FBL Financial Group, Inc.
1Q15 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 is off to a solid start in 2015. First quarter net income was $0.94 per share and operating income was $0.95 per share. Also in the first quarter we returned capital to shareholders with the payment of a $2.00 per share special dividend and an increased regular quarterly dividend of $0.40 per share.

Premiums collected for the first quarter were lower, with life insurance premiums collected down 2% and annuity premiums collected down 12% compared to the first quarter of 2014. While at first glance this might appear to be negative, I'm very pleased with the productivity of our agents in the first quarter due to the increase in core life sales and activity.

Annuity sales continue to reflect the challenge of the extended low interest rate environment. Sales of our shorter term annuity products are suspended and we expect will remain so until rates are such that we can support a greater value proposition for the customer, agent and our own return requirements. The type of annuity that continues to grow is our indexed annuity product, which has been popular with our agents and customers.

The decline in life premiums collected reflects lower first year universal life sales, given that there is less excess premium in our cash value accumulation product. This has been the trend for the last several quarters following changes made to the UL product. We report premiums collected in our financial supplement, but the performance indicator we use internally is production credit. It's a measure of commissionable premium and a more accurate reflection of our agents' activity during the quarter. Life production credit was up 20% for the first quarter, driven by a 24% increase in life policies issued. This positive activity has resulted in strong and consistent growth in our total number of life policies over the last few quarters.

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

Our book of business is fairly evenly distributed between life and annuities, which provides earnings stability. We benefit from a balanced mix of business; in the first quarter premiums collected were 48% life insurance and 52% annuities.

Next I'll comment on our agent count. As of March 31, we had 1,782 total agents and agency managers, plus 67 active reserve agents in the pipeline.

I am very pleased that our first year agent retention has climbed to 80% and is continuing to improve. This demonstrates the effectiveness of our reserve agent program. The downside is that this program has lengthened the agent recruiting cycle to 180 days or longer, and has impacted our appointment numbers. During the first quarter, in the 8-states where we control the agency force, we contracted with 35 new agents. This compares to 50 new agent appointments in the first quarter of 2014. Also, at the beginning of this year, we increased the reserve agent requirements and made it more difficult to become an exclusive Farm Bureau agent. This more rigorous program gives us a greater opportunity to assess whether the potential agent has the ability to be successful for a long term career with us. We expect this will result in more effective and engaged producers, who will drive increased sales going forward.

Our recruiting numbers have increased since quarter end. I'm pleased with the momentum and am optimistic about further growth in our agency force in 2015.

Supporting our agents efforts are a number of marketing and sales campaigns. In March we launched SuperCheck, our branded review program. It reinforces the message that Farm Bureau agents make insurance simple. Our advertising dollars are increasingly being spent online and drive online engagement and traffic to our consumer website, FBFS.com. Consumers are researching insurance online, but still want the value that comes from having a relationship with a trusted agent. Advertising of our SuperCheck program connects consumers to our exclusive Farm Bureau agents, who work with them to assess and fulfill their insurance needs, and offer solutions that help protect what matters most. The SuperCheck review program is helping agents grow their business, improve retention, and strengthen the client/agent relationship.

This focus on relationships - the personal connections our agents have with their customers – leads to our industry-leading cross-sell success. Our cross-sell rate has continued to increase and is now at 23.9%, which is double the industry average.

We also have a robust direct mail program we use to drive targeted prospects to agents as leads, as well as programs targeted at existing customers. Recent mailings focused on our annuity products and term conversions to whole life.

These mailings have resulted in increased life product ownership and cross-sell of PC and life products.

From a product development standpoint, efforts continue on an indexed universal life product that we plan to introduce later this year.

In conclusion, I'm pleased with FBL's first 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 are off to a solid start in 2015 with first quarter operating income of $0.95 per share and net income of $0.94 per share.

I'm pleased to share with you today some insights as to the key drivers of these results. At a high level, an increase in investment fee income in the quarter was offset by adverse mortality experience and lower-than-expected equity income. At the same time, our spread income was in line with expectations.

During the quarter we benefited from $0.12 per share of investment fee income, impacting both the life and annuity segments. More than half of this fee income came from the prepayment of one commercial mortgage loan. This reflects how volatile this fee income can be. Generally this is a short term positive given that it increases income in the period of the repayment, but it's a long term negative as we are reinvesting at lower rates.

Mortality experience for the quarter was worse than expectations, by about $0.10 per share. Like several other insurers, this quarter we experienced a significant increase in the number of claims and an increase in the average claim size. The increase in claims generally came from policies with higher durations and insureds with higher attained ages. We've analyzed this and we are not particularly concerned regarding a trend and expect mortality results to even out over time.

Equity income results, which we look at on an after-tax basis, were similar to the results we achieved in the first quarter of last year, but they were below our expectations by approximately $0.03 per share.

Taking into account these items, with the positive and negative items generally offsetting each other, I would put normalized operating earnings right around our recorded earnings of $0.95 per share. The level of death benefits in the first quarter is typically about $0.05 per share higher than what we expect during the balance of the year due to seasonality in our claims. So going into the quarter, we were expecting operating results a little under our normalized earnings recorded in the second half of 2014.

We are successfully managing spreads, despite the continuing challenges of the low interest rate environment. As of March 31, in total we are achieving our target spreads.

During the quarter, the point-in-time spread on our annuity business remained steady at 207 basis points. 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 declining portfolio yields. As a result, we recently took a 25 basis point crediting rate decrease on one of our main universal life products. Despite this action, point-in-time spreads on our universal life business decreased 3 basis points during the quarter, totaling 146 basis points at March 31. This is below our target for this business of 156 basis points.

From an investment perspective, as is typical, a significant portion of our purchases during the quarter were long, NAIC 1 rated corporate bonds. We also added some fixed rate collateralized loan obligations to our portfolio.

This quarter we leaned a little heavier toward NAIC 2 issues, with 44% of our security acquisitions being NAIC 2. Our portfolio quality remains high with 96% investment grade, and 33% being NAIC 2.

Commercial mortgage loans continue to offer an attractive alternative to BBB corporate bonds in the 10 year maturity area. We added a significant $58 million in commercial mortgage loans during the first quarter. This asset class makes up 8.6% of our total investments and continues to perform very well. During the first quarter, the average tax-adjusted yield on investments acquired backing our long-term business was 4.43%.

Next I'll comment on our capital levels.

In March we announced an increase in our regular quarterly dividend rate to $0.40 per share from $0.35 per share. Based on yesterday's closing stock price, this gives us a dividend yield of 2.7%. We are committed to having an attractive dividend yield, given our strong and consistent operating results. With a quarterly dividend rate of $0.40 per share, we expect to pay out approximately $40 million in regular quarterly dividends in 2015.

Also in March we paid a $2 per share special dividend, for a total of $49.5 million deployed. We last paid a special dividend in 2013, and view the payment of special dividends, on occasion, as a viable option for distributing a portion of our excess capital.

At March 31, Farm Bureau Life's capital position remained excellent with an estimated company action level risk based capital ratio of 535%.

Using 425% RBC as a base, Farm Bureau Life has excess capital of approximately $130 million at March 31. 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 March 31.

Stock repurchases remain a capital deployment option for us, albeit a less attractive one than it once was. We didn’t repurchase any shares during the quarter, but at a minimum, over time I would expect share repurchases to offset any potential dilution from stock option exercises.

To recap, FBL had a good quarter with strong operating profits. We returned nearly $60 million to our shareholders in the form of dividends, and have very strong capital levels. We have been successful to date in meeting the challenges of the low interest rate environment and are earning spreads in line with our targets. 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.