FBL Financial Group, Inc.
3Q15 Conference Call

Jim Brannen
Chief Executive Officer

Thanks Kathleen. Good morning and welcome to everyone. Thank you for joining us today for the call, and for your interest in FBL Financial Group.

I am pleased to report that FBL Financial Group once again posted strong earnings results in the third quarter of 2015. Net income came in at $1.06 per share and operating income was $1.09 per share.

A highlight of the quarter was an increase in premiums collected. Annuity premiums collected were up 50% and life insurance premiums collected were up 1% compared to the third quarter of 2014.

Annuity sales reflect a limited offering of a 4-year guarantee annuity, which we offered from July to August. Our shorter term annuity products had been suspended.

During this summer, we were able to selectively acquire investments which met our annuity criteria. This allowed sales of our 4-year guarantee annuity for a limited period of time. Agents and customers welcomed this opportunity. This offering resulted in $42.0 million of annuity premiums collected and 601 new contracts during the quarter. As a result, our year-to-date premium collected now surpasses the 2014 year-to-date levels.

It is our desire to permanently reintroduce a competitive rate new money annuity while achieving our profitability targets. The market allows for this at times but not consistently. So we likely will continue to pursue limited windows of time for sales of new money annuities such as this. They offer us the most flexibility, while still providing windows of opportunity for our agents and customers.

Sales of our indexed annuity product continue to grow, with an increase of 14% in the third quarter over the third quarter of 2014. We recently had a direct mail campaign which highlighted the benefits of indexed annuities in a volatile market.

In the third quarter we launched an updated universal life product and our new indexed universal life product. Agents are pleased to have the IUL as part of the product portfolio. It is attractive, with the point-to-point cap currently at 10%. I expect sales of the IUL product to build as our agents become comfortable with it.

Speaking of our agents and as I have told you before, a top priority for me is ensuring that we have the very best agent business model in place, with the goal of increasing agent count over time. Our multiline exclusive agents are one of our most significant competitive advantages and they represent a strong brand and have meaningful relationships with our clients.

Since 2012, we have made significant changes across the spectrum of distribution. This includes agent hiring and retention practices, training programs and compensation. This is a long-term initiative, but I am very pleased with the progress we have made to date.

As of September 30, we had 1,838 total agents and agency managers, plus 77 active reserve agents in the pipeline. This is an increase of 28 agents under contract during the third quarter and 52 from September 30, 2014.

Over time, we are building a stronger and larger agency force with higher retention rates. First year agent retention has climbed to 88%, up from 75% in the third quarter of 2014.

Achieving these results is hard work but I am very pleased with the outcome. A strong and growing agency force is critical to our success. This will be an ongoing focus and our strategy calls for continuous, ongoing progress. But I do pause to reflect on and appreciate the significant progress we have made over the past three years. I am excited about our future as we continue to add to our agency force.

We are committed to supporting our agents and equipping them with all the tools they need to be successful. An example is our annual Sales Seminar, which we held in September. I am always inspired after spending time with these agents who are passionate about protecting the livelihoods and futures of our customers. Nearly 500 agents and sales associates gained new insights and heard from renowned industry speakers with a focus on marketing activities – prospecting and lead development that ties into our corporate marketing and sales initiatives. This event was a great opportunity for our agents to gather, share sales ideas and meet with management.

Another area that we're focused on is expanding our digital capabilities. Our exclusive Farm Bureau agents are front and center with our customers, but we are also working to understand and assess their digital preferences.

I'm very pleased with FBL's results to date in 2015 and am looking forward to a strong finish to the year.

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.

As Jim indicated, we had solid third quarter financial results, with operating income of $1.09 per share and net income of $1.06 per share. During the quarter our operating income adjustments totaled $0.03 per share and consisted of other-than-temporary impairments on investments and the change in unrealized gains and losses on derivatives.

I'm pleased to share with you today some insights around these results.

At a high level, our book of business continues to steadily and consistently grow. We benefitted from investment fee income again this quarter, but this positive was offset by the negatives of increased death benefits and higher amortization due to the impact of equity markets on separate account performance.

In the third quarter we performed our periodic review of assumptions used in the calculation of deferred acquisition costs, value of insurance in force acquired, unearned revenue reserves and certain reserves on interest sensitive products for all of our blocks of business. We unlocked assumptions relating to projected mortality, persistency, annuitizations, expenses and interest rates. The net impact of the change in assumptions was to increase pre-tax income by $0.3 million. Given the continued low interest rate environment, we have been proactive in updating our assumptions. We do a formal review at least annually, but also perform unscheduled reviews as necessary. I would like to remind everybody that during the fourth quarter of 2014 we performed an unscheduled unlocking to reflect the low interest rate environment. That unlocking nine months ago resulted in a $0.07 per share decrease to operating income.

While the overall unlocking results were negligible this quarter, they did vary by segment. As such, this quarter I'd like to focus further discussion around our results by segment.
Annuity segment results were very strong this quarter. Annuity spreads earned, excluding the impact of prepayment fee income, were in line with our expectations. Annuity results for the quarter also reflect investment fee income of $2.4 million and a benefit of $0.6 million from unlocking.

During the quarter, the point-in-time spread on our annuity business decreased by two basis points to 208 basis points. This spread remains above our target of 202 basis points for this business.

Results for our life insurance segment were also very strong this quarter. Life insurance results benefitted from unlocking as well, by $4.5 million, primarily due to updated mortality and persistency assumptions. This unlocking benefit was partially offset by higher death benefits, reflecting an increased number of claims and a higher average claim size net of reinsurance. By its nature, mortality experience fluctuates on a quarterly basis. The Life segment also benefited from a one-time reserve release which resulted in a $1.3 million increase to pre-tax income.

Spreads on our universal life business are more pressured than on our annuity business, reflecting the fact that more of this business is at the minimum guarantee. As a result, we have less flexibility to make crediting rate changes. As of September 30, 82% of this business is at the minimum guarantee, compared to 66% of the annuity business at the minimum guarantee. Point-in-time spreads on our universal life business totaled 141 basis points at September 30, which is below our target for this business of 155 basis points.

I am pleased to report that in total we are achieving our target spreads. Given the extended low interest rate environment, we have been actively managing our spreads and proactively lowering crediting rates where appropriate. The opportunity to lower rates continues to diminish due to minimum guarantees. New sales help to alleviate this as new business is being written with a lower minimum guarantee.

While Life and Annuity segment results were strong, results for our Corporate & Other segment did not meet our expectations this quarter. This segment includes our closed block of variable business, various support businesses and excess capital. Results were negatively impacted by $4.8 million for unlocking, primarily due to updated mortality assumptions. In addition to the impact of unlocking, there was $2.0 million of additional DAC amortization due to the impact of negative separate account performance during the quarter. Another drag on earnings this quarter was an increase in death benefits on our variable universal life business.

Stepping back and looking at our overall results, there were several items that we do not expect to reoccur over the long term. These include increases to operating income from investment prepayment fee income, a one-time reserve release in the life segment, unlocking and miscellaneous smaller items. Partially offsetting the impact of these items were decreases to operating income from mortality being greater than expected and the impact of negative separate account performance on DAC amortization. This all nets to an approximately $0.04 per share addition to operating income for the quarter.

While earnings have been very strong year-to-date, growing operating earnings going forward will be a challenge considering the significant level of prepayment fee income received so far in 2015. In addition, we are facing continued headwinds with the low interest rate environment and we operate in a mature, low-growth industry.

Next I’ll comment on our capital levels.

At September 30, the capital position of our wholly-owned subsidiary, Farm Bureau Life, remained excellent with an estimated company action level risk based capital ratio of 564%, an increase from 545% at year-end 2014.

Using 425% RBC as a base, Farm Bureau Life had excess capital of approximately $160 million at September 30. At the holding company level we also have more than adequate liquidity and capital with excess capital at the parent company of approximately $50 million at September 30.

During the third quarter we repurchased a minimal number of shares – 66,904 shares – for a cost of $3.7 million.

At this point our primary mechanism for returning capital to shareholders is through dividends. Our dividend yield remains high at 2.5%, albeit not as high as it was given the increase this year in our stock price. We will also consider the payment of special dividends periodically, as we did in the first quarter of this year.

Thanks for your attention as we reported another good quarter of solid earnings for FBL Financial Group. We move forward with focus on great products, excellent agents and disciplined management to grow our business in challenging times. I’m pleased to have been able to share these results with you.

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