FBL Financial Group, Inc.
3Q18 Conference Call

Jim Brannen
Chief Executive Officer

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

FBL Financial Group reported excellent earnings for the third quarter of 2018. Net income totaled $1.24 per share and non-GAAP operating income was a record $1.28 per share. I attribute these great results to the continued financial discipline to profitably grow our business as well as the benefit of lower taxes due to tax reform.

Don will review the financial results in detail. I'll focus my comments primarily on our sales and several of our current initiatives.

Total premium collected for the third quarter of 2018 was $142 million.

Annuity premium collected for the third quarter totaled $56.3 million. Indexed annuity sales were up 3.8% compared to last year, while we experienced a decline in fixed rate annuity sales. Fixed rate annuity sales are impacted by the crediting rate we are able to offer. Given higher market interest rates, at the beginning of October, we increased the rate on our multiyear guarantee annuity by 25 basis points.

Life sales were strong again this quarter. Life premium collected for the third quarter of 2018 totaled $73.9 million, up 3.7% from the third quarter of 2017. This increase continues to be broad based. Compared to a year-ago quarter, premiums collected are up in all categories: universal life, whole life and term life insurance.

We have a variety of life insurance projects in place. In order to improve the customer experience and increase efficiencies, we are implementing additional automation and data analysis capabilities in our life underwriting area. We also continue to have positive results with our accelerated underwriting pilot. Through these projects, we're working to make life insurance sales a better customer experience.

In October we introduced a new increasing term life insurance product. This product allows our clients to automatically increase the face amount to provide more protection over time. Clients are able to double the face value of their policy over the first five years without having to go through underwriting process again. We are not aware of any other product in the industry that offers customers this option. This new product compliments our full line of term, universal and whole life insurance.

Also in October we added the optional Daily Living Benefit rider to our traditional term life products. This rider enables the insured to accelerate death benefit payments if they cannot accomplish two of the activities of daily living. This rider has been a popular option on our permanent products; adding it to term provides additional planning flexibility for our customers and an additional source of revenue in our term portfolio.

Looking at our agency force, as of September 30, 2018, we had 1,810 exclusive agents and agency managers. I am very pleased that this reflects growth from the second quarter. Increasing our total agent count is crucial to our continued success. In 2018, in order to combat higher agent attrition, we have modified certain elements of our agent recruiting and compensation plans and introduced a new agent development program. Early results are positive, and new agent retention is trending higher. Recruiting and retaining agents is a continual challenge, but I feel very good with the recent progress we've made. The development work we are doing positions these new agents for long-term success.

In October, in honor of National Customer Service Week, we held a call blitz. Agents and employees called more than 17,000 customers to express our appreciation for their business. This call blitz aligns with the execution of our multiyear customer experience initiative.

I also personally participated in calling our clients. It’s fun and refreshing to speak with our customers directly, to thank them for their business and learn how we and their agents, can be even better partners in protecting their livelihoods and futures.

We continue to make good progress on our new wealth management initiative.

Earlier in 2018 we introduced a new mutual fund platform for our exclusive agents. Since that time, we have seen significant growth in new accounts opened and increased mutual fund deposits.

We recently completed training for our small number of existing investment advisor representatives. They are now able to position themselves as financial advisors and offer products and tools to deliver comprehensive financial planning services and advice, as well as to offer managed account products. We anticipate fee-based production from them beginning in the fourth quarter.

We’re now working on our fourth and final phase of this initiative, which is to add the role of a Farm Bureau wealth management advisor to our distribution system. We are currently recruiting Farm Bureau wealth management advisors across our operating territory and this onboarding will occur beginning in early 2019.

Once this initiative is fully in place, it will allow our agents to add more value, positioning them as the go-to person for all of their clients’ insurance and financial needs.

To conclude, with the first three quarters of the year completed, I’m pleased with our excellent financial results to date. I look forward to the remainder of the year and successfully executing on the opportunities ahead of us.

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 third quarter of 2018 we had net income of $1.24 per share and record non-GAAP operating income of $1.28 per share.

Non-GAAP operating income for the third quarter of 2018 was a little higher than our expectations. Results were positively impacted by higher equity income and a decrease in our reserves for guaranteed living withdrawal benefits. These positive items were partially offset by higher death benefits and the impact of unlocking. I'll review these items in more detail as I discuss our segment results.

During the third quarter of 2018, we voluntarily changed our accounting policy for low income housing tax credit investments from the equity method to the proportional amortization method. We made this change because we believe the proportional amortization method better reflects the economics of an investment that is made for the tax credits and benefits. I'm sure you also appreciate that this method is consistent with the accounting method used by many others in the life insurance industry.

This accounting change results in a change in the timing of the recognition of income and loss on these investments. In addition, it changes how they are reflected in the financial statements. On the balance sheet, these investments are now classified in the *Other Asset* line instead of the *Securities and Indebtedness of Related Parties* line. On the income statement, income and expense from these investments is now reflected in the *Income Taxes* line instead of the *Equity Income* line. Prior period results were adjusted to reflect this change in accounting policy. For more information, please see the Form 8-K we filed on this in September.

During the third quarter we performed a review or “unlocking” of the key assumptions used in the calculation of the amortization of deferred acquisition costs, unearned revenue reserves, and certain reserves on interest sensitive products. This unlocking negatively impacted earnings by $0.01 per share in total, but they were more impactful at the individual segment level. Please see page 14 of our third quarter investor supplement where we have included segment-level detail on the impact of this unlocking on the various financial statement line items.

Looking at the investment environment, I’m pleased that we have seen market interest rates continue to increase in the third quarter. The tax-adjusted yield on new investment acquisitions backing our long-term business was 4.48% for the third quarter of 2018. This is 14 basis points higher than acquisitions made in the second quarter of 2018, but it is still less than our portfolio yield. We continue to experience spread pressure, with September 30 point-in-time spreads lower than our targets.

Next, I’ll review financial results for our three reporting segments.

Annuity segment results for the third quarter of 2018 reflect a growing book of business as well as several positive items. This segment had $900,000 of investment prepayment fee income and a benefit of $200,000 from unlocking. Additionally, there was a $1.1 million one-time decrease in the index annuity guaranteed living withdrawal benefits reserve due to refinements in the estimates used in the reserve calculation. Point-in-time spreads on our individual annuities decreased two basis points during the third quarter of 2018. This decline was due to a slight decline in the portfolio yield and a slight increase in crediting rates.

Life insurance segment results for the third quarter of 2018 reflect the negative impact of unlocking as well as higher death benefits. During the quarter we had a higher than usual number of large term and universal life claims. In addition, unlocking negatively impacted this segment by $2.3 million pre-tax. Assumptions for mortality experience, spreads, surrenders and persistency were updated to better align our projections with future expectations. This segment had $353,000 in investment prepayment fee income earned during the quarter.

Point-in-time spreads on our universal life business decreased during the third quarter. Similar to the annuity segment, the portfolio yield declined and crediting rates increased. Spreads on universal life are lower than annuity spreads due to additional profit components on universal life business aside from spread income.

Corporate and Other Segment results were better than our expectations for the third quarter of 2018 due primarily to a $1.8 million benefit from unlocking as we updated a variety of assumptions. We are investing in the startup of our wealth management initiative that Jim discussed, and incurred $900,000 of related expenses in this segment during the quarter. In addition, this segment experienced higher equity income, primarily due to gains from sales of two real estate investment partnerships.

Next I would like to comment on our effective tax rate. The third quarter 2018 effective tax rate on non-GAAP operating income was 16.4%. This is lower than what we have reported in prior quarters given the accounting policy change for low income housing tax credit investments whereby income and related tax impacts from these investments are now reflected in income taxes instead of the equity income line.

Next I'll comment on our capital level.

At September 30, 2018, our subsidiary, Farm Bureau Life, had an estimated company action level risk based capital ratio of 554%. This is an increase of 13 points from the end of the second quarter, reflecting an increase in capital during the quarter due to our strong earnings. As we discussed last quarter, we have already incorporated the impact of the NAIC's changes to the RBC factors to reflect the lower tax rate due to the Tax Act. Our capital levels remain high, and we have significant financial flexibility.

In closing, FBL had a great third quarter with solid life sales, record non-GAAP operating income and growing 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.