FBL Financial Group, Inc.
3Q19 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 net income of $1.01 per share and adjusted operating income of $1.02 per share for the third quarter of 2019. These results were below our expectations. Earnings results were negatively impacted by the unlocking of actuarial assumptions, higher mortality benefits and lower spread income. Don’s going to cover those financial results in detail.

I’ll begin by discussing sales, our agents and wealth management advisors, and then I’ll ask our new Chief Operating Officer, Kelli Eddy, to share a few comments.

Life sales continue their positive momentum. Life premium collected for the third quarter of 2019 totaled $75 million, up 1.6% from the third quarter of 2018. This growth was driven by strong increases in universal life and term life sales. Universal life premium collected increased 6.8% for the quarter while term life premium collected increased 3.3%. Life insurance in force totals more than $65 billion as of third quarter end. Life insurance sales allow us to meet the needs of our clients while providing us a long-term profit stream with additional profit components that are not spread-related.

Annuity sales stabilized in the third quarter and were essentially flat compared to the third quarter of 2018, following declines in the first two quarters of this year. Annuity premiums collected totaled $56.1 million for the third quarter of 2019 compared to $56.3 million in the third quarter of 2018. Fixed rate annuity sales declined while indexed annuity sales increased. The low interest rate environment continues to pose a challenge to our spread-based annuity business.

During the third quarter of 2019 we experienced great growth in our agency force and ended the quarter with 1,855 exclusive agents and agency managers. This represents an increase of 45 agents, or 2.5% from the year-ago quarter. We added agents in both our Farm Bureau Property & Casualty states as well as our life partner states. First-year agent retention was 89% as of September 30, 2019, above our goal.

In addition to our Farm Bureau agency force, we continue to grow our number of Farm Bureau wealth management advisors. We are actively recruiting and adding experienced advisors in our territories, and had several notable appointments in the third quarter. As of September 30, we had 15 Farm Bureau wealth management advisors appointed. These advisors have a combined assets under management of $1.0 billion, and we're now in the process of converting those assets to Farm Bureau Wealth Management.

These wealth management advisors have the unique opportunity to partner with our Farm Bureau agents for referrals to serve our existing client/members with financial advisory services. We intend to continue to add Farm Bureau wealth management advisors who fit our culture and service orientation and are a great fit with our agency force for referrals. Currently, we are only accepting experienced advisors who have a book of business.

Ultimately, we expect our wealth management initiative to add a diversified earnings stream to FBL Financial Group, given the fee-based nature of this business.

Before I ask Kelli to speak, I want to mention the announcement we made during the past quarter about my upcoming retirement. After 29 years with this organization, I plan to retire in early 2020.

It has been an absolute honor and privilege to work for such a great organization for so many years. I have been fortunate to work alongside the most talented team in the industry and the best distribution force – our Farm Bureau Financial Services agents and their teams. I am so proud of what we have accomplished together, protecting the livelihoods and futures of our client/members, and partnering with the Farm Bureau to help serve the needs of rural America.

During my time as CEO, we have been financially strong with an excellent capital position. My focus has been on supporting our Farm Bureau Financial Services agents, developing leaders, creating an innovation program, and building our wealth management strategy. We have also had a strong track record of returning significant capital to shareholders each year.

The board has stated that they anticipate naming a new Chief Executive Officer prior to year-end. I am confident that FBL Financial is well positioned for the future. We have a significant emphasis on leadership development and succession planning, and we have great leaders in place here. I know the best years for our organization lie ahead.

One of those leaders is Kelli Eddy, our new Chief Operating Officer for our life companies who joined us in mid-August. She succeeds Ray Wasilewski, who will be retiring at the end of this year. We’re thrilled to have Kelli here. Kelli, would you like to make a few comments?

Kelli Eddy
Chief Operating Officer – Life Companies

Well, thank you, Jim. I am so pleased to be here and be a part of this great organization.

By way of background, I've been in the life industry, specifically operations, for more than 20 years. And most recently served as Senior Vice President – over New Business/Underwriting, Risk and Strategy at Voya Financial.

Over the years, I've been a frequent traveler to Des Moines, and I've been observing FBL Financial Group for a while. I was drawn to the company for several reasons, most notably the leadership, people and culture. The dedication, passion and drive by everyone here is awesome. There's a commitment by the employees that you definitely don't find in any other organizations. The success or failure of an organization is so closely related to the effort and motivation of its employees and I'm excited to be a part of this culture.

Today marks my 59th day here. My early observation is that this organization as a whole, and Farm Bureau Life's operations specifically, are very well-run.

I've been impressed by a number of things:

- Farm Bureau Life is wrapping up a multiyear replacement of its policy administration system, with all new business now on that platform. This is especially impressive as half of all admin system replacement projects fail.
- There's also extraordinary service to the Farm Bureau niche market where agents truly fulfill the purpose to protect livelihoods and futures. This has led to an industry leading cross-sell rate, with Farm Bureau Life's cross-sell rate more than twice the industry average.

- The organization also has a robust innovation process in place. There is an innovation council with dedicated funds to test concepts within the organization. The goal is to implement solutions that enhance customer and agent experience, and drive efficiency in the organization. I was so impressed to see that robotics process automation was used as part of the admin system replacement.

Going forward, the organization will continue to evolve. We are making the sales experience more customer friendly, increasing automation and becoming more efficient in our administration of life products. We'll continue to grow our accelerated underwriting program and expand on the use of data-driven underwriting decisions.

Again, I'm excited to be here and look forward to a bright future. Jim.

Jim Brannen
Thanks Kelli. I appreciate you sharing your initial thoughts and observations. Now I'm going to 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, earnings for the third quarter of 2019 were below our expectations. Net income was $1.01 per share and adjusted operating income was $1.02 per share.

We had four key drivers that led to our lower earnings for the third quarter.

- First, 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 for the third quarter of 2019 by $0.09 per share after tax. Please see page 14 of our third quarter investor supplement where we have included segment-level detail on the impact of this unlocking;
- Second, we continue to experience lower spread income in our Annuity segment;
- Third, we experienced worse than expected mortality results in the Life Insurance segment; and
- Fourth, we incurred an expected net loss relating to our wealth management operations as we build out that business.

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

On a positive note, we recorded a nonrecurring $0.10 per share benefit in the third quarter of 2019 from the execution of a tax planning strategy. This strategy includes increasing prior year tax deductions when the income tax rate was 35%.

Annuity segment results for the third quarter of 2019 declined, impacted by unlocking and lower spread income. Unlocking actuarial assumptions resulted in a $4.9 million pre-tax charge for this segment. This reflects updating several assumptions, including surrenders and withdrawals. Point-in-time spreads on our individual annuities decreased four basis points during the third quarter of 2019 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 third quarter of 2019 reflect a steadily growing book of business and the benefit of unlocking actuarial assumptions of $2.4 million pre-tax. The unlocking reflects updating several assumptions, with a benefit from overall mortality improvement being partially offset by the impact of lower assumed investment yields. While overall mortality has trended favorably over the long term, mortality results for the third quarter of 2019 were worse than expected, driven by an increase in the number of universal life claims. This is a normal quarterly fluctuation in mortality results.

Like annuity spreads, point-in-time spreads on our universal life business also decreased during the quarter. They declined due primarily to the impact of lower reinvestment yields.

Corporate and Other Segment results were solid for the quarter, reflecting better than expected variable universal life mortality as well as a small charge from unlocking actuarial assumptions of $200,000 pre-tax.

The Corporate and Other Segment for the third quarter of 2019 includes an after-tax net loss totaling $1.0 million, or $0.04 per share, related to the build out of our Wealth Management business.

The investment environment remains challenging. The tax-adjusted yield on new investment acquisitions backing our long-term business was 3.52% for the third quarter of 2019. This is lower than acquisitions made in the first half of this year, and lower than our portfolio yield. We are focused on adding longer duration investments, mostly of NAIC 1 and 2 corporate bonds.

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

At September 30, 2019, our subsidiary, Farm Bureau Life, had an estimated company action level risk-based capital ratio of 555%. This is an 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 this year.

To conclude, while our bottom-line results for the quarter were below our expectations, we remain focused on financial discipline, growing our business and diversification of our earnings with the wealth management 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.