FBL Financial Group, Inc.
3Q17 Conference Call

Jim Brannen
Chief Executive Officer

Thanks Kathleen. And thank you to everyone on the call. I'm glad you are able to join us today.

FBL Financial Group reported solid earnings for the third quarter of 2017, but they were below our expectations. Net income totaled $1.08 per share and operating income was $1.03 per share. Don will go deeper into the financial results in a few minutes but the largest difference from our expectations was increased mortality which tends to fluctuate from quarter to quarter.

I'll begin by discussing sales results. Total premium collected for the third quarter of 2017 was $142 million. Life sales strengthened again this quarter while annuity sales continued to weaken.

Life premium collected for the third quarter of 2017 was up 5.9% compared to the third quarter of 2016. We saw the greatest growth in universal life insurance, reflecting increased sales of our indexed universal life product. We also saw continued growth in our term life sales. A positive aspect of life sales is that we expect they will provide a long term profit stream and allow us to grow earnings from sources other than spread income.

Our accelerated underwriting program is going well. This pilot program takes a non-medical underwriting approach and is underwritten at turn in events in each of our 14 states. We held several events in conjunction with our annual summer sales rallies. And we have additional events planned for this Fall.

I feel fortunate that we have a balanced book of life and annuity business, particularly at times like the current challenging annuity sales environment. Annuity premium collected for the third quarter was down 23.5% compared to the third quarter of 2016. This reflects a combination of the pressure of low interest rates, increased regulation and the relative attractiveness of the equity markets. This decline in annuity sales also reflects our financial discipline, in that we only offer fixed rate annuities at rates which we believe we can meet our profit objectives.

In September we introduced a flexible premium indexed annuity. We have had a single premium indexed annuity in place for several years now and it has been a popular product. Clients have been asking to make additional contributions into their indexed annuity contracts, so we believe this new flexible premium indexed annuity meets that need. We've also lowered the minimum initial premium for this product, making it an attractive option for even more clients who are looking to obtain a certain rate of return without risk associated with investing directly in the stock market.

As of September 30, we had 1,866 exclusive agents and agency managers. I am pleased with this count as it reflects growth of 38 agents for the third quarter and an increase from year-end 2016. In addition, as of September 30, we had 79 active reserve agents working to complete the steps necessary to become full-time Farm Bureau agents. For the last several years we have experienced year-over-year growth in agent count, which is critical to our success.

In addition to product and agent growth, we are also focused on efficient operations. We are implementing additional automation in our life underwriting area. We are also in the middle of a multi-year modernization of our life administration system. This new system allows for greater speed to market for new products, like our recently introduced flexible premium indexed annuity. It also provides greater flexibility in addressing changing consumer and agent expectations and reduces technology and staffing risk.

Now I'd like to share with you news about the launch of one of our long term strategies. We call this our wealth management initiative. Our Farm Bureau Financial Services agents are known as trusted advisors on insurance and financial services matters. But to date they have had a limited number of mutual funds available to offer our clients. This has been a missed opportunity for us as fewer than 4% of our customers buy mutual funds through our broker dealer subsidiary, when data suggests that half of our clients currently own mutual funds purchased elsewhere.

In the coming days, we plan to enter into a new arrangement to significantly enhance our offerings. We expect to enter into a clearing firm agreement that will offer an open architecture mutual fund platform. We also expect to add advisory capabilities through a newly formed Registered Investment Advisor. Once implemented, this will allow our agents to add more value, enhance the customer experience and further strengthen the agent/customer relationship. We expect that this will also add a diversified earnings stream to FBL Financial Group given the fee-based nature of wealth management. This is a long term strategy. We expect to invest in and build out over time.

With this initiative, we will create a new role known as the Farm Bureau Wealth Management Advisor. This advisor will serve as a wealth management resource to other Farm Bureau agents. I will provide additional detail as we launch and build out this new component of our business.

To conclude, with the first three quarters of the year completed, I am pleased with our financial results to date. I look forward to the remainder of 2017 and to executing on the opportunities ahead of us.

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

Don Seibel
Chief Financial Officer

Thanks Jim. I also want to welcome everybody on the call. I'm glad to be here today to provide some insights regarding our earnings and capital position.

As Jim indicated, net income for the quarter was $1.08 per share and operating income was $1.03 per share. During the quarter our operating income adjustments totaled $0.05 per share primarily from the change in net unrealized gains and losses on derivatives.

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 $0.03 per share and varied by segment. Please see page 14 of our third quarter investor supplement where we have included detail on the impact of this unlocking on the various financial statement line items.

Our operating earnings for the quarter were solid, but below our expectations. We had the benefit from unlocking, which was more than offset by elevated mortality experience.

I'll focus my comments on the results for each of our segments.

Looking at our Annuity segment, pre-tax operating income benefitted by $1.5 million of unlocking, primarily due to lower surrender rate assumptions. Our annuity segment is performing well and continues to grow, albeit at a slower pace this quarter given the decline in new annuity sales.

There is continued pressure on annuity spreads. We've been active in managing this business and lowering crediting rates where appropriate. This has not been enough to offset the decline in yields on investments backing this business due to the maturity of higher yielding assets and purchases of lower yielding assets. At September 30, the spread on our individual annuity business was 195 basis points, six basis points below target for this business.

Next I'll comment on the results for our Life Insurance segment. Unlocking negatively impacted this segment by $2.4 million pre-tax. Our updated assumptions reflect the benefit of lower surrender rates, but that was more than offset by the impact of lower market interest rate assumptions.

Spreads for the Life Insurance segment remained steady in the third quarter, but did not meet our targets. The point-in-time spread on our universal life business was 141 basis points at September 30, below our target for this business of 148 basis points.

Results for the Corporate & Other segment were below our expectations, despite a $1.9 million pre-tax benefit from unlocking a variety of assumptions. This segment experienced an increased number of death claims on our closed block variable universal life business as well as a higher level of expenses this quarter. As previously discussed on these calls, death benefit levels can vary from quarter to quarter. The increase in expenses is partially due to expenses associated with our routine state insurance department examination that occurs every five years and various expenses that we do not expect to recur.

To summarize these segment results at a high level, our operating income was impacted by:

- A $0.03 per share benefit due to unlocking,
- $0.06 per share of higher than expected mortality experience and
- $0.02 per share of expenses tied to our state exam or that are not expected to recur.

Turning to investments, as of September 30 we had total investments of $8.5 billion, plus $134 million of alternative investments included in the securities and indebtedness of related parties line on the balance sheet. The majority of our investments - $7.2 billion - are fixed maturity securities, with below investment grade bonds accounting for only 3.6% of the fixed maturity total.

In the third quarter our average tax-adjusted yield on investments acquired backing our long-term business was 3.92%. To date in 2017 we are finding value in structured product and also emphasizing commercial mortgage loan production. Year-to-date our fixed maturity security acquisitions have had an average life of 13 years and have been of high quality with 71% designated NAIC 1 and 29% designated NAIC 2.

Next, I'll comment on capital levels. We are financially strong with growing capital. At September 30, our subsidiary, Farm Bureau Life, had an estimated company action level risk based capital ratio of 575%. This is an increase of 31 points from year end 2016. Our increase in capital has been stronger than expected during 2017 due to:

- Net realized gains on investments
- Sales of investments with higher capital charges
- The impact of ratings upgrades within our investment portfolio
- Lower annuity production, and
- Strong year-to-date statutory operating results

Using 425% RBC as a base, Farm Bureau Life had excess capital of approximately $185 million at September 30. Additionally, we estimate that we have approximately $35 million of excess capital at third quarter end at the holding company level.

In closing, FBL had a solid third quarter with strong life sales, growing book value and increased financial flexibility.

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.