FBL Financial Group, Inc.
3Q16 Conference Call

Jim Brannen
Chief Executive Officer

Thanks Kathleen. Good morning, and thank you to everyone on the call. I'm glad you are able to join us today.

I am pleased that FBL Financial Group reported strong earnings for the third quarter of 2016. Net income was at $1.20 per share and operating income was $1.15 per share.

Overall, sales for the third quarter were muted, with total premiums collected down 15%, primarily due to lower fixed rate annuity sales. Annuity premiums collected for the third quarter declined 25% while life insurance premiums collected declined 1%.

Earlier in the year we offered a first-year bonus on our 4-year guarantee annuity product – and it was well-received. Following that offering, we lowered crediting rates on this product a couple of times given the investment environment, resulting in the decline in sales in the third quarter. We regularly update the rates on our annuity product offerings in response to changes in the marketplace. This allows us to provide appropriate credited rates based on available investment opportunities, while maintaining financial discipline and meeting our pricing objectives. The good news is that we recently again began offering a first year bonus 4-year guarantee annuity product. We expect this to drive increased sales.

Premiums collected on our indexed annuity product continue to be strong, and were up 41% over the third quarter of 2015. Our index annuity is attractive to customers because of the potential for market gains along with protection from loss with guaranteed minimum crediting rates. We’ve expanded our agent training offerings on index annuities, targeting agents who have not yet sold an index product. We believe this expanded training will help to ensure agents understand all aspects of indexed products and have confidence in presenting them to customers.

Life premiums collected were down slightly this quarter - 1% - compared to the third quarter of 2015. Sales of whole life products continue to be strong. And sales of our relatively new index universal life product continue to grow as well.

The current economic environment for our industry is challenging. In the face of headwinds, we remain focused on the fundamentals: recruiting and retaining agents and supporting them with the tools they need to be successful.

As of September 30, we had 1,870 agents and agency managers, plus 72 active reserve agents in the pipeline working to complete the steps necessary to become full time Farm Bureau agents. Our exclusive Farm Bureau agents are our most important competitive advantage.

At the heart of what our agents do is connect with customers – working with them to assess and fulfill their insurance needs. We do not focus on one-time sales. Rather, our agents build lifelong relationships with our customers to help them protect what matters most.

We support our agents and these relationships in multiple ways. One way is through our branded review program, called SuperCheck. It reinforces the message that Farm Bureau agents make insurance simple. Our advertising dollars support the SuperCheck campaign and reinforce the value that comes from having a relationship with a trusted agent.

The focus on knowing our customers, meeting with them regularly and meeting their needs has led to our industry-leading cross-sell rate. Our cross-sell rate is currently at 23.7%, which is double the industry average.

In September I attended our annual sales seminar. We had record attendance with nearly 700 Farm Bureau agents there. It was a great opportunity for me to be able to spend time with our agents. They are engaged and committed to protecting the livelihoods and futures of our customers.

At this event they gained new insights and heard from renowned industry speakers with a focus on marketing activities – prospecting and lead development that ties into our corporate marketing and sales initiatives.

One of our more recent sales initiatives is an external term life insurance replacement offer. This is a nice complement to our internal conversion program, whereby customers convert their term life coverage to a permanent policy without having to undergo full new underwriting. We support these programs with direct mail campaigns and agent follow-up. An additional direct mail campaign we have going on now focuses on our annuity products. These mailings have resulted in increased life product ownership and cross-sell of PC and life products.

We continue to make progress on our work to be compliant with the Department of Labor Fiduciary Rule. Efforts during the third quarter focused on changes to systems, disclosures, and agent and staff training. We expect to be ready by the first compliance date in April of 2017. Our current proprietary product offerings and agent compensation models will not change substantially as we expect to sell under the Best Interest Contract Exemption, or BICE.

To conclude, I'm pleased with our results to date in 2016. Our focus on the fundamentals - having best-in-class distribution, serving the Farm Bureau niche, and maintaining financial discipline – allow me to remain positive as FBL Financial Group moves to the end of 2016 and into 2017.

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

Don Seibel
Chief Financial Officer

Thanks, Jim, and good morning everyone.

I'm glad to be here today to provide some insights regarding our earnings and capital position.

Even with the challenges of the continued low market interest rates, third quarter results were strong, and are pretty straightforward. As Jim indicated, net income for the quarter was $1.20 per share and operating income was $1.15 per share.

During the quarter our operating income adjustments totaled $0.05 per share and consisted of the change in net unrealized gains and losses on derivatives and net realized gains on investments.

I will focus the balance of my comments on operating income. Third quarter operating income was above our expectations, with variances for other investment-related income, mortality experience, and the impact of unlocking.

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 positively impacted earnings by $0.02 per share primarily due to improved mortality assumptions. The impact of the improved mortality assumptions was partially offset by the impact of changes in assumed premium persistency on our universal life business. The unlocking impact varied by segment. It decreased pre-tax operating income in the Life insurance segment by approximately $300,000 and increased pre-tax operating income in the Corporate & Other segment by a little over $1,000,000. There was no impact from unlocking on the Annuity segment.

You'll recall that during the second quarter of 2016, we unlocked interest rate related assumptions to better reflect the low market interest rate environment given Brexit and other factors at that time. With those changes already made, we did not need to further unlock interest rate assumptions in the third quarter.

Please see page 15 of our third quarter investor supplement where we have included detail on the impact of this unlocking on the various financial statement line items.

Turning to mortality, this quarter mortality experience was higher than our expectations due to an increase in average claim size. This resulted in higher death benefits in our closed block of variable universal life business, which is in the Corporate & Other segment. On a year-to-date basis, our mortality experience is better than expected. Given the nature of mortality experience, fluctuations on a quarterly basis are expected.

Other investment-related income, which includes prepayment fee income, was at an elevated level again this quarter, totaling $4.1 million. It was primarily in the Annuity segment. This is positive in the short-term as it contributes to income, but it further compresses future spreads due to the loss of higher yielding securities.

Next I'll comment on our spreads and spread targets.

I am pleased to report that we are exceeding target spreads on our annuity business. At September 30, the total spread on our annuity business was 202 basis points, above our target of 201 basis points. During the quarter, investment yields decreased 5 basis points due to the maturity of higher yielding assets and purchases of lower yielding assets. However, we were able to partially offset this spread compression by lowering crediting rates by 10 basis points on certain annuity products and by 25 basis points for the fixed portion of our index annuity product. Given the persistent low market interest rates, it will be a challenge for us to earn the desired target spread going forward. We have 33% of our annuity business receiving a crediting rate above the minimum guarantees, but there are competitive pressures that make it difficult to be aggressive in taking further rate actions.

Point-in-time spreads on our universal life business declined during the third quarter to 144 basis points at September 30, below our target for this business of 152 basis points.

This was due to the maturity of higher yielding assets and purchases of lower yielding assets. Crediting rates for this block of business remained the same during the quarter. For this block, it is increasingly difficult to lower crediting rates further as we only have 20% of the business receiving a crediting rate above the minimum guarantees.

Given the headwinds of the persistent low interest rate environment, over the past several years we have been focused on expense control. Operating expenses were lower in the third quarter compared to the same quarter last year, reflecting this focus and the benefit of several expense savings initiatives.

Next, I'll comment on our financial strength.

At September 30, the capital position of our wholly-owned subsidiary, Farm Bureau Life, remained excellent with an estimated company action level risk based capital ratio of 547%. This is an increase from the June 30 level of 541%.

Using 425% RBC as a base, Farm Bureau Life had excess capital of approximately $155 million at September 30. At the holding company level we also have more than adequate liquidity and capital with excess capital at the parent company of approximately $45 million at September 30.

While this is a challenging time for the life insurance industry, I'm pleased that FBL Financial Group has been able to again deliver strong earnings results. With our consistent earnings results and strong capital position, I'm confident that we'll continue to maintain our financial discipline going forward.

That concludes our prepared remarks. We will now turn the call over to the operator and open it up to any questions you may have.