S&P Capital IQ

CONTENTS

American Financial Group, Inc. NYSE:AFG

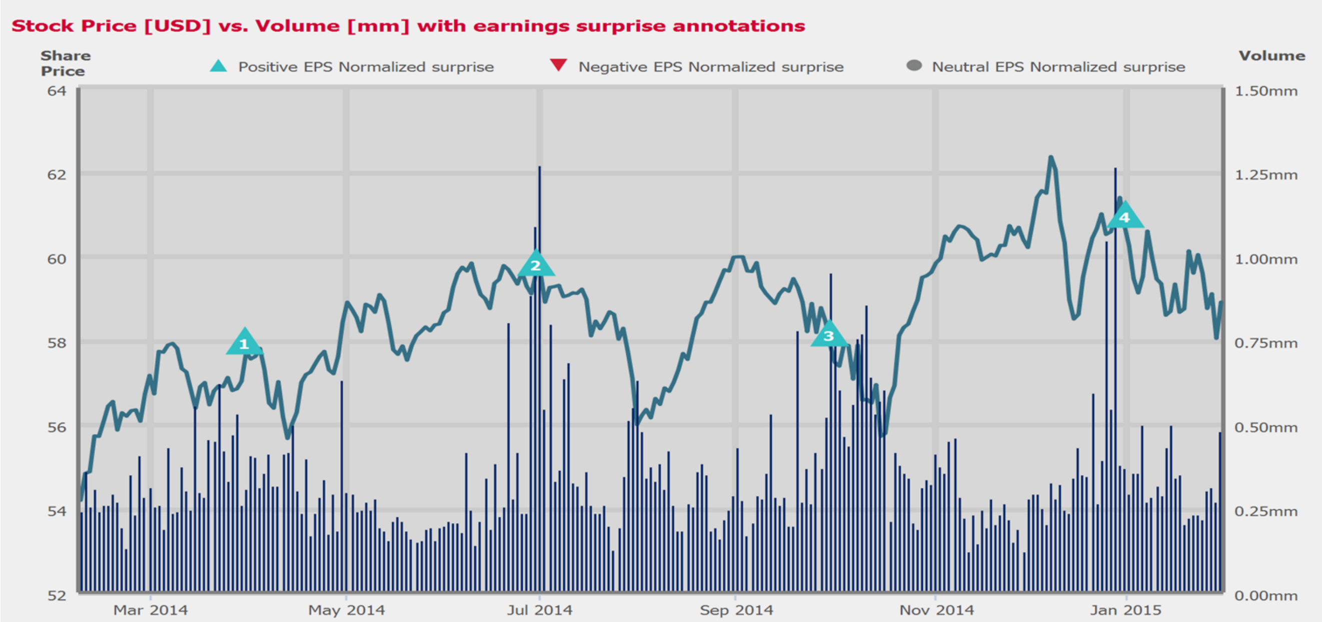
FQ1 2015 Earnings Call Transcripts

Tuesday, April 28, 2015 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.12	1.25	▲11.61	1.20	5.33	5.56
Revenue (mm)	1055.84	946.00	▼(10.40 %)	1017.09	4233.79	4379.66

Currency: USD
Consensus as of Apr-27-2015 10:45 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	0.97	1.00	▲3.09 %
FQ2 2014	0.95	1.07	▲12.63 %
FQ3 2014	1.16	1.40	▲20.69 %
FQ4 2014	1.29	1.35	▲4.65 %

Call Participants

EXECUTIVES

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Diane P. Weidner
Assistant Vice President of Investors Relations

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

ANALYSTS

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to American Financial Group's First Quarter 2015 Earnings Results Conference Call. [Operator Instructions] As a reminder, this conference call may be recorded. At this time, I would like to hand the conference over to Ms. Diane Weidner, Assistant Vice President, Investor Relations. Ma'am, you may begin.

Diane P. Weidner
Assistant Vice President of Investors Relations

Thank you. Good morning, and welcome to American Financial Group's First Quarter 2015 Earnings Results Conference Call. I'm joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group; and Jeff Consolino, AFG's Chief Financial Officer. If you are viewing this webcast from our website, you can follow along with the slide presentation if you'd like.

Certain statements made during this call are not historical facts and may be considered forward-looking statements and are based on estimates, assumptions and projections, which management believes are reasonable but, by their nature, subject to risks and uncertainties.

The factors which could cause actual results and/or financial condition to differ materially from those suggested by such forward-looking statements include, but are not limited to, those discussed or identified from time to time in AFG's filings with the Securities and Exchange Commission, including the annual report on Form 10-K and quarterly reports on Form 10-Q. We do not promise to update such forward-looking statements to reflect actual results or changes in assumptions or other factors that could affect these statements.

Core net operating earnings is a non-GAAP financial measure, which sets aside significant items that are generally not considered to be part of ongoing operations, such as net realized gains and losses, discontinued operations and certain nonrecurring items. AFG believes this non-GAAP measure is a useful tool for analysts and investors in analyzing ongoing operating trends and will be discussed for various periods during this call. A reconciliation of net earnings attributable to shareholders to core net operating earnings is included in our earnings release.

If you are reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy. Thus, it may contain factual or transcription errors that could materially alter the intent or meaning of our statements.

Now I'm pleased to turn the call over to Carl Lindner III to discuss our results.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Good morning. We released our 2015 first quarter results yesterday afternoon. I am assuming that our participants have reviewed our earnings release and the investor supplement posted on our website.

We are pleased to report core net operating earnings per share of $1.25, a 25% increase from the comparable prior year period. These results reflect higher underwriting profit and higher net investment income in our Specialty Property and Casualty Insurance operations and higher core operating earnings in our Annuity and Run-Off Long-Term Care and Life segments. These results also represent the highest first quarter core net operating earnings per share in the AFG's history. This is the fourth consecutive quarter that we've achieved new quarterly highs in AFG's core earnings per share.

Annualized core operating return on equity was 10.8% for the 2015 first quarter compared to 9.1% for the first quarter of 2014. Net earnings per diluted share were $0.21 and include a $1.18 per share loss from the previously announced sale of our long-term care insurance business and also $0.14 per share of realized gains.

During the quarter, we repurchased $31 million of AFG common shares at an average price per share of $59.32. We are maintaining our 2015 core operating earnings guidance for AFG in the range of $5.10 to $5.50 per share. Craig and I will discuss our guidance for each segment of our business later in the call.

Now slides 4 and 5 of the webcast include an overview of results in our Specialty Property and Casualty operations.

Beginning on Slide 4, you'll see that gross and net written premiums were up 17% and 23%, respectively, in the 2015 first quarter compared to the same quarter a year earlier, due primarily to higher premiums in our Specialty Casualty Group, which includes results from Summit, our specialty workers' compensation sub acquired on April 1, 2014. If you exclude Summit, our Specialty Property and Casualty gross and net written premiums grew by 4% and 6%, respectively, during the first quarter of 2015.

Specialty Property and Casualty Insurance operations generated underwriting profit of $60 million for the first quarter compared to $59 million in the first quarter of 2014. The first quarter of 2015 combined ratio of 93.6% was 1.4 points higher than the comparable prior year quarter and included 0.8 points of favorable prior year reserve development compared to 4.2 points of favorable reserve development in the prior year period.

First quarter 2015 Property and Casualty net investment income was approximately 18% higher than the comparable 2014 period, reflecting the investment of cash received in connection with the Summit acquisition.

Just over half of our Property and Casualty businesses reported pricing increases during the first quarter, resulting in an overall renewal rate increase of approximately 2%. Now this is the 14th consecutive quarter that we've reported overall price strengthening.

Pricing continues to keep pace with loss cost trends in many of our businesses, and in selected businesses where we're not reaching profitability targets, pricing is exceeding loss cost trends.

Loss cost trends appear -- overall appear to be relatively benign across almost all of our property and casualty businesses.

Earlier this month, Great American Insurance group was ranked fifth on Conning's list of top performers within the 2015 edition of growth and profit leaders in commercial lines. The report ranked 150 property and casualty groups of unaffiliated companies based on a 10-year view of company performance. Craig and I are proud of these results and the management team and insurance professionals who successfully execute our business fundamentals day after day.

With that, I'd like to turn to Slide 5 to review a few highlights from each of our Specialty Property and Casualty business groups.

I'm encouraged by the slight improvement in underwriting profit within our Property and Transportation group, which reported an underwriting profit of $7 million in the 2015 first quarter compared to an underwriting profit of $6 million in the comparable prior year period.

Our ocean marine and transportation businesses experienced adverse prior year reserve development that was offset by improved underwriting results in our agricultural and inland marine operations. Gross and net written premiums were flat and up 1%, respectively, during the first quarter.

A heightened focus on disciplined pricing and underwriting resulted in lower premiums in our National Interstate sub, which were offset by modest growth within other businesses in the Property and Transportation group. Although 2015's spring discovery prices for corn and soybeans were down 10% and 14%, respectively, year-over-year, we do anticipate an overall decrease in 2015 crop premiums that will be in the mid-single digits. Decreases in the spring discovery prices are partially offset by expected premium growth and a slight rate increase resulting from an uptick in corn and soybean volatility factors.

Property and Transportation group overall renewal rates increased 5% on average for the quarter, with our National Interstate sub achieving a 6% rate increase.

Specialty Casualty Group reported a healthy underwriting profit of $28 million in the first quarter of 2015 compared to $38 million in the first quarter of 2014. The decrease in underwriting profit was largely the result of lower prior year favorable reserve development in our excess and surplus and executive liability businesses as well as lower profitability in our GL and international business.

I'm very pleased with the underwriting profitability in our workers' comp businesses during the quarter. These results, coupled with improved profitability in our social service businesses, softened the impact of the lower favorable prior year reserve development. Gross and net written premiums for the first quarter of 2015 in Specialty Property and Casualty were up 35% and 51%, respectively, compared to the same period last year.

The 2015 results include premiums from Summit. If you exclude these premiums, gross and net written premiums grew by 9% and 12%, respectively, year-over-year. Growth in our workers' comp businesses, additional premium flow from startup businesses and broad-based opportunities to write more casualty premiums contributed to this growth. Pricing in this group was flat on average for the quarter and in line with our experience in the previous quarter.

I'm pleased with the excellent underwriting profitability within our Specialty Financial group this quarter, which reported an underwriting profit of $22 million compared to $10 million in the comparable 2014 period. Nearly all businesses in this group continued to achieve excellent underwriting margins, with the group producing an overall combined operating ratio of 81.7% for the first quarter.

Specifically, our fidelity/crime and financial institutions businesses achieved higher underwriting profitability and our trade credit business reported higher prior year favorable reserve development.

First quarter 2015 gross written premiums were down 3% and net written premiums were down 1% when compared to the prior year period, primarily as a result of lower premiums in our financial institutions business. Pricing in this group was up about 1% on average for the quarter.

Now if you'll turn to Slide 6 for some review of our 2015 outlook for our Specialty Property and Casualty operations. You'll see that our estimates are unchanged from the guidance we shared in February.

Now I'd like to turn the discussion over to Craig to review the results in our Annuity segment and AFG's investment performance.

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

Thank you, Carl. The Annuity segment reported core pretax operating earnings of $75 million in the 2015 first quarter compared to $73 million in the comparable 2014 period, a 3% increase, as shown on Slide 7. Annuity earnings before the impact of fair value accounting were $92 million during the first quarter compared to $88 million in the first quarter of 2014, a 5% increase.

As you'll see on Slide 8, AFG's 2015 earnings continued to benefit from the growth in annuity assets. Our quarterly average annuity investments and reserves grew approximately 12% and 13%, respectively, year-over-year. However, the impact of this growth was partially offset by the runoff of higher-yielding investments. In addition, both periods benefited from stronger-than-usual investment results.

As you'll see on both slides, variances from expectations of certain items such as projected interest rates, stock market growth, option costs and surrenders have an impact on the accounting for fixed-indexed annuities. These accounting adjustments are recognized through AFG's reported core earnings.

In the first quarters of 2015 and 2014, lower-than-expected interest rates resulted in an unfavorable impact on earnings of $13 million and $12 million, respectively. The impact of lower interest rates is included within the impact of fair value accounting amounts shown on Slides 7 and 8.

Additional information about the components of spreads for AFG's fixed annuity operations can be found in AFG's Quarterly Investor Supplement posted on our website.

Annuity premiums were $813 million in the first quarter of 2015, a decrease of 16% from the comparable prior year period. This year-over-year decrease was due primarily to lower sales of traditional fixed annuities and the financial institutions market and lower sales of FIAs in the retail channel. AFG attributes these decreases to aggressive and, in some cases, new competition in these markets as well as the lower overall interest rate environment.

The 16% sequential decline in premiums from the fourth quarter of 2014 to the first quarter of 2015 reflect those same items. We remain steadfast in our commitment to maintain pricing discipline in the current interest rate environment.

Please turn to Slide 9 for an overview of the 2015 outlook for the Annuity segment. You'll see on this slide that we now expect our premiums for the full year of 2015 to be 5% to 10% lower than the $3.7 billion reported in 2014, which is a change from the initial guidance we shared in February when we estimated the premiums would be flat to down slightly. We are maintaining all other points of Annuity earnings guidance, including our expectation that core pretax Annuity operating earnings will be in the range of $310 million to $340 million compared to the $328 million reported for the full year of 2014. Other points of guidance are summarized on this slide for your reference.

Significant changes in interest rates and/or the stock market from today's level could lead to additional positive or negative impacts on the Annuity segment's results.

About 2 weeks ago, we announced a definitive agreement to sell our run-off long-term care insurance business to HC2 Holdings, as noted on Slide 10. Included in the sale are United Teacher Associates Insurance Company and Continental General Insurance Company, the legal entities that contain all of AFG's long-term care insurance business. The sale also includes small blocks of annuity and run-off life business within each of these 2 legal entities.

This transaction completes AFG's exit from the supplemental medical insurance lines of business and follows the 2012 sale of our Medicare Supplement and Critical Illness businesses. You may recall that AFG recognized an after-tax GAAP gain of $114 million on that transaction.

A few details surrounding the transaction and related financial implications are summarized on Slide 11.

As Carl noted earlier, first quarter results include an after-tax loss of $105 million related to the pending sale of this business. Estimated proceeds inclusive of a cash tax benefit will be in the range of $105 million to $115 million and will add $80 million to $90 million to AFG's excess capital. We expect this sale to be accretive to AFG's future operating earnings and operating returns on equity as the proceeds are utilized.

Importantly, the exit from the long-term care business enables us to provide continued focus on our core Annuity business. This transaction is expected to close in the third quarter of 2015, subject to customary conditions, including receipt of required regulatory approvals.

Please turn to Slide 12 for a few highlights regarding our $37 billion investment portfolio. AFG recorded first quarter 2015 net realized gains on securities of $12 million after tax and after deferred acquisition costs, the same amount recorded for the comparable prior year period. Unrealized gains on fixed maturities were $656 million after tax, after DAC at March 31, 2015, an increase of $52 million from year-end 2014. Unrealized gains on equities were $143 million after tax at March 31, 2015, an increase of $4 million from the year-end -- from year-end 2014.

As you'll see on Slide 13, our portfolio continues to be high quality, with 87% of our fixed maturity portfolio rated investment-grade and 97% with an NAIC designation of 1 or 2, its highest 2 categories. We've provided additional detailed information on the various segments of our investment portfolio in the Quarterly Investor Supplement on our website.

I will now turn the discussions over to Jeff, who will wrap up our comments with an overview of our consolidated first quarter 2015 results.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Thank you, Craig. I'll conclude with a view of AFG's consolidated first quarter results and share a few comments about capital and the liquidity.

Slide 14 recaps AFG's first quarter consolidated results by segment. Core net operating earnings per share in the quarter were $1.25, up 25% from a year ago. The $1.25 is based on core net operating earnings in the quarter of $112 million, which is an increase of $21 million year-over-year.

You'll see on Page 4 of our Quarterly Investor Supplement a more detailed view of the components of this change. Carl previously discussed the change in Specialty P&C underwriting income in the quarter. P&C segment underwriting profit rose by $2 million against last year's result. P&C investment income rose by $12 million or 18%. This was a result of an increase in average P&C invested assets as a consequence of the Summit acquisition.

In addition, P&C other expenses improved by $7 million. The sum of these 3 items produces the $21 million improvement in the P&C segment core pretax operating earnings. This is up 19% year-over-year.

We closed on the Summit acquisition at the beginning of the 2014 second quarter. Q1 2015 will be the final quarter where our Specialty P&C segment's quarterly comparatives are affected by the Summit transaction.

Craig previously covered our Annuity segment earnings, which were $2 million higher year-over-year. Results in our run-off long-term care and life segment improved by $6 million from the prior year. Interest expense of parent holding companies increased by $2 million due to the hybrid debt offering in September 2014, and other expense was $2 million lower than the 2014 first quarter.

Turning to Slide 15. You'll see a reconciliation of core net operating earnings to net earnings on an aggregate and per-share basis.

On Slide 16, you'll see that AFG's adjusted book value per share was $48.55 at March 31, 2015. Our excess capital stood at approximately $790 million at March 31, 2015. This included $270 million in parent company cash.

We returned $53 million to our shareholders through dividends and share repurchases during the quarter. Approximately 4.5 million shares remain under our repurchase authorization as of April 24, 2015. We plan to continue returning excess capital to our shareholders through the course of 2015.

On Slide 17, you will find a single-page summary of our 2015 guidance. As a reminder, AFG's expected 2015 results exclude non-core items such as realized investment gains and losses, the loss on the disposition of the run-off long-term care insurance subsidiaries and other significant items that may not be indicative of our ongoing operations.
Now we'd like to open the lines for any questions.

Question and Answer

Operator

[Operator Instructions] First question comes from Vincent DeAugustino from KBW.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Just to start with Craig. Looking at the Annuity business. We're obviously paying attention to the DOL [ph] potential regulations that could be coming down. But any sense for how much of your Annuity business is based on IRA accounts?

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

I think the total qualified business, Vincent, would be something in the neighborhood of 45% of the business.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then, this is for -- I mean, it's anybody's guess right now, but -- and I'm just curious, regarding your thoughts on any potential adaptations that you might have to run through and kind of how you're thinking about any of those at this time.

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

Related to the new potential rules, is that...

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

On the fiduciary standards, yes.

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

Yes. First of all, the wording hasn't been finalized. We're obviously studying it and taking it very seriously. I think, given the fact that we have higher ratings and our sales practices, I believe, are a lot cleaner than some others, honestly, I think that it potentially could benefit us. We're obviously going to have to be very careful to be totally compliant, but at least, our earlier read is it's something that potentially could be a benefit.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, that's very good to hear. And then, just in the press release and the comments today, you guys had mentioned ocean marine development. Any chance that some of that was coming from the 2014 accident year's result of the West Coast port disruptions?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

No. I think it might have related to a custom bonds type of business within ocean marine.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, good to know. And then, just the last one for me. On workers' comp, looking at California, so relative to your assessment of loss cost trends there, and then also, to the relative stickiness of the foreign-based savings that we've seen come and go based on past performance, I'm curious of your opinion on the justification of the rating bureaus' rate decrease there, and then, how that compares roughly to the experience of your book and whether or not you think that, that type of magnitude is justified by the loss cost environment there.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

I can take either -- a number of different questions there. Let me, first of all, start out by saying that, we had this visit with our guys out there a week or so ago and they feel very positive about the claims environment in California and also how reform is holding at this point. And I think that probably relates some to the WCIRB rate decline that was filed, with 10% or so. One thing to keep in mind about that 10% rate, when you -- that's against the WCIRB's previous rate that was filed. I believe, if you look at that compared to where the industry is, it's more like a 5% decrease when you look at the actual. So I look at it as whether a 5% rate decrease maybe to where the industry average is, is reasonable. And I think, the latest industry projection, talking about the industry, is a 103-accident year. So still not in the red from an underwriting standpoint. So it seems like -- I understand politically why filed rates get filed where they are, but 103 is no great accident year at this point. In that -- the bottom line is, no matter what the file, the industry's -- the WCIRB's suggested rate is, each company files their own kind of based off their own results. Republic, we're very pleased with Republic's results. When you look over a long period of time, Republic generally has outperformed the industry by a pretty good margin. And that's what actually gave us an opportunity, probably earlier than others, to grow our business over the past couple of years as we got better quicker. It gave us an opportunity to grow our business. Republic's 2013 and '14 accident years project healthy underwriting profits and double-digit returns on equity versus the industry number that I mentioned, that's still in the red. We feel good about -- I just saw, I think the WCIRB talked about a $6.8 billion reserve deficiency in the industry. When we look at Republic, we feel Republic has a good reserve adequacy, strong reserve adequacy today. Our loss cost trends -- our loss trends are probably in the 3% to 4% in that. And with the profitability of our business, that doesn't concern me when we look forward to, probably, overall this year, we'll probably have a low single-digit rate decline once we figure out what we're going to file in relationship to those latest WCIRB filing. The department still has to approve that, so we're really just kind of sitting back, waiting for -- to see what the department's ruling is. And then, strategically, we'll make up our mind what our response or what our potential filing is.

Does that answer your question? Or...

Operator

And our next question comes from Jay Cohen from Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes. I wanted to actually ask about the broader workers' comp market. I've had a couple of companies say that, that business has gotten more competitive. So not just in California but nationwide. What are you seeing from a competitive standpoint in workers' compensation?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

In Florida, did you -- just to clarify, or overall?

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I'm just thinking, one that -- given that you're now in this business in many different states, just broadly speaking, what are you seeing?

Carl H. Lindner

Co-Chief Executive Officer, Co-President and Director

Well, again, the biggest part of our -- in California, I think, the market is more competitive, but it still seems to be allowing us to grow, at least early this year. That's postured with -- the California state fund just, I think, just filed a 9% rate increase there. So -- and there's other companies that, even though the industry is estimated to be at 103, there's other competitors out there that focus more on Southern California, and still, we're trying to work through problems in their book in Southern California. So it's kind of mixed. They're, overall, probably more competitive but kind of mixed depending on which companies have what results. In the Southeast, I think things are -- meaning Florida and in Summit's marketplaces, generally, the market probably is more competitive. There have been some rate declines filed, and a number of the -- in Florida and in a number of the states that Summit operates in. So I think, as results, again, for the industry have improved, I think there's some more competition. In our strategic comp part of our business, I think there's probably some more competition there, though. Our approach in that business is more large deductible, really, heavy loss prevention and working with the insurers. Really, kind of a different model than our other businesses. So maybe a little less so. Though I think, overall, we're seeing more competition even there.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. The other question I had, again, sort of on competitive conditions, but outside the U.S, what are you seeing? And I guess, related to that, where do you see some growth opportunities this year outside the U.S?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Well, probably, we're starting as -- we'll get -- we'll probably begin to write a little business in Singapore towards the end of the year. In the Lloyd's market, yes, it's very competitive there right now, and our emphasis is going to be more on improving the underwriting profitability that we have versus growing in that. Our Lloyd's insurer market form is our -- that's really where most of our business is internationally in Europe and that. So I think we're going to be more focused because of the environment there on improving profitability versus lots of growth. I think you can expect us to, as I had mentioned before, I think, over the next 12 to 18 months, to hire some additional talent and start some additional businesses, specialty businesses outside the U.S.

Operator

Our next question comes from Ryan Byrnes from Janney Capital.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Great. Just, obviously, once the long-term deal -- sorry, long-term care block closes at third quarter, kind of bump your excess capital up to historically high levels, just wanted to get your guys' thoughts on the M&A market. Obviously, there's been a lot of movement in Bermuda. I'm not sure that's where you'd be interested, but just wanted to get your thoughts and where an M&A pipeline is right now.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

I think it's constant with us -- or consistent. We're taking a look at a steady flow of opportunities, from acquisitions to startups to talent acquisitions, on an ongoing basis. I -- to me, I think our flow seems to be pretty consistent with where it's been in the past and that. So we're -- on the capital management side, we're going to be -- each year's going to be a little bit different and we're going to focus on using capital where we can get the highest and best short-term and long-term returns and I -- though, I think, opportunistic share repurchases, dividends, special dividends, all those things are tools in the -- in our toolkit, kind of depending on what type of M&A activity we end up completing this year or that we anticipate as we go into next year.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Ryan, this is Jeff. Just to add on, you said that consummation of the long-term care transaction would bring our excess capital to historically high levels. We did tag our number at $790 million this quarter, and when we add in the long-term care capital, that still won't surmount the $1 billion we went into 2014 with. We wound up deploying that across the spectrum between the Summit acquisition plus repurchases plus dividends. So that was our record at that local peak.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Okay. Well, we'll agree, it's close to historically high levels, how about that?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Agreed.

Operator

[Operator Instructions] Our next question comes from Paul Newsome from Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

What -- under what environment would you, or if you would at all, foresee the excess capital being essentially a 0?

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

I don't think we'd ever allow the excess capital to go to 0. I think, generally, probably always, we want to -- we would always want to maintain $100 million to $200 million of excess capital for defensive reasons, for unexpected kind of things that would impact our balance sheet, or opportunistic things. Sometimes, some of the best opportunities are when you least expect them.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

I had an unrelated question for the -- on the life side. I was out to see some of the American Equity folks a little while ago, and they were talking about quite a few products that were being pulled from the market and, as a result, were pretty optimistic about potential sales in the year. How do those product pools from like Guggenheim and those folks affect your business?

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

I caught a part of that, but I didn't catch the whole thing. Could you repeat that, please?

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

A number of your competitors, I mentioned Guggenheim as one of them, have pulled the products, annuity, fixed annuity, index fixed annuity product in the last month or 2, and I was wondering how that impacted your outlook.

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

I mean, it's obviously a favorable thing for us if a competitor pulls a top-selling product, and several have. I think they got a little overly ambitious with the promises they were making or with the indexes that were being used for the promises that were being made, and I think they understood that the profitability wasn't as great as what they were thinking. So I mean, that piece of it, when competitors pull top-selling products, it's obviously a benefit to us. I will say, though, that it's still a very competitive market out there.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Is the decline in your sales a demand issue or a supply? Are you looking at the rate environment and deciding to sell less in order [indiscernible] to be more competitive or is it both?

S. Craig Lindner
Co-Chief Executive Officer, Co-President and Director

We're just very disciplined in our pricing. I think the low-interest rate environment is certainly working against us. We're disciplined on the pricing. I think there are some others who, I guess, maybe have lower return hurdles than we do. We think that when interest rates are at the bottom, it is not the time to get overly aggressive in -- in growing the business. We think that there are actually more risks when you're selling annuities at the very bottom of the interest rate cycle than kind of in a higher interest rate environment. So we're very pleased, though, with the level of premiums, and we're still going to have -- the midpoint of our guidance shows growth in assets of 10%, which is still pretty healthy. So we're not displeased if we end up hitting our guidance of premiums down 5% to 10% from last year. It still results in very healthy growth in both assets and reserves.

Operator

I'm showing no further questions at this time. I would like to hand the conference back over to Ms. Diane Weidner.

Diane P. Weidner
Assistant Vice President of Investors Relations

Thank you very much for joining us this morning, and we look forward to talking to you again when we report our second quarter results. This concludes our call for today.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This concludes our program. You may all disconnect, and have a wonderful day.