FBL Financial Group, Inc.
1Q19 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 first quarter 2019 net income of $1.37 per share and adjusted operating income of $1.04 per share.

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

Total premium collected for the first quarter of 2019 was $161 million reflecting an increase in life insurance sales and a decrease in annuities.

Life sales were very strong throughout all of 2018, and that momentum continued into this year. Life premium collected for the first quarter of 2019 totaled $78 million, up 2.3% from the first quarter of 2018. This increase was driven by growth in universal life and term life sales.

Annuity premium collected for the first quarter totaled $70 million, a decline compared to the first quarter of 2018. This was driven primarily by a decrease in index annuity sales. The annuity market is pressured by increasing competitiveness from bank CDs and strong equity market performance. Absent a change in the current investment yield environment, higher annuity sales will be a challenge as we intend to maintain our pricing discipline.

This is a really good opportunity to remind you of the benefit of our distribution strategy. We use a multi-line exclusive agency force combined with a diverse product set. That allows agents to provide our customers with products that work in all economic environments and all stages of life. While I wish our opportunity for annuity sales was greater at the moment, I am very happy to focus on life insurance sales where we can layer in a nice profit stream on a long term product.

Looking at our agency force, as of March 31, 2019, we had 1,830 exclusive agents and agency managers. This is a small increase compared to a year ago. I am pleased that our agent count is relatively stable compared to declining industry numbers for exclusive agents. The environment remains challenging for recruiting and retaining exclusive agents. Our first-year agent retention rate is high, but we have room to improve in years two through four. From a geographic perspective, our agent retention is the strongest in rural markets. This is positive as we have a competitive advantage there with our Farm Bureau and rural/ag connection. Agent growth and retention remain a top priority.

In March we launched additional TV advertising and expanded its reach in our territories. The new creative messaging is memorable and connects with consumers. This is evidenced by a 15% increase in our brand awareness in Iowa, Kansas and Nebraska. I encourage you to check out our commercials at the Farm Bureau Financial Services YouTube channel. They're both humorous and relevant.

We're focused on our core Farm Bureau niche customer. This year we introduced new farm and ranch succession planning seminars called "Changing Hands." With our Regional Financial Consultants, we plan to hold around 120 of these seminars in 2019. To date we have held 88 seminars across our states. The focus is to prepare prospects and client members with the plans necessary to pass their ag business on to the next generation. This seminar is a significant benefit for clients, improves retention and allows for life and annuity sales opportunities.

Given the success of these seminars, we are developing our next seminar series called "Maximizing Your Retirement." The format will be similar, but we're targeting a different demographic – an age range of 45 to 60 year olds.

Next, I'll provide an update on our wealth management initiative. In the first quarter we received FINRA approval for our full service broker dealer. We also began recruiting experienced advisors in our territories. As of March 31, we have appointed six Farm Bureau wealth management advisors, and plan to add more over the balance of the year. Our value proposition is resonating well in the various advisor channels. We offer incoming advisors the ability to partner with our existing agency force to provide local financial advisory services to our existing client/members. This is a unique opportunity for an investment advisor to team up with our exclusive Farm Bureau insurance agents.

Our ideal wealth management advisor candidates are established advisors with a book of $30-$40 million, but we are open to considering advisors with larger and smaller book sizes. Currently, we are not accepting advisors new to the wealth management business, or those without a book of business.

These wealth management advisors are in addition to our 51 exclusive agents who are agent financial advisors. They now have the tools and products to offer fee-based financial planning and investment management services for their client/members.

This is a long-term initiative that allows our agents to add more value and meet all of their clients' insurance and financial needs. Ultimately, we expect this to add a diversified earnings stream to FBL Financial Group, given the fee-based nature of this business.

As a whole, we are off to a strong start in 2019, and I have a positive outlook for the balance of the year.

Before I turn it over to Don for our financial results, I want to mention that a couple of weeks ago we announced that Ray Wasilewski will retire at the end of the year. Ray has been with FBL for 22 years, the last five as Chief Operating Officer for Farm Bureau Life. With Ray's excellent leadership, we have executed several major foundational initiatives at Farm Bureau Life and we are well positioned for continued long term success. On behalf of everyone at FBL Financial Group, I thank Ray for his many years of dedicated service and wish him well when he departs our companies at the end of the year.

A new Chief Operating Officer will be named at a later date. Our search for Ray's replacement includes both internal candidates as well as external candidates via a national search. 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 first quarter of 2019 was strong at $1.37 per share. This includes $0.33 per share in net realized gains on investments and the change in the fair value of derivatives and equity securities. Our adjusted operating income excludes these items, resulting in adjusted operating income for the first quarter of 2019 of $1.04 per share.

Overall, I would characterize adjusted operating income as solid and in line with our expectations for the first quarter of 2019. As a reminder, we have some seasonality in our mortality experience with death benefits on average being about 10% higher in the first quarter compared to a simple average for the full year.

Our results in the first quarter were impacted by the following items.

- Positively, we benefitted from the strong equity market performance in the first quarter, resulting in lower amortization of deferred acquisition costs and related balances in the Corporate and Other segment. This decreased amortization by $2.2 million, or $0.07 per share after tax.
- We also benefitted from investment prepayment fee income of $0.04 per share after tax, which is in line with our expectations.
- Partially offsetting these items, we had lower spread income in the Annuity segment, and our equity income was less than expected.

- In addition, our mortality experience in our Life segment was slightly worse than the elevated level we expect in the first quarter.

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

Annuity segment results for the first quarter of 2019 include $1,039,000 of investment prepayment fee income. This segment also benefitted from a smaller than planned increase in our guaranteed living withdrawal benefit reserve due to positive equity market performance during the first quarter. Offsetting these positive items was lower spread income for this segment.

Point-in-time spreads on our individual annuities decreased four basis points during the first 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. In addition, crediting rates increased slightly due to an increase in option costs.

Life insurance segment results for the first quarter of 2019 reflect a steadily growing book of business and investment prepayment fee income of $330,000. Partially offsetting this was slightly worse than expected mortality experience. This is due to a higher average claim size than typical as many of the claims this quarter were universal life and term life claims, which tend to have higher face amounts. Additionally, equity income was lower than normal this quarter given that some of our investment partnerships are reported a quarter in arrears and reflect the negative impact of fourth quarter 2018 market returns.

Similar to annuity spreads, point-in-time spreads on our universal life business also decreased. They declined one basis point during the first quarter due primarily to the impact of lower investment yields.

Corporate and Other Segment results were strong for the quarter, benefitting primarily from lower amortization of acquisition costs on our closed-block variable business due to positive equity markets. This was partially offset by lower equity income in the first quarter of 2019.

As reflected by the decline in spreads, the investment environment remains challenging. The tax-adjusted yield on new investment acquisitions backing our long-term business was 4.45% for the first quarter of 2019. This is 11 basis points lower than acquisitions made in the fourth quarter of 2018, and lower than our portfolio yield. Our current preference is to stay up in quality and add longer duration investments when possible.

Next I’ll comment on our capital. We have an excellent capital position with significant financial flexibility.
We are committed to returning capital to shareholders. In March we announced a 4.3% increase in our regular quarterly dividend rate to $0.48 per share. Based on yesterday’s closing stock price, this gives us an indicated dividend yield of 3.1%. On top of that, we also paid a $1.50 per share special dividend in March. We’re able to pay these dividends because of our confidence in our operating results, and our strong excess capital position. Taken together, the regular quarterly dividend and the special dividend result in a total indicated dividend yield of 5.5% - currently the highest in the life insurance industry.

At March 31, 2019, our subsidiary, Farm Bureau Life, had an estimated company action level risk based capital ratio of 517%. This is a decline from year end 2018 when the ratio was 552%. A decline in the ratio was expected due primarily to $50 million in dividends paid from Farm Bureau Life to the holding company to fund the regular and special shareholder dividends paid in the first quarter.

In closing, we are off to a positive start in 2019 with solid first quarter earnings results. While we would benefit from increased investment yields, we have been able to maintain our financial discipline and 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.