FBL Financial Group, Inc.
4Q19 Conference Call

Dan Pitcher
Chief Executive Officer

Thanks, Kathleen.

Welcome to everyone on the call. I'm pleased to be with you today as part of my first earnings call as CEO.

Before we review results, I'll share a brief introduction. I joined FBL 22 years ago and have been a member of the Executive Management Team since 2012. I joined FBL as Information Technology Director and transitioned from IT to roles in the managed Farm Bureau Property & Casualty companies. I served as Chief Operating Officer for the property casualty companies for the past eight years. My most recent experience has been on the property casualty side, but I also have deep life insurance experience, as I began my career with a life insurer. Additionally, as a Management Team member for the last eight years, I have had the opportunity to participate in various enterprise activities, such as strategy, innovation, the Investment Committee, and more.

I am honored to be leading FBL Financial Group and am excited for its future. We have dedicated employees and more than 1,800 exclusive Farm Bureau agents who are passionate about living our purpose: to protect the livelihoods and futures of our client/members. Under my leadership you should not expect a major shift in strategic direction. However, I may make some refinements as we move forward.

It's crucial to have the right team in place to execute our strategies. We have a skilled Management Team, and I plan to add to it soon. I expect to fill my prior role as chief operating officer for the property casualty companies as well as add to the team from a marketing and distribution perspective.

The team is laser-focused on financial strength, our agency force, growing sales through our Farm Bureau niche market, and new initiatives like wealth management. We're mindful of all who depend on us, from client/members to agents to employees. This focus allows us to continue to be positioned for long-term growth.

Now, I'll turn to the results for the quarter. FBL Financial Group reported net income of $1.40 per share and record adjusted operating income of $1.41 per share for the fourth quarter of 2019. Results reflect a steadily growing block of business and the benefit from an unlocking adjustment. Don will review the financial results in detail.

Next, I'll discuss sales, our agents and wealth management advisors.

Life sales continue their positive momentum. Life premium collected for the fourth quarter of 2019 totaled $78 million, up 2.7% from the fourth quarter of 2018. This growth was driven by strong increases in universal life and term life sales. UL premium collected increased 7.0% for the quarter while term life premium collected increased 2.3%. Our exclusive agents develop long-term relationships with their client/members and have a deep understanding of their needs. Sales often begin with the property casualty insurance products and over time life insurance sales follow as we meet the needs of our client/members. This approach has led to our industry leading cross-sell rate, allowing us to truly fulfill our purpose of protecting livelihoods and futures.
Annuity premiums collected for the fourth quarter of 2019 totaled $67 million. This is a 19% increase from the third quarter of 2019, when sales had stabilized after several quarters of declining. Indexed annuity sales increased while fixed rate annuity sales declined. We continue to maintain our financial discipline as we determine appropriate crediting rates in this low interest rate environment.

As of year-end 2019, we have 1,858 exclusive Farm Bureau Financial Services agents and agency managers. This is an increase of 19 over the past year. We continue to focus on growing our total agent count, but even more important is the productivity of each agent. Years ago, it was common to be a standalone agent without any staff. Today, our most successful agents have their own teams of sales and service associates to help them serve their client/members and grow their business. They are truly entrepreneurial small business owners. To enable this, we offer best-in-class distribution systems and support.

Going forward, we will work to both grow the total number of agents as well as support our current agents as they grow their businesses.

In addition to our Farm Bureau agency force, we are adding Farm Bureau wealth management advisors. As of year-end 2019, we had 23 Farm Bureau wealth management advisors appointed. We are actively recruiting and adding experienced advisors in our territories.

While I am new in the CEO role, this is a strategy that I whole-heartedly support. These wealth management advisors have the unique opportunity to partner with our Farm Bureau Financial Services agents for referrals to serve our existing client/members with financial advisory services. This allows our agents to truly be the one-stop shop for their client/members by offering a wide range of property casualty insurance products, life insurance and annuity products, and now mutual funds and fee-based financial planning services. This service has been needed and has been welcomed by our agents and their client/members. We are currently investing in our wealth management business, but ultimately expect it to add a diversified earnings stream to FBL Financial Group, given the fee-based nature of this business.

To conclude, I'm optimistic about the future of FBL Financial Group. We are addressing the challenges of low market interest rates, and investing in innovation and automation, the client/member experience, and our wealth management business. Coupled with our strong brand value, commitment to the Farm Bureau niche marketplace and our multiline exclusive agents, we are well positioned for the future.

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

Don Seibel
Chief Financial Officer

Thanks Dan. I also want to welcome everyone on the call.

Earnings for the fourth quarter of 2019 were very strong and greater than our expectations. Net income was $1.40 per share and adjusted operating income was a record $1.41 per share.

There are four key drivers for why our earnings differed from our expectations.

- First, we performed an unlocking related to participating whole life insurance persistency. We had noticed a trend with increased persistency of this business. After an in-depth review in the fourth quarter of 2019, we extended the DAC amortization period for this block of business. This unlocking positively impacted earnings for the fourth quarter of 2019 by $0.32 per share after tax;
- Second, favorable equity market performance during the fourth quarter of 2019 decreased DAC amortization on our variable business and lowered the reserve increase on our index annuity guaranteed living benefit rider;
- Third, certain reinsurance balances were trued up in the quarter benefitting results $0.03 per share; and
- Fourth, investment prepayment fee income exceeded our expectations.

Partially offsetting these positive items, we experienced worse than expected mortality results in the Corporate & Other segment.

I'll review these items in more detail as I discuss our segment results.

Annuity segment results for the fourth quarter of 2019 increased compared the to the fourth quarter of 2018 and the third quarter of 2019. Earnings in the historical quarters were negatively impacted by an early retirement program offered to employees in 2018 and the impact of unlocking certain actuarial assumptions in the third quarter of 2019. This block of business continues to steadily grow but results are pressured by low market interest rates. Point-in-time spreads on our individual annuities decreased two basis points during the fourth quarter of 2019 primarily due to a decline in the investment yield from the maturity of higher yielding assets and the reinvestment of proceeds in lower yielding assets.

Life insurance segment results for the fourth quarter of 2019 reflect a steadily growing book of business and the unlocking and reinsurance true-up benefits I mentioned. Spreads for our universal life insurance business are also pressured due to the impact of lower reinvestment yields. Point-in-time universal life spreads decreased seven basis points during the quarter.

Corporate and Other Segment results were lower during the quarter for several reasons.

- First, this segment experienced higher death benefits due primarily to an increased number of large claims in our closed block of variable universal life insurance business. This is a normal quarterly fluctuation in mortality results in this relatively small block of business.
- Second, the Corporate and Other Segment for the fourth quarter of 2019 includes an after-tax net loss totaling $1.0 million, or $0.04 per share, related to the investment in our Wealth Management business.
- These items were partially offset by the impact of the strong equity market performance in the fourth quarter on the amortization of deferred acquisition costs. This decreased amortization by $1.1 million, or $0.04 per share after tax.

As we look forward in 2020, we expect the wealth management business to continue to require a net investment as it will take some time before that business has the scale to deliver positive bottom line results.

The investment environment remains challenging. The 10-Year Treasury rate declined 77 basis points in 2019 and has declined even further so far in 2020. We are maintaining financial discipline and are not reaching for yield with lower quality investments. We are focused on adding high quality longer duration investments, mostly NAIC 1 and 2 corporate bonds. We are also investing in high quality commercial mortgage loans when possible. The tax-adjusted yield on new investment acquisitions backing our long-term business was 3.57% for the fourth quarter of 2019. This is lower than our 2019 portfolio yield of 4.95%.

Before I move on to a discussion of our capital, I would like to add some perspective regarding our fourth quarter results as they were impacted by many items that we can't expect to regularly reoccur. These items include:

- The favorable unlocking impact;
- A higher than expected level of investment prepayment fee income;
- The life reinsurance true-up;
- The impact of favorable markets on DAC amortization and reserves;
- And, worse than expected mortality experience.

The net earnings impact of these items in the fourth quarter was a positive $0.37 per share. This, coupled with our expected investment in wealth management and headwinds with the low market interest rate environment, should be taken into account when you consider our earnings run rate for 2020.

Next I'll comment on our capital levels.

At December 31, 2019, our subsidiary, Farm Bureau Life, had an estimated company action level risk-based capital ratio of 562%. This is a 10 point increase from year end 2018, even with the significant dividends paid from Farm Bureau Life to the holding company to fund the regular and special dividends paid to shareholders during the year.

We continue to have an excellent capital position with significant financial flexibility. We have multiple options for deploying our excess capital. They include stock repurchases, our regular quarterly dividend and the payment of special dividends. Given our limited public float, we had minimal stock repurchases in the open market in 2019.

Our board of directors reviews the dividend rate regularly and is committed to having an attractive dividend yield, given our strong and consistent operating results. We also may, on occasion, pay a special dividend as a way to distribute a portion of our excess capital. Our board will next review the payment of dividends when it meets later this month.

In closing, 2019 was a very strong year for FBL Financial Group. We move forward in 2020 with financial discipline to continue to profitably grow our business.

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.