Harbinger details annuity sales results for fiscal 2013

By Kerry Pechter *Thu, Nov 28, 2013*

On Nov. 1, Harbinger unit Fidelity & Guaranty Life announced it would leave Maryland and relocate to Iowa for that state's "deep insurance talent pool, sophisticated regulatory approach to indexed products, and strong business climate." In August, FGL filed for an IPO.

Major changes are underway at Fidelity & Guaranty Life, the insurer that was purchased by the Harbinger Group in the wake of the financial crisis.

In late August, FGL filed for an IPO. On November 1, the company said it would "re-domesticate" from Maryland to Iowa. This week the parent company announced its consolidated results for the year ending last September 30, including results for its insurance division.

"Operating income in our Insurance segment has performed strongly and grown to $522.9 million due to a more favorable economic environment and our solid market position," said HGI president Omar Asali, in a release.

The firm reported these financial highlights for its insurance segment for fiscal 2013:

- Annuity sales, which for GAAP purposes are recorded as deposit liabilities (i.e. contract holder funds), for fiscal 2013 of $1.0 billion, compared to $1.7 billion for fiscal 2012.
- Annuity sales fell because of pricing changes and because of relatively high sales during the same period last year from the launch of new products. The pricing changes were made to maintain target profitability and target capital ratios.
- Indexed universal life sales grew by 16%.
- Net income was $350.2 million, up from $344.2 million for fiscal 2012. Operating income was $522.9 million, up from $159.9 million for Fiscal 2012. Bond sales and adjustments to amortization and reserves (to reflect updated assumptions related to interest rates and option costs based on the current market environment) significantly improved during Fiscal 2013.
- Adjusted operating income ("Insurance AOI") rose by $163.5 million (pre-tax), or 282.4%, to $221.4 million from $57.9 million for Fiscal 2012.
- Annual changes made to assumptions about the surrender rates, earned rates and future index credits that are used in the FIA embedded derivative reserve calculation drove the increase. They caused a reserve decrease of $86.5 million during the fourth quarter of Fiscal 2013, net of related DAC and VOBA amortization and unlocking impact.
- Also contributing to the increase: immediate annuity mortality gains of $36.3 million during Fiscal 2013 caused by large case deaths and the absence of an $11.0 million charge for unclaimed death benefits, net of reinsurance, recorded in Fiscal 2012 and a reconciliation of adjusted operating net income before taxes to the Insurance segment's reported net income before taxes below.

FGL had approximately $17.4 billion of assets under management as of September 30, 2013, compared to $17.6 billion as of September 30, 2012. As of September 30, 2013, HGI's Insurance segment had a net GAAP book value of $1.2 billion (excluding Accumulated Other Comprehensive Income ("AOCI") of $112.9

million). As of September 30, 2013, the Insurance segment’s investment portfolio had $305 million in net unrealized gains on a GAAP basis. FGL’s statutory total adjusted capital at September 30, 2013 was approximately $1.136 billion.

On November 1, 2013, FGL announced that it would move from Maryland to Iowa to leverage Iowa’s “deep insurance talent pool, sophisticated regulatory approach to indexed products, and strong business climate.” In addition, on August 29, 2013, FGL filed for a U.S. initial public offering.