FBL Financial Group, Inc.
4Q13 Conference Call

Jim Brannen
Chief Executive Officer

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

First, let me thank Rich Kypta, who will be retiring at the end of this month after having served as FBL's Chief Operating Officer for the last six years. He is a true insurance pro and we will certainly miss Rich, his strong leadership, his humor and his friendship. He has been an integral part of this team. We wish him and Ellen well in retirement. Our Chief Actuary, John Currier, is poised and ready to fill the open role left by Rich. John has great experience to bring to this position. As you'll recall, John joined FBL last year after having served as Aviva USA's chief actuary.

I'm very fortunate to have the team that I do leading FBL right now. The team in place has extensive experience and expertise. Bios of FBL's management team members may be found on our website, FBLFinancial.com.

Turning now to results for the fourth quarter, net income was very strong at $1.07 per share and operating income was $1.00 per share. These results cap off a great year where we achieved new all-time highs in full year operating income and net income per share. Don will be covering the strong financial results and capital position in detail.

Sales in the fourth quarter saw a reversal of the trend we experienced during the first nine months of the year. For the fourth quarter, life insurance premium collected decreased 3%, but for the year increased more than 20%. Our term life and whole life product sales continued to increase in the fourth quarter, but sales of our universal life products declined after increasing significantly in the first nine months of the year. This decrease reflects UL product changes we made in the fall as well as our agents' focus turning a bit more to annuity sales.

The trend in annuity premium also reversed in the fourth quarter with annuity premiums collected up 3% for the quarter, but down 18% for the full year.

In the fourth quarter we took several actions to modestly increase annuity sales. These included partially restoring agent commissions that were previously lowered, adding a direct mail campaign focused on cross-selling annuities to existing customers, and supporting this with a special incentive campaign on increasing annuity and life applications.

While we have selectively taken actions in the annuity space, we have not yet reintroduced many of our annuity products. We're prepared to relaunch these products when interest rates are higher consistently.

As we move forward in 2014, we are focused on growing our total agent count as well as increasing existing agent productivity, and have deployed several tactics to achieve these goals.

Our exclusive Farm Bureau agents are one of our most important competitive advantages and we continue to invest and develop agents for the future in order to grow our total agent count and improve retention. In the fourth quarter we grew our agent and agency manager count, and further growth in our agency force remains of primary importance. We began a new agent financing program in mid-2013 and so far have seen a marked improvement in the agent retention for those agents.

We have also started a new reserve agent program where the agent completes a training program that can take up to three months and achieves certain production minimums on a part-time basis before being appointed as a full-time agent. This gives us the opportunity to assess if this individual is expected to be successful for a long term career with us. It also gives the new agent the opportunity to assess their desire for this career before changing jobs or moving, etc. If we both agree, then the individual is contracted on a full-time basis as an exclusive Farm Bureau agent.

We're excited about the potential of this new program and expect it ultimately to increase our total agent count as well as improve retention.

I want to point out that these reserve agent candidates will not be included in our agent count until they complete this training period. Therefore, agent counts may be temporarily impacted as we transition to the new, lengthened onboarding process. Despite the potential for a short-term dip in new agents appointed, we believe this is the right strategy to develop agents for the future.

Before I hand it over to Don, I want to mention that in December A.M. Best affirmed Farm Bureau Life's A- (Excellent) financial strength rating and maintained its Positive outlook. I am very disappointed with this action as we had expected an upgrade long before this. This is the second year in a row that Farm Bureau Life has had a positive outlook. A.M. Best has communicated that in order to achieve an upgrade we need to just keep doing what we have been. As we discussed today, FBL has had a record 2013, achieving new highs in operating income per share and net income per share. Furthermore, capital levels remain high, as Don will discuss, with more than $50 million of excess capital added this quarter.

In conclusion, I'm very pleased with FBL's 2013 results and I'm optimistic about 2014.

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. I'm pleased to share with you today the details of our excellent fourth quarter results. I'll discuss our financial results, spreads and capital position.

As Jim indicated, for the fourth quarter we had net income of $1.07 per share and operating income of $1.00 per share. During the quarter our operating income adjustments, which consist primarily of net realized gains on investments, totaled $0.07 per share.

Earnings results were outstanding again this quarter, benefitting from continued growth in our volume of business in force, capital management actions we've taken over the last few years and management of the profitability of our products. In addition, earnings for the quarter were positively impacted by a couple of items we can't expect to reoccur.

During the quarter we continued to experience an elevated level of investment fee income, mostly in the annuity segment. In total, investment fee income, which is primarily due to bond prepayments, was $0.04 per share for the quarter. This prepayment fee income has been elevated for several quarters, and should slow at some point with rising interest rates.

Higher equity markets in the fourth quarter positively impacted separate account performance, resulting in lower DAC amortization for our variable products. This was a benefit of $0.03 per share and is included in our Corporate and Other segment where we report our closed block of variable business. While this is positive, the opposite can occur with a decline in equity markets, as we are experiencing now in early 2014.

Results for the quarter also reflect slightly elevated mortality experience, but was still within our range of expectations. Death benefits in our Corporate & Other segment were higher due primarily to a few large variable universal life claims.

Taking into account the elevated prepayment fee income and favorable impact of market performance on our variable business, I would put normalized operating earnings for the fourth quarter at approximately $0.94 per share. With that said, I will call out that death benefits tend to fluctuate from quarter to quarter and are somewhat seasonal in that we often see an increase in death claims in the first quarter of each year.

Turning now to spreads, at December 31, the point-in-time spread of 212 basis points on our annuity business remains above our target for this business of 204 basis points.

Point-in-time spreads on our universal life business increased by 10 basis points to 155 basis points at December 31. This positive movement narrowed the deficiency to 7 basis points below our target of 162 basis points for this business. We were able to make these gains due to crediting rate actions taken on a block of UL business that has an annual reset feature.

In order to manage the profitability of our business, we've been very proactive over the last several years in decreasing our crediting rates given declining portfolio yields. On the one hand, this is increasingly difficult as 62% of our annuity business and 87% of our UL business is now crediting interest at the minimum guarantee. On the other hand, we still have some room for additional crediting rate actions, and of the block of business at guarantee levels, much is achieving or exceeding target spreads. Also, from an investment perspective, we were able to take advantage of market volatility during the second half of 2013 to acquire assets at better than anticipated yield levels. But achieving desired yields remains a challenge given the recent decrease in interest rates.

Next I'll comment on our strong capital position and capital management actions.

At year-end 2013, Farm Bureau Life's capital position remains excellent with an estimated company action level risk based capital ratio of 499%. This is a nearly 50 point increase from September 30. About half of the increase is due to growth in total adjusted capital from earnings for the quarter and the other half of the increase is due primarily to regulatory changes.

We experienced a 20 point increase in the RBC ratio due to a regulatory change in how capital charges are assessed on commercial mortgage loans. This large increase reflects our high quality mortgage loan portfolio, where we have 67% of our loans falling into the highest quality rating bucket and another 29% falling into the second highest bucket.

During 2013, we were very active in deploying excess capital, and in the first nine months of the year paid a special dividend of $51 million, repurchased 1.4 million shares of FBL common stock and increased our regular quarterly dividend rate by 36%. However, we did not repurchase any shares in the fourth quarter, as we are evaluating our capital management options. During the past two years we repurchased 6.9 million FBL common shares, which represent 23% of our shares outstanding at the beginning of 2012. These repurchases have been accretive to both earnings per share and book value per share, but have decreased our public float. Our board will be meeting in a few weeks and we will discuss our capital management strategies including the balance between repurchasing common shares and increasing the dividend rate.

We have flexibility with our capital management plans as there is more than adequate liquidity and capital at the holding company level with excess capital at the parent of approximately $80 million. In addition, using 425% RBC as a base, Farm Bureau Life also has excess capital of approximately $80 million, and generates approximately $50 million of excess capital annually.

In closing, as I look back on 2013, it was a year of success and growth for FBL Financial Group. We delivered strong financial results with achieved new highs in operating income per share and net income per share. We accomplished this by growing our business, actively managing spreads and executing our capital management plans. As we move forward in 2014, we continue to address the challenges of the low interest rate environment to further build on FBL's strong financial foundation. I'm pleased to have been able to share these results with you.

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