FBL Financial Group, Inc.
2Q19 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.

I am pleased to report that FBL Financial Group had very strong second quarter 2019 earnings. Net income was $1.30 per share and adjusted operating income was $1.28 per share.

I'll begin by discussing sales and the low interest rate environment, our wealth management business and our recent Chief Operating Officer announcement. Then Don will review the financial results in detail.

The biggest challenge we have currently is the decline in market interest rates. After a bit of relief in 2018 with increasing rates, it appears we're back to a low-for-long environment with declining market interest rates. During the first half of 2019, the 10-year Treasury yield decreased 69 basis points to 2.00% at June 30th.

The low interest rate environment creates headwinds for us, especially with our spread-based annuity business. Annuity premiums collected decreased 25% in the second quarter of 2019 compared to the second quarter of 2018. We need higher long-term market interest rates to offer products that are more attractive to our customers, while also allowing enough for agent compensation and our profit component. With respect to our in-force business, we monitor our spread position frequently, but our ability to decrease contract holder crediting rates is also limited by product guarantees and competitive pressures.

Life sales, on the other hand, continue to trend upward. Life premium collected for the second quarter of 2019 totaled $79 million, up 1.9% from the second quarter of 2018. This growth was driven by increases in universal life and term life sales. Our life insurance block of business has been steadily growing with total life insurance in force of $65 billion as of second quarter end. Life insurance sales provide us a long term profit stream with additional profit components that are not spread-related.

As of June 30, 2019, our agency force totaled 1,834 exclusive agents and agency managers. I'm pleased that this is an increase from the end of the first quarter as well as a year-over-year increase.

We are complementing our Farm Bureau agency force with new Farm Bureau wealth management advisors. We've built the infrastructure, platform and technology for our wealth management business. And now we're recruiting and adding experienced advisors in our territories. As of June 30, we had nine Farm Bureau wealth management advisors appointed. These advisors are joining us for three main reasons:

- One, they have an excellent opportunity for referrals to serve our existing client/members with financial advisory services by partnering with our Farm Bureau agents.
- Next, they are attracted to the technology platform and tools we have available.
- Finally, they welcome the level of supported independence that we provide. We handle many of the necessary administrative tasks, allowing them to focus more on clients and prospects.

We plan to continue to add Farm Bureau wealth management advisors this year and next to reach our initial target number of advisors. We are adding new advisors who fit our culture and service orientation and are a great fit with our agency force for referrals. Currently, we're not accepting advisors new to the wealth management business, or those without a book of business.

Since we're in the early stages of adding Farm Bureau wealth management advisors to our distribution system, the impact to our financial results is not yet significant. Ultimately, we expect this to add a diversified earnings stream to FBL Financial Group, given the fee-based nature of this business.

I want to mention an announcement that we made a few weeks ago. Kelli Eddy will join FBL Financial Group later this month as Chief Operating Officer – Life Companies. We're excited to have her here. She has extensive operational and leadership experience, most recently serving as Senior Vice President Life Operations for Voya Financial. Kelli will report directly to me and be part of FBL's executive management team. She will have overall responsibility for the operations of Farm Bureau Life Insurance Company, our primary operating subsidiary.

Kelli will succeed Ray Wasilewski, who plans to retire. Ray will be with our company through year end and will assist with the transition. I'm confident that Kelli's experience and underwriting and operations background will allow her to continue Ray's, and Farm Bureau Life's, impressive track record of success. I also want to thank Ray for his many years of leadership and friendship. He has contributed greatly to the success of these companies and I wish him the very best in the next stage of life.

Before I conclude, I want to mention a couple of recent external announcements, which acknowledge our strong earnings and financial strength.

In June A.M. Best affirmed Farm Bureau Life's financial strength rating of A (Excellent). Per A.M. Best, Farm Bureau Life has risk-adjusted capitalization ratios that are at A.M. Best's strongest level, a good liquidity profile and above-industry-average profitability metrics with very low volatility of earnings.

And then in July Ward named Farm Bureau Life to the 2019 Ward's 50® group of top performing companies. This marks the 20th time that Farm Bureau Life has been named to the Life-Health Ward's 50® list. Our managed property casualty company was also named to the Ward's 50®, for the fifth time in a row. This makes Farm Bureau Financial Services one of only eight organizations with affiliated companies named to both lists. Ward analyzes more than 700 life insurance companies and 3,000 P&C insurers, so we are honored to be recognized for strong operating performance and consistent financial strength.

Again, I'm very pleased with the strong financial results for the first half of 2019 and I feel confident as we progress through the remainder of the year.

Now I'll turn the call over to Don Seibel. Don.

Don Seibel
Chief Financial Officer

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

As Jim indicated, net income for the second quarter of 2019 was very strong at $1.30 per share. Adjusted operating income was also very strong, at $1.28 per share for the second quarter.

Results for the second quarter were above our expectations, impacted by several items.

- We experienced better than expected mortality experience in the Life Insurance segment. This was driven by fewer term claims. This was positive and is a normal quarterly fluctuation in mortality results.
- We also benefitted from strong equity market performance again in the second quarter, resulting in lower amortization of deferred acquisition costs and related balances in the Corporate and Other segment. This decreased amortization by $600,000, or $0.02 per share after tax.
- We had investment prepayment fee income of $0.05 per share after tax, which is a couple of cents higher than our expectations.
- Partially offsetting these positive items was lower spread income in our Annuity segment. As Jim discussed, spread income has been pressured by the decline in investment yields.

The positive variances from our expectations relating to mortality experience, the impact of favorable market conditions and prepayment fee income totaled approximately $0.15

per share. While we may experience favorable variances like these in future quarters, they cannot be expected to consistently reoccur on a go forward basis.

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

Annuity segment results for the second quarter of 2019 declined due to lower spread income. Point-in-time spreads on our individual annuities decreased five basis points during the second quarter of 2019 due primarily to a decline in the investment yield from the maturity of higher yielding assets and the reinvestment of proceeds in lower yielding assets. In addition, crediting rates increased slightly due to an increase in option costs.

The Annuity segment benefitted from $507,000 of investment prepayment fee income as well as a smaller than planned increase in our guaranteed living withdrawal benefit reserve due to positive equity market performance during the second quarter.

Life insurance segment results for the second quarter of 2019 reflect a steadily growing book of business, investment prepayment income of $953,000 and better than expected mortality experience.

Similar to annuity spreads, point-in-time spreads on our universal life business also decreased five basis points. They declined due primarily to the impact of lower investment yields as well as higher option costs.

Corporate and Other Segment results were solid for the quarter, benefitting from lower amortization of acquisition costs on our closed-block variable business due to positive equity markets in the second quarter. Additionally, mortality experience was within our expected range for variable life business.

The Corporate and Other Segment for the second quarter of 2019 includes an after tax net loss totaling $980,000, or $0.04 per share, relating to the build out of our Wealth Management initiative. Our investment in the wealth management business through the first six months of 2019 is in line with our expectations.

The investment environment has become increasingly challenging in 2019. The tax-adjusted yield on new investment acquisitions backing our long-term business was 4.17% for the second quarter of 2019. This is 28 basis points lower than acquisitions made in the first quarter of this year, and remains lower than our portfolio yield. In the second quarter we focused on adding longer duration investments, mostly of high quality corporate bonds.

Next I'll comment on our capital. We have an excellent capital position with significant financial flexibility.

At June 30, 2019, our subsidiary, Farm Bureau Life, had an estimated company action level risk based capital ratio of 553%. This is an increase from year end 2018, even with $63 million of dividends paid from Farm Bureau Life to the holding company to fund the regular and special dividends we paid to shareholders this year.

In closing, I feel really good about where we are with earnings for the first half of 2019. In the midst of declining market interest rates, we are maintaining financial discipline and growing 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.