency was a bit better coming off of 2019 but also locked in a little bit better net investment income coming through Japan. And that has helped us to accelerate some of that spend without impacting the bottom line that much. But again, most of the commentary is really important around the range, meaning we don't see really any change in the ranges but, again, will naturally fluctuate within the range.

Erik James Bass
Autonomous Research LLP

Got it. And then can you comment a bit more broadly on your aspirations for investment management. Do you want to, I mean, potentially explore commercializing your offering at some point and looking to manage assets for third parties or other insurance companies? Or do you see the investments in properties like Varagon more as a way to source assets and just participate in their growth?

Frederick John Crawford
President & COO

I'll make a couple of comments but then ask Eric to expand on it. I think we have not made a fundamental decision to commercialize our institutional asset management capabilities. But we're absolutely looking to leverage what Eric and the team have built over the better part of 8-plus years now in New York and in Tokyo. And really, what you should think of these strategies as is a natural extension of our external manager program. It's -- if you think about it, we've moved assets that we have less of an expertise into external managers, and it's quite naturally that we will, from time to time, run across teams and managers that we find attractive enough to where we want to hold an equity interest along with mandating them on investments. So that's really more the strategy as a natural extension of what we have in the way of our core capabilities. But Eric, I don't know if that covers it or if you have anything else you want to add from your perspective.

Eric Mark Kirsch
Executive VP, Global Chief Investment Officer & President of Aflac Global Investments

No, I think Fred, you covered it perfectly. No aspirations in the traditional sense, Erik, as you stated it, commercially for our teams to be a third-party asset manager. That's a very tough business. There's a lot of players. But where we can differentiate ourselves is in the selection of asset managers for our balance sheet and how we earn income for Aflac Japan and Aflac U.S. But if we're able to lever that into examples like NXT, Varagon and potentially others in the future, which we see those opportunities, we'll not only improve the income of the balance sheet for the 2 insurance operations but we'll create revenue streams from owning those equity stakes and eventually, potentially some upside as well. So in that way, we kind of have exposure to the third-party asset management business indirectly through those joint ventures or equity ownerships.

Operator

Next question is from the line of Suneet Kamath of Citi.

Suneet Laxman L. Kamath
Citigroup Inc, Research Division

Just a question about Japan. Historically, you guys have done a lot of market research on brand and trust and a lot of those dynamics. And so my question is, given everything that's been going on with Japan Post, has your research pointed out any impact on Japan Post's brand in Japan? And if there is, do you worry about some kind of spillover effect on the Aflac brand?

Daniel Paul Amos
Chairman & CEO

This is Dan. Yes, let me just say, and then I'll have them follow up, that -- of course, we worry a little bit, but all indications from everything we've seen, it has no effect on our brand because, as you've seen in the media, we were excluded from any of the issues concerning that. So I feel good about that. I think the longer it goes on, the more potential there is for issues. But I do believe that Japan Post is on these issues, resolving any issues with the consumers. And I think the change in the management team and their focus right now has been viewed very positive by the public. And so I think it will all take care of itself in the next 6 months or so. But Koide or -- I think might want to speak on this.

Masatoshi Koide
President & Representative Director

[Interpreted] Okay. This is Koide from Aflac Japan. Let me just add a little bit. In January, we have conducted a consumer survey on our brand. So among the people who recognized the media coverage on Japan Post Insurance issues since last year, there were very few people who thought negatively about Aflac as a brand based on that -- the media coverage on JPI. And specific, there were only 2% who thought there was a negative impact on Aflac's brand. So in other words, we have confirmed that there has been no impact on Aflac brand based on JPI, Japan Post Insurance, product issue. That's all from me.

Suneet Laxman L. Kamath
Citigroup Inc, Research Division

Okay. My follow-up question is just on the copayment increase that you talked about in your prepared remarks, I guess, for the elderly population in Japan. We've heard about this at different periods in the past in terms of the government wanting to do that. Does it feel like it's got a little bit more legs at this time in terms of actually happening? Or any color around that would be helpful.

Daniel Paul Amos
Chairman & CEO

Yes. Well, what I would say is there seems to be more activity in that regard predominantly about people living to be 100. And as you probably remember from the past, they kind of send out trial balloons to see what the reaction is publicly sometimes. And it's too early for us to tell. But my gut says that there's more of an interest now than there has been in quite a while. We'll have to wait and see. But they do have issues with budgets and the deficit that they've created and how they're going to control that. So certainly, I think they're trying to find out where and how they will attack those issues. And this is certainly one way to do that, by increasing the copays and deductibles. But don't walk away from this call thinking that this is a done deal and it's going to happen. We don't know any more than you know from what we read in the newspapers. But in talking to our people, I think it's a reasonable thing for them to be considering and one I think that has a much higher probability than in the past few years when it was a much lower chance of it happening.

Masatoshi Koide
President & Representative Director

[Interpreted] Once again, this is Koide from Aflac Japan. So with the backdrop in Japan, with the government funding, the government is in financial -- is facing financial issue from the increasing medical cost in the social welfare system. So what Abe administration is trying to do is, under the name of health care reform for all generations, what the administration is trying to do is to motivate the elderly population who is still willing to work and secure employment of those people and have them support the social warfare system instead of being the recipient. And that is the reason why, at the same time, the Abe administration is trying to increase the copay of medical fee of elderly population.

So this is something that is being covered in the media right now. As a result, many of the consumers are becoming interested in this type of media coverage. So the focus of the discussion right now is whether there will be any copay increase for the population aged 75 or above. But because this is a very difficult reform as this will require copay increase of elderly, so my assumption is that this discussion will continue for some time. But then, the government's intention is to want to address this issue by the time the baby boomers reach this age group from 2022. That's all from me.

Operator

Next question is from the line of John Barnidge of Piper Sandler.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Productivity, as listed on Page 19 of the supplement, materially increased. I get there's a seasonal nature to this. But it was definitely higher than the last couple of years. Know with the strong economy, recruitment and engagement may be harder given the commission nature, so I was just curious in the commentary you had on that.

Daniel Paul Amos
Chairman & CEO

Teresa, do you want to...

Teresa Lynne White
President of Aflac US

Yes, I'll start, and then I'll hand it to Rich. One of the things that we've been working on that we've talked about in the FAB and in other calls is our enrollment tools, and we have invested a tremendous amount in those tools to drive productivity for our agency force. We're also investing in third-party tools for enrollment so that we can increase the productivity of those enrollments as well. So that has been a focus for our administrative side to support what Rich and his team is doing from a growth perspective. Do you have any other comment to add, Rich?

Richard L. Williams
Executive VP & Chief Distribution Officer

Yes, the only other comment that I would say, Teresa and John, is that in the fourth quarter, we see productivity spike. So productivity in 2018, in the fourth quarter over '17, was up 5.1%. And in 2019, in the fourth quarter, it was up 4.8%. So the productivity we see is pretty consistent where most of our field force is working, and that's the larger part of our sales for the year.

Daniel Paul Amos
Chairman & CEO

I think it's important for you to tell them about the change in compensation at the management level to try to push productivity from new associates.

Richard L. Williams
Executive VP & Chief Distribution Officer

Absolutely. Good point, Dan. So first and foremost, we communicated to our field in the fourth quarter of 2019 that we were aligning all compensation from associates through their management hierarchies, all the way up to our highest levels towards producer growth. That is something that had been missing for several years, and you've seen it in sort of our inconsistent recruiting and producer growth results. It's not a quick fix, but it's one that we believe is going to have positive effects, and we're seeing the near-term positive indication.

Teresa Lynne White
President of Aflac US

And that will drive that average weekly producer growth.

Daniel Paul Amos
Chairman & CEO

Yes.

Operator

Next question is from the line of Alex Scott of Goldman Sachs.

Unknown Analyst

[Dan] here. First one I had was just on the third sector benefit ratio in Japan. I was just interested in light of the comments you're making about the competitive environment, some of the domestics pushing a little harder on the medical, in particular. I mean what's being priced in the new product in terms of like hospital day stay on the cancer side? I mean -- and what's in medical relative to the trends you're seeing? I mean can you keep that benefit ratio stable? Or will there have to be a natural kind of upward pressure on that over time?

Frederick John Crawford
President & COO

Yes. Quite honestly, we have been pricing for quite a while now to mirror the improvements in morbidity that we've been seeing in Japan, but we continue to see actual to expected results run favorable which implies a continued level of improvement in benefit ratios. But we've been saying now for a while that, particularly around medical, that we would expect some level of stabilization of benefit ratios. In other words, there's a point at which you would expect that to normalize to some degree. And so there's been a slowing down gradually of movement in the third sector only benefit ratio that is improvement in the benefit ratio. And we think that's illustrative of both pricing actions as well as a natural slowing down of the pace of shrinking hospitalization stays, et cetera.

Having said that, these are still products that are priced at very attractive returns relative to our extremely low cost of capital in Japan and as a company. And so the economic value being added by every policy we put on our books is quite significant given our scale and the performance. So that gap, if you will, between cost of capital and return on capital remains healthy and allows us to be aggressive where we need to be. But as I mentioned earlier, we do see pricing pressure. But frankly, at the moment, right now, it's really product design-type pressure which is something we can react to quickly and why we accelerated the medical product refresh into 2020.

Unknown Analyst

Got it. And then maybe just a quick follow-up on the potential social security changes. I mean is your view still that cancer and sort of medical policies with maybe a nursing care rider takes care of the nursing care piece of this in the best way? Or are you exploring other types of products, maybe stand-alone nursing or something like that, that would potentially garner more demand from that kind of a change?

Frederick John Crawford
President & COO

I'll let my Japan colleagues answer, but from my perspective, I would tell you that right now, our answer is just as you say, it's attaching care or nursing care riders to the medical product that allows the buyer to age with the -- allows the policy to age with the buyer. Everything from the younger side of the cohort which is interested in income or disability-type protection to core medical to then as the policyholder age is naturally attaching riders related to nursing care. We think that's the best on a risk-adjusted basis because, as you can imagine, that type of risk, as well as dementia-type risk, is one that we want to stay away from and, as a result, the supplemental nature of our policies, the limited benefit structures of our policies, the fact that it's attached to a high-return medical base policy, all of that strikes us as the best way to address it. But we have to continue to explore what opportunities we have with an aging population, and we'll continue to do that. But it's going to be done in a risk-adjusted way.

Operator

The next question is from the line of Marcos Holanda of Raymond James.

Marcos Costa Holanda
Raymond James & Associates, Inc., Research Division

I just want to drill down on U.S. sales. And I was hoping you guys could give us some more color on sales results by distribution channel and if there was any one channel that exceeded your expectations last year.

Daniel Paul Amos
Chairman & CEO

Thank you for the question. So as we alluded to earlier, the areas where we saw productivity was broker sales and consumer market sales. Broker sales were strong for the quarter as were consumer markets. And then, obviously, with our associate agency distribution channel, it was lower than anticipated. And then I think as we've alluded to also, our mix of business is moving gradually more towards brokerage, and that's been doing that over the last 10 years, and 2019 was consistent with prior movements.

Marcos Costa Holanda
Raymond James & Associates, Inc., Research Division

Got it. And my follow-up, I think you mentioned the Argus platform generated about $84 million revenue last year. And as I'm looking at your 2020 outlook, I guess, you guys are assuming basically flat revenue growth. And I was hoping maybe you could bridge the gap between that and your long-term target of $300 million to $500 million. Is that just a function of a slow ramp-up? Is there anything else you could actually give us here?

Frederick John Crawford
President & COO

Yes. I'm actually glad you asked that question because it allows me to be very clear on this. Don't confuse Argus' TPA or administrative platform with the growth expectations of our dental and vision business. In other words, what we bought when we purchased Argus was an administrative -- what we believe to be a top-notch administrative platform that simply administers Medicare and Medicaid dental and vision products on behalf of other large, typically health, organizations. And that is a traditional TPA administrative-only business and not a conventional risk-taking business. That business, we would expect to steadily grow over time. And in fact, even the purchase price is designed in a way to incent growth rates.

Separate and apart from that though is the dental and vision business which is the actual insurance business. That is really Aflac's strategy, leveraging that platform to build out and sell and grow premium on Aflac Dental and Vision. And that's the $300 million to $500 million we're pointing to.

Daniel Paul Amos
Chairman & CEO

And keep in mind that the TPA revenues, that is not running through the premium line. So when Fred talks about earned premium growth, that does not include a TPA revenue, it's coming through fees in the other income line.

Operator

The next question is from the line of Tom Gallagher of Evercore.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Just looking at the distribution disclosure on channels for Japan in the supplement, it's a little hard to know how important the independent agency channel is, Fred, where you were citing the increased competition in medical. Can you give us a sense for what percentage of Japan sales sells through, through the independent channel where the competition has escalated, how large and how important that is for Aflac? And just relatedly, do you -- would you also expect similar competition with the new rider cancer product launch? Or do you think it's going to be less competitive there?

Frederick John Crawford
President & COO

I can answer the second part of your question. I'm going to toss to Japan to answer the breakout of exclusive agencies versus independent agencies. But we intend to be competitive in every channel, period, even on the exclusive front because we think that's important. But obviously, when you get to the nonexclusive channels, there's more of a spreadsheet environment that you have to be constantly conscious of. The fact that we are facing competition in those channels is nothing new. That has been going on for several years now. It's really just more that we need to react and react more quickly to product development moves as we see the competition turn their attention to more proactively going after medical product. That's where, for example, closing down or shrinking the product launch cycle by 3 months really helps because we're going to need to be more nimble as we move forward. And that's -- and this is an example of being nimble.

The cancer rider, we think, is actually a very interesting dynamic on the cancer product and will be interesting to track how we see sales going there. That rider is meant to simplify a series of riders that address different types of cancer and cancer treatment to really simplify the offering. And we think that could help both in the sales process as well as in ease of the buying public understanding the risk/benefit, if you will, or the benefit of what they're paying for. So we think that could be a very good rider. It's also a rider that adjusts with the amount of risk you have as you age. So as you know, as you age in Japan, a greater proportion of your medical costs are covered under the national medical system, and this product will adjust accordingly which makes it more affordable and more practical as you age in Japan to buy the cancer rider.

So again, it's an example of both putting out a very marketable product but also adjusting to the aging population with our products. Koide-san or Koji, if you want to comment on the relative proportion of independent versus exclusive agencies, if you have that data handy.

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

[Interpreted] So this is Koji. Looking at the fourth quarter performance, independent and individual agencies account for more than half of the medical sales. But then most fierce competition is, of course, in the nonexclusive independent individual agencies. However, as you may know, we are very strong in the cancer insurance market. So we are not facing a fierce competition in cancer insurance market. And in terms of cancer insurance revision this time, this product will be very easy to sell, and that would expand our sales because even new sales agents will be able to sell this product because it is a simplified product. So the meaning of launch of this product is not to really win over competitors but rather expand our sales and our positioning in the market. That's all for me.

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

Tom, I think -- I hope that answers your question. I want to just thank everyone for joining us for this extended call today. If you have any additional questions, please feel free to reach out to Investor Relations. We'll do what we can to respond and look forward to speaking to you soon. Thank you very much.

Operator

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