FBL Financial Group, Inc.
4Q16 Conference Call

Jim Brannen
Chief Executive Officer

Thanks Kathleen. Good morning, and thank you to everyone on the call. I'm glad you are able to join us today.

Before I discuss our results for the quarter, I'd like to mention a recent addition to the FBL Management Team. Nick Gerhart recently joined our organization in the position of Chief Administrative Officer. In this role, Nick has responsibility for enterprise strategic planning, government relations, human resources and health services, among other administrative functions. Many of you likely know Nick as he served very capably as the Iowa Insurance Commissioner for nearly four years. We're thrilled to have Nick on board. I'm confident he'll immediately begin to add significant value to our organization.

Turning now to results, FBL Financial Group reported solid earnings for the fourth quarter of 2016. Net income was $1.07 per share and operating income was $1.02 per share.

Overall, sales for the fourth quarter were mixed. Total premiums collected were $173 million, with annuity premium collected down 2.6% and life premium collected up 2.6% compared to the fourth quarter of 2015.

Fixed rate annuity sales are often driven by the interest rate we are able to credit on products, notably our 4-year multiyear guaranty annuity product. Given the interest rate environment, we had lowered crediting rates on this product a couple of times in the third quarter. However, with the increase in market interest rates, we were able to increase rates and offer a bonus feature on this product at the beginning of the fourth quarter. We increased rates again in December. This led to an increase in sales from the third quarter to the fourth quarter of 2016. We continue to maintain financial discipline, meet pricing objectives and offer appropriate credited rates based on available investment opportunities

Premiums collected on our indexed annuity product continue to be strong, and were up 8% over the fourth quarter of 2015, and up more than 38% for the full year.

Life premiums collected for the fourth quarter were up by 2.6% compared to the fourth quarter of 2015. Sales of our relatively new index universal life product continue to grow. And sales of our whole life product were strong for the full year. First year premiums collected for our participating whole life product were up more than 11% for 2016 compared to 2015.

As we move forward in 2017, there are several areas where we are concentrating to strengthen sales.

We believe there is more room to grow our indexed sales even further. To date, I have been pleased with the rate of growth of both our indexed annuities and indexed universal life product. Many of our agents are strong sellers of these products. However, some agents have not yet adopted these products. We know customers see value in these products, so we're working with sales leadership in this area. We have training programs in place, such as our Indexed Academy, to ensure agents understand all aspects of indexed products and have confidence presenting them to customers.

We are expanding the number of our very successful Regional Financial Consultants. These individuals work in assigned geographic territories as a resource to help agents with life and annuity sales. We have recently increased our emphasis on the number of life insurance applications, in addition to total premiums. There are also a variety of initiatives in place to leverage digital technologies to improve the customer experience. This includes more paperless and billing options, and added functionality, to make it easier for our customers to do more online.

In addition to sales initiatives, we continue to concentrate on growing the total agent count. As of December 31, we had 1,862 agents and agency managers, plus 72 active reserve agents in the pipeline working to complete the steps necessary to become full-time Farm Bureau agents. Our exclusive Farm Bureau agents are our most important competitive advantage and we have strategies in place to retain current agents, add new agents and consistently grow our total agent count. We have seen steady growth over the last few years and it is key to our success.

There is a lot of uncertainty and some optimism in our country right now including – the economic environment, taxes, trade, regulation, and interest rates. And while we follow all of these issues closely, we also remain focused on the fundamentals: to recruit and retain agents and support them with the tools they need to be successful. They are engaged and committed to protecting the livelihoods and futures of our customers. The dedication to know our customers, connect with them regularly and meet their needs allows us to maintain our industry-leading cross-sell rate.

There's a lot of speculation that the Department of Labor Fiduciary Rule will be delayed. However, we are preparing for the first compliance date in April. Our current proprietary product offerings and agent compensation models will not change substantially as we plan to sell under the Best Interest Contract Exemption, or BICE.

As I look back on 2016 I am gratified about many things. We grew sales and our total agent count. We maintained our financial discipline and delivered solid earnings results and an excellent total return for our shareholders. As Don will discuss, our capital levels remained high and we were able to return $92 million to shareholders. I look forward to the opportunities and challenges that 2017 brings.

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

Don Seibel
Chief Financial Officer

Thanks, Jim, and good morning everyone.

I'm glad to be here today to provide some insights regarding our earnings and capital position.

As Jim indicated, net income for the quarter was $1.07 per share and operating income was $1.02 per share. During the quarter our operating income adjustments totaled $0.05 per share and consisted of the change in net unrealized gains and losses on derivatives and net realized gains on investments.

Fourth quarter results were below our expectations, primarily due to mortality experience. Death benefits were elevated due to an increase in both the total number of claims and the average claim size throughout the Life Insurance segment. Based on our review, we do not believe the higher level of claims in the fourth quarter is indicative of an underlying trend, but rather a normal quarterly fluctuation in mortality experience. For the quarter, the death benefits were approximately $0.10 per share higher than what we had expected. Looking at mortality results for the full year, our experience was better than expected in the Life Insurance segment, but were more than offset by unfavorable experience in the Corporate segment from our variable block of business. This resulted in death benefits being approximately $0.05 per share higher than what we expected for the full year.

During the fourth quarter, we had some favorable offsets to the adverse mortality experience that were more one-time in nature. These include some true-ups to reserves and reinsurance ceded balances. These one-time items added approximately $0.04 per share for the quarter.

Other investment-related income, which includes prepayment fee income, totaled $1.6 million for the fourth quarter. The amount of fee income earned fluctuates period-to-period. The amount earned this quarter is in line with the quarterly average we have received over the last several years. This income contributes to earnings in the short-term, but further compresses future spreads due to the loss of higher yielding securities.

Next I'll comment on our spreads and spread targets.

At December 31, the total spread on our individual annuity business was 201 basis points, right at our target for this business. During the quarter, investment yields decreased 3 basis points due to the maturity of higher yielding assets and purchases of lower yielding assets. Crediting rates decreased 2 basis points over the quarter due to rate actions and the impact of lower option costs on our index annuity business.

I'm pleased that we are meeting our spread target for our annuity segment, but it will be a challenge for us to earn the desired target spread going forward. The increase in market interest rates in the fourth quarter was positive, although the yields on our security acquisitions are still below our portfolio yields. Over time we have decreased crediting rates as appropriate. There are competitive pressures that make it difficult to be aggressive in taking further rate actions. At year-end 2016, we had 34% of our annuity business receiving a crediting rate above the minimum guarantees.

Point-in-time spreads on our universal life business declined during the fourth quarter to 139 basis points at December 31, below our target for this business of 151 basis points. This decline was due to the maturity of higher yielding assets and purchases of lower yielding assets. Crediting rates for this block of business remained the same during the quarter. It is difficult to lower crediting rates further as we have only 21% of the business receiving a crediting rate above the minimum guarantees at December 31.

Given these spread pressures and modest growth levels, we have worked diligently to control expenses. I am pleased to report that operating expenses were lower in the fourth quarter of 2016 compared to the same quarter last year. Some of the actions to lower expenses are not sustainable over the long-term. As always, expense management will be a focus in 2017.

Next, I'll comment on our financial strength.

At December 31, the capital position of our wholly-owned subsidiary, Farm Bureau Life, remained excellent with an estimated company action level risk based capital ratio of 544%.

Using 425% RBC as a base, Farm Bureau Life had excess capital of approximately $150 million at December 31. Additionally, we estimate that we have approximately $50 million of excess capital at year end 2016 at the holding company level.

We were able to achieve these high capital levels, even after returning $92 million to shareholders in 2016. Of this amount, we returned $41.8 million via our regular quarterly dividend and $49.7 million via the $2 per share special dividend we paid in the first quarter of 2016. In addition, we had a small amount returned via share repurchases during the year.

As we review our options for deploying our current level of excess capital, we consider stock repurchases, our regular quarterly dividend and the payment of special dividends. We have not been active repurchasing shares recently and did not repurchase any FBL stock during the fourth quarter. We are mindful of our limited public float and are sensitive to the liquidity of our stock.

Our board of directors reviews the dividend rate regularly and is committed to having an attractive dividend yield, given our strong and consistent operating results.

We also view the payment of special dividends, on occasion, as a viable option for distributing a portion of our excess capital. Our board will next review the payment of dividends when it meets in March.

In closing, I look back on 2016 as a year of success for FBL Financial Group. These are challenging times for the life insurance industry, but we were able to grow our business, deliver solid financial results and return $92 million to shareholders. We move forward in 2017 with discipline to profitably grow our business and further build on FBL's strong financial foundation.

I'm pleased to have been able to share these results with you. We will now turn the call over to the operator and open it up to any questions you may have.