FBL Financial Group, Inc.
2Q15 Conference Call

Jim Brannen
Chief Executive Officer

Thanks Kathleen. Good morning and welcome to everyone on the call. Thank you for taking the time to join us today and for your interest in FBL Financial Group.

I am pleased to report that FBL Financial Group posted excellent earnings results in the second quarter of 2015. Net income came in at $1.29 per share and operating income was $1.11 per share.

Premiums collected for the second quarter were lower, with annuity premiums collected down 17% and life insurance premiums collected down 3% compared to the second quarter of 2014.

Annuity sales reflect the challenge of the extended low interest rate environment. In the second quarter, sales of our shorter term annuity products remained suspended. Our indexed annuity product, however, continues to be popular and increased 21% in the second quarter over the second quarter of 2014.

Similar to the last several quarters, the decline in life premiums collected compared to the year ago quarter reflects lower first year universal life sales. This is because there is less excess premium in our cash value accumulation product.

While premiums collected have dipped, activity is increasing nicely. I'm optimistic as we're seeing an increase in life and annuity applications of 9.6% year-over-year through June.

We also have a number of programs underway to increase both life and annuity sales. At the beginning of July we held sales rallies with agents across our various states. At these events, Scott Stice and other sales leaders introduced several new products as well as more tools and support for our agents.

We launched our new indexed universal life product at the rallies. This product features an indexed segment. Interest is credited annually on a point-to-point basis based on the percentage change in the S&P 500®. Our product has only one interest crediting strategy, consistent with our focus on "keeping insurance simple." Our point-to-point cap is currently at 10%, which makes it very attractive. Clients will participate in market gains, protect their downside and have permanent death benefit protection. Agents are pleased to have this as part of our product portfolio. It is the fastest growing product in the life insurance industry. I expect demand for the IUL product to build as our agents become comfortable with it.

Other launches at the sales rallies included an updated universal life product as well as a limited 4-year guarantee annuity, which is available through September.

Agent attendance at these rallies was high, and agents welcomed these new products. We have marketing campaigns in place to support the product launches. Those include email, social media and targeted mailings.

Next I'll comment on our agent count. As of June 30, we had 1,810 total agents and agency managers, plus 88 active reserve agents in the pipeline. This is an increase of 28 agents under contract during the second quarter. I'm pleased with this increase as expanding our agent count is critical to our growth and success.

I'm also very pleased that our first year agent retention has climbed to 86%, up from 76% in the second quarter of 2014. This growth in agent count and the increased retention reflect the effectiveness of our reserve agent and other programs. As you'll recall, at the beginning of this year, we increased the reserve agent requirements, making it more difficult to become an exclusive Farm Bureau agent. I'm pleased with this high quality growth and am excited about our future as we add to our agency force.

Before I conclude my comments, I'd like to take a few minutes to comment briefly on the Department of Labor's proposed fiduciary rule.

Our agent training has always been focused on needs based selling, which is designed to identify customer needs, then provide products that will help meet those needs. Our needs based selling approach has served our customers well. My concern is that the proposed DOL rule, as written, would lead to a number of unintended consequences. My top concern is the impact to consumers as they will ultimately pay the price of increased regulation. Consumers need savings advice more than ever. We want to make it easier, not harder, for Middle America to plan and save for retirement.

We advocated for changes to the DOL proposed rule through our membership in the American Council of Life Insurers and the Insured Retirement Institute. Their comment letters incorporate our concerns. In addition, several Farm Bureau leaders across the country provided comment letters in support of the ACLI and IRI letters.

I'm pleased that the DOL has stated on several occasions recently that they are willing to consider some changes to the provisions of the rule, as long as their goal of a best-interest standard is accomplished. Given those remarks and the significant number of comment letters submitted, I hope that there will be changes to the proposed rule.

I'm confident that we'll be able to adapt to any changes that come from this proposed rule. In fact, I believe our exclusive agency force, which focuses on trusted relationships and needs-based selling, will give us an advantage in approaching any changes from the DOL.

In conclusion, I'm pleased with FBL's second quarter results and I'm optimistic about the remainder of 2015.

Now I'll turn the call over to Don Seibel for a review of our financial results. Don.

Don Seibel
Chief Financial Officer

Thanks, Jim, and good morning everyone.

As Jim indicated, we had very strong second quarter financial results, with operating income of $1.11 per share and net income of $1.29 per share. During the quarter our operating income adjustments totaled $0.18 per share and consisted primarily of net realized gains on investments.

I'm pleased to share with you today some insights around these results.

At a high level, our book of business continues to steadily and consistently grow, and again this quarter we benefitted from investment fee income, which was partially offset by increased death benefits.

During the quarter we had $0.09 per share of investment fee income, impacting primarily the annuity segment, but also the life insurance segment. With the extended low interest rate environment, we've experienced increased investment fee income for a number of quarters due to higher bond calls and commercial mortgage loan repayments. At some point, I expect this level of investment fee income to diminish, but to date, that has not been the case. These prepayments temporarily increase our investment yield due to the income in the period of repayment, but ultimately lower our investment yield as we're reinvesting at lower rates.

Mortality experience for the quarter was worse than our expectations, by about $0.04 per share. By its nature, mortality experience fluctuates on a quarterly basis. The fluctuation we experienced this quarter primarily related to our term business and was attributable to a higher average claim size. This relates to a limited number of policies, and is nothing out of the ordinary.

Most other areas of focus, such as expense levels, were right around or a little better than where we expected them to be.

Taking into account investment fee income and fluctuating mortality experience, I would put normalized operating earnings right around $1.06 per share – a strong quarter.

Turning now to spreads, we continue to successfully manage spreads, despite the extended low interest rate environment. As of June 30, in total we are achieving our target spreads.

During the quarter, the point-in-time spread on our annuity business increased by three basis points to 210 basis points. This increase reflects a recent 15 basis point crediting rate change on several annuity products. This spread remains above our target of 203 basis points for this business.

Spreads on our universal life business are a bit more pressured, reflecting the fact that more of this business is at the minimum guarantee so we have less flexibility to make crediting rate changes. Point-in-time spreads on our universal life business totaled 143 basis points at June 30, which is below our target for this business of 155 basis points. As of June 30, 82% of this business is at the minimum guarantee.

The increase in treasury yields, modest spread widening in corporates and the record levels of corporate bond issuance combined to provide us with some good opportunities to put money to work, particularly in the latter part of the quarter. A little more than half of our purchases during the quarter were NAIC 1 rated corporate bonds. We also added some private label mortgage and asset backed securities as well as several municipal bonds among other asset classes. Overall, our portfolio quality remains high with 96% investment grade, and 33% being NAIC 2. During the first half of 2015, the average tax-adjusted yield on investments acquired backing our long-term business was 4.61%.

Next I'll comment on our capital levels.

At June 30, the capital position of our wholly-owned subsidiary, Farm Bureau Life, remained excellent with an estimated company action level risk based capital ratio of 549%, a slight increase from 545% at year-end 2014.

Using 425% RBC as a base, Farm Bureau Life had excess capital of approximately $145 million at June 30. At the holding company level we also have more than adequate liquidity and capital with excess capital at the parent company of approximately $45 million at June 30.

While we have a stock repurchase plan in place, we did not repurchase any shares during the second quarter. I do expect us to repurchase shares going forward, albeit at relatively low levels, barring any major market changes.

While we have not been buying back our shares, we have been returning capital to shareholders in the form of dividends. Our total return to shareholders for the twelve months ending June 30 was 33.4%, with 25.5% from the increase in our stock price and 7.9% from our special dividend and regular quarterly dividends. Our regular quarterly dividend continues to be very attractive. Based on yesterday's closing price, our regular dividend yield is 2.8%.

To recap, it was a great quarter for FBL Financial Group with strong earnings. As we move forward, we'll continue with our disciplined approach to managing the growth and profitability of our business. I'm pleased to have been able to share these results with you.

That concludes our prepared remarks. We will now turn the call over to the operator and open it up to any questions you may have.