FBL Financial Group, Inc.
1Q18 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 solid earnings for the first quarter of 2018. Net income totaled $0.94 per share. Non-GAAP operating income was $1.10 per share, which is the highest we've ever had in a first quarter. These strong first quarter results reflect a growing book of business coupled with financial discipline.

Don is going to review the financial results in detail. I'll focus my comments on sales, the wealth management initiative, our new advertising campaign and the topic of innovation.

Total premium collected for the first quarter of 2018 was $170 million. I'm pleased that total premium collected was balanced between annuities and life insurance, and am particularly pleased that we reversed the decline in annuity premium that began last July following partial implementation of the DOL Fiduciary Rule.

Annuity premium collected for the first quarter totaled $78.8 million, and while that is a decline from the first quarter of 2017, it is a more than 15% increase from the fourth quarter of 2017. This increase is primarily due to sales of index annuities. As you'll recall, in September 2017 we introduced a flexible premium indexed annuity, which replaced our single premium indexed annuity product. Clients have been attracted to the ability to make additional contributions into their indexed annuity contracts.

In addition, given the more favorable interest rate environment, on March 1 we increased the rate on our four year multiyear guarantee annuity by 50 basis points. This has led to increased sales of this product.

Life premium collected for the first quarter of 2018 totaled $76.3 million, up 3.7% from the first quarter of 2017 and up 5.3% compared to the fourth quarter of 2017. Sales of our indexed universal life product are growing. And, earlier this year we offered additional accelerated underwriting events as part of our pilot program. These were well received and helped to further drive life sales.

Turning now to our agency force, as of March 31, 2018, we had 1,825 exclusive agents and agency managers, which is a first quarter decrease from year-end 2017. Our recruiting is strong, but did not overcome the agent attrition we experienced during the quarter.

We are making good progress on our new wealth management initiative.

In the first quarter we completed phase one of this initiative where we introduced the new mutual fund platform to our exclusive agents. We provided online training and live classroom instruction, and have a variety of tools and resources for our agents to use. This is a benefit to our nearly 1,200 registered representatives. Our agents and customers have reacted positively to the new capabilities. First quarter mutual fund deposits are up approximately 10% compared to the year ago quarter. And since we launched in early March, the number of new mutual fund accounts opened has almost doubled over previous run rates.

We are now working on phase two of this initiative, which is the conversion of existing mutual fund business onto the new platform. In April we began sending communications to clients about this conversion, and will continue to do so through the year.

The third phase will occur later this year and it will allow our existing investment advisor representatives to position themselves as financial advisors and offer products and tools to deliver holistic financial planning services and advice, as well as to offer managed account products. The fourth phase will add the role of a Farm Bureau wealth management advisor to our distribution system.

We expect this initiative to allow our agents to add more value, enhance the customer experience and further strengthen the agent/customer relationship, making them the go-to person for all of their clients' insurance and financial needs.

Recently, we introduced new brand positioning in order to increase brand awareness for Farm Bureau Financial Services. In early March, we launched an all-new advertising campaign, featuring TV ads in three states: Iowa, Kansas and Nebraska. The TV spots are supported by print, radio and online ads in all of our multiline states. The ads are fun, with the message that our agents provide the much-needed human touch for people who need insurance. Many of you listening today are likely not in these Midwestern states, so I encourage you to check out the ads at our Farm Bureau Financial Services YouTube channel.

Commenting on regulation, we were pleased that the Fifth Circuit Court of Appeals vacated the Department of Labor's fiduciary rule. The court held the rule and its related exemptions were arbitrary, capricious and exceeded the DOL's authority under ERISA. In light of this ruling, we are evaluating our processes for any changes. We are also providing input on the NAIC best interest standard as well as monitoring the SEC's development of a fiduciary standard.

Our emphasis has always been on needs based selling and doing what's in our clients' best interests, and we will continue that practice. We do not focus on one-time sales. Rather, our agents build lifelong relationships with our customers to help them protect what matters most.

One hot topic I'll mention is innovation in the insurance industry. Last week I participated on a panel on this topic at the Global Insurance Symposium, held for its fifth year in Des Moines. FBL Financial Group was an original investor in the Global Insurance Accelerator, and that enables us to invest small amounts in carefully vetted insurtech start-ups. We partner with those start-ups, and others, to look for solutions that enhance our customer and agent experience, and drive efficiency in our organization. We have an innovation council with dedicated funds to test innovative concepts within our organization, and we are also undertaking a large effort to enhance consumer experience. To date, most of the innovation in the insurance industry has been directed at the property casualty side. Given our position managing Farm Bureau Property & Casualty Insurance Company, we are uniquely positioned to see what is ahead in the life industry. We have an active proof of concept on Robotics Process Automation, and we're evaluating services aimed at improving customer engagement.

To conclude, we are off to a strong start in 2018. Life sales are growing, annuity sales have recovered, we are making good progress on our wealth management initiative, and we have a new advertising campaign to further drive brand awareness. I am optimistic as we progress in 2018.

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

Don Seibel
Chief Financial Officer

Thanks Jim. I also want to welcome everybody on the call.

As Jim indicated, for the first quarter of 2018 we recorded net income of $0.94 per share and non-GAAP operating income of $1.10 per share. The level of non-GAAP operating income, which benefitted greatly from a reduced federal income tax rate, was a record for us for a first quarter.

I would characterize our non-GAAP operating income for the first quarter of 2018 as in line with our expectations. At a high level, more than expected investment prepayment fee income was offset by slightly less favorable mortality experience and increases in DAC amortization and expenses.

While market interest rates have increased recently, our portfolio yield continues to decline. The tax-adjusted yield on new investment acquisitions backing our long-term business was 3.99% for the first quarter of 2018, which is less than our portfolio yield. This continues to put pressure on spreads.

Before I discuss our results by segment, I want to remind everybody that in the first quarter each year we expect to experience increased death benefits. Typically, death benefits in the first quarter are approximately 10% higher than the average death benefits incurred the balance of the year. Our actual mortality experience in the first quarter was approximately $0.03 per share worse than the already expected elevated first quarter level.

Annuity segment results for the first quarter of 2018 benefitted from $2.7 million of prepayment fee income. Excluding the impact of prepayment fee income, spreads were in line with our expectations. Point in time spreads on our individual annuities decreased three basis points during the first quarter of 2018 due to a decline in the portfolio yield. The spread of 191 basis points at March 31, 2018 is less than our target of 200 basis points on this business.

Life insurance segment results were a little worse than expected due to higher mortality results and an increase in expenses, partially offset by $1.5 million in prepayment fee income earned during the quarter. Death benefits net of reserves released upon death, were approximately $1.7 million higher than expected. The increase in other underwriting expenses is due to increases in salaries, including a one-time bonus for non-management employees in the first quarter of 2018 relating to the enactment of the Tax Act, and additional expenses associated with system enhancements.

Excluding the impact of prepayment fee income, spreads on our universal life business were in line with our expectations. Point in time spreads on universal life decreased three basis points during the first quarter of 2018 due to a decline in the portfolio yield. The spread of 140 basis points at March 31, 2018 is less than our target of 146 basis points on this business.

Corporate and Other Segment results were in line with our expectations for the quarter. During the first quarter of 2018, increased DAC amortization resulting from separate account performance was largely offset by favorable mortality experience. Separate account performance caused DAC amortization to be $860,000 higher than expected and death benefits on our variable universal life business, net of reserves released, were $900,000 less than expected. During the quarter we incurred $600,000 in expenses associated with the startup of our wealth management initiative.

As highlighted in our news release, we expect the Corporate and Other segment results in the final nine months of 2018 to be less than that earned during the comparable period of 2017 due to less favorable equity market performance on the closed-block variable business and lower equity income from investments in low income housing tax credit partnerships. The very favorable equity markets in the final nine months of 2017 resulted in a $1.2 million decrease in DAC amortization during that period. We are not expecting that benefit in 2018. The expected decrease in income from low income housing tax partnerships is driven primarily by the lower effective tax benefit, due to the Tax Act, on future investment partnership losses. While subject to volatility, we currently expect income from low income housing tax partnerships in the final nine months of 2018 to be approximately $3.0 million less than that earned over the final nine months of 2017.

Next I would like to comment on income taxes and our effective tax rate. Our first quarter 2018 results benefitted greatly from the enactment of the Tax Act. Excluding equity income and related taxes, the first quarter 2018 effective tax rate was 17.7%. This tax rate is less than the statutory rate of 21% due primarily to the impact of tax exempt dividend and interest income. While there are still many uncertainties regarding the impact of the Tax Act provisions, excluding equity income I would expect our effective income tax rate to be between 17.5% and 18.5% for full year 2018.

To wrap it up, I will make some comments regarding our capital. In March we announced a 4.5% increase in our regular quarterly dividend rate to $0.46 per share from $0.44 per share. Based on yesterday’s closing stock price, this gives us an indicated dividend yield of 2.4%. We are committed to having an attractive dividend yield, given our strong and consistent operating results. Also in March, because of our strong excess capital position, we paid a $1.50 per share special dividend. Special dividends are an appealing option for us to distribute some of our excess capital from time to time.

Also this quarter, we repurchased 99,312 shares of our common stock for a cost of $6.8 million. Although we authorized a new $50 million stock repurchase program in March, we expect future stock repurchases to be limited as we are constrained by our limited public float.

At March 31, 2018, our subsidiary, Farm Bureau Life, had an estimated company action level risk based capital ratio of 543%. This is a decline of nine points from year end. This decline is primarily due to dividends paid from Farm Bureau Life to the holding company to fund the regular and special shareholder dividends paid in the first quarter. In the first quarter the capital ratio benefitted by 18 points from changes made by the NAIC to RBC charges for collateral pledged to the Federal Home Loan Bank.

To recap, we had a solid start to the year from a financial standpoint. We are focused on financial discipline as we strive to grow and diversify our business.

Hopefully these comments have provided you with some insights regarding the drivers of our financial results and our outlook for the balance of 2018. We will now turn the call over to the operator and open it up to any questions you may have.