FBL Financial Group, Inc.
2Q17 Conference Call

Jim Brannen
Chief Executive Officer

Thanks Kathleen. And thank you to everyone on the call. I'm glad you are able to join us today.

FBL Financial Group reported excellent earnings for the second quarter of 2017. In fact it was a record operating income quarter. Net income totaled $1.29 per share and operating income was $1.23 per share. I attribute these excellent financial results to our discipline to profitably grow our business.

I'll begin by discussing sales results. Total premium collected for the second quarter of 2017 was $166 million. We experienced further strengthening of life sales for the quarter, while annuity sales weakened.

Life premium collected for the second quarter of 2017 was up 7.1% compared to the second quarter of 2016. We saw the greatest growth in universal life insurance, reflecting increased sales of our index universal life product. We also saw good growth in our term life sales.

Our accelerated underwriting pilot program is going well. This program is designed for the middle market to attract customers who need to protect their families with life insurance. In June we held accelerated underwriting events in conjunction with our annual summer sales rallies. This non-medical underwriting approach has been well received by agents and customers. As a result, we established an all-time record for life applications submitted during a summer sales rally.

I'm pleased with the increase in life policies as it is currently our main focus. It enables us to further fulfill our purpose of protecting the livelihoods and futures of our policyholders. In addition, these life sales position us for a long term profit stream and allow us to continue to grow earnings from sources other than spread income.

The increase in life sales is particularly important when annuity sales are under pressure due to low interest rates and increased regulation. Annuity premium collected for the second quarter was down 23.8% compared to the second quarter of 2016.

The Department of Labor's Fiduciary Rule went into effect on June 9th. We are now required to comply with the Impartial Conduct standards of the rule, with the remaining provisions of the rule effective January 1, 2018. Given the added requirements, qualified annuities now take longer to process and are slower to be issued. For the time being, we complete some processes manually, and will automate the remaining processes by January 1, assuming the rule goes into full effect.

The increased regulation, coupled with low interest rates, has pressured annuity sales. Sales of annuity products, particularly fixed rate annuities, are impacted by the crediting rate we are able to offer. We lowered crediting rates on our 4-year guarantee annuity product in June and have made a couple of changes since then, given the investment environment. We continue to be nimble and update the rates on our annuity product offerings regularly in response to changes in the marketplace. This allows us to provide appropriate credited rates based on available investment opportunities, maintain financial discipline and meet our pricing objectives. We are not selling annuities unless we believe we can hit our targets.

While the annuity sales environment is a challenge, the 7.1% increase in life premiums shows once again the benefits of our balanced life and annuity portfolio. I am proud of my team's ability to respond to these market conditions and drive growth in life sales.

Next, I'll mention our branded annual review program, called SuperCheck. Our research tells us that the more our agents meet with their customers, the higher the customer's satisfaction level. Our agents regularly perform SuperChecks with their customers. To highlight the critical importance of these annual reviews, on June 2nd, we held our first ever SuperCheck Blitz Day. On that day, our Farm Bureau agents and their staff made more than 75,000 phone calls, resulting in over 11,000 SuperCheck appointments.

Knowing our customers and getting together with them regularly to meet their needs has led to our industry-leading cross-sell rate.

As of June 30, we had 1,828 exclusive agents and agency managers, which is a year-to-date decline in total agents. I remain positive, however, as in July, we added a net 21 agents for the month. And the pipeline for new agents is full. As of July 31, we had 95 active reserve agents working to complete the steps necessary to become full-time Farm Bureau agents. By year end I expect us to again grow total agent count and continue the steady growth in agent numbers we've seen over the last few years.

To conclude, more than halfway through the year, we feel very good about our financial results year-to-date, and are looking forward to executing on the opportunities ahead of us.

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

Don Seibel
Chief Financial Officer

Thanks Jim. I also want to welcome everybody on the call. 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 $1.29 per share and operating income was a record $1.23 per share. During the quarter our operating income adjustments totaled $0.06 per share from net realized gains on investments and the change in net unrealized gains and losses on derivatives.
Results were strong across the board, with results for each of our segments better than our expectations.

Looking at our Annuity segment, pre-tax operating income was strong and reflects growth in this block of business. In addition, the segment benefited from a one-time reserve release totaling $1.0 million during the second quarter of 2017.

There continues to be pressure on annuity spreads. We've been active in lowering crediting rates where appropriate and in the second quarter we reduced crediting rates on multiple products. However, this was not enough to offset the decline in yields on investments backing this business due to the maturity of higher yielding assets and purchases of lower yielding assets. At June 30, the spread on our individual annuity business was 196 basis points, five basis points below target for this business.

Next I'll comment on the results for our Life Insurance segment. Death benefits in this segment were in line with expectations. Also, beginning in 2017, this segment benefited from equity income. In the second quarter, alternative investments with a statement value of $27.7 million tagged to the Life Insurance segment contributed $1.3 million of income before tax.

We also see spread pressure in the Life Insurance segment, where spreads improved in the second quarter but are not meeting our targets. Point-in-time spreads on our universal life business increased three basis points in the second quarter to 141 basis points at June 30, but are below our target for this business of 149 basis points. The improvement in spreads was the result of crediting rate actions taken in the second quarter.

Results for the Corporate & Other segment were also above expectations. This segment benefited from fewer death claims on our closed block variable universal life business. The variable business also benefited this quarter from the positive impact of equity markets on separate account performance.

To summarize, our operating earnings were excellent this quarter at $1.23 per share. I estimate approximately $0.10 per share of these earnings were from sources that aren't necessarily repeatable on a consistent basis. These sources include:

- better than expected investment prepayment fee income
- the one-time release of annuity reserves
- better than expected mortality experience in the Corporate & Other segment and
- decreased DAC amortization on variable business due to market performance

Next, I'll comment on capital levels. At June 30, the capital position of our subsidiary, Farm Bureau Life, was very strong with an estimated company action level risk based capital ratio of 563%. This is an increase of 19 points from year end 2016.

Using 425% RBC as a base, Farm Bureau Life had excess capital of approximately $170 million at June 30. Additionally, we estimate that we have approximately $35 million of excess capital at second quarter end at the holding company level.

A final note of good news is that Farm Bureau Life has been named to the 2017 Ward's 50® group of top performing companies. This marks the 18th time that Farm Bureau Life has been named to the Life-Health Ward's 50® list. Also with our managed property-casualty company being named to the Ward's 50® for the third time, this makes Farm Bureau Financial Services one of seven organizations with affiliated companies named to both lists. Ward group analyzes more than 700 life insurance companies and 3,000 P&C insurers, so we are honored to be recognized for strong operating performance and consistent financial strength.

In closing, FBL had an excellent second quarter with record operating profits. We had strong life sales, which positions us well for future non-spread profit streams. We continue to pay an attractive quarterly stockholder dividend while also increasing our strong capital levels.

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.