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CNO.N - Q2 2020 CNO Financial Group Inc Earnings Call

EVENT DATE/TIME: AUGUST 05, 2020 / 2:00PM GMT



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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the CNO Financial Group Second Quarter 2020 Earnings Conference Call. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Jennifer Childe, Vice President of Investor Relations. Please go ahead.

Jennifer Childe - *CNO Financial Group, Inc. - VP of IR*

Thank you, operator. Good morning, and thank you for joining us on CNO Financial Group's Second Quarter 2020 Earnings Conference Call. Today's presentation will include remarks from Gary Bhojwani, Chief Executive Officer; and Paul McDonough, Chief Financial Officer.

Following the presentation, we will also have several other business leaders available for the question-and-answer period. During this conference call, we will be referring to information contained in yesterday's press release. You can obtain the release by visiting the media section of our website at CNOinc.com. This morning's presentation is also available in the Investors Section of our website and was filed in a Form 8-K yesterday. We expect to file our Form 10-Q and posted on our website on or before August 7.

Let me remind you that any forward-looking statements we make today are subject to a number of factors, which may cause actual results to be materially different than those contemplated by the forward-looking statements. Today's presentation contains a number of non-GAAP measures, which should not be considered as substitutes for the most directly comparable GAAP measures. You'll find a reconciliation of the non-GAAP measures to the corresponding GAAP measures in the appendix. Throughout the presentations, we will be making performance comparisons and unless otherwise specified, any comparisons made will be referring to changes between second quarter 2019 and second quarter 2020.

And with that, I'll turn the call over to Gary.

Gary Chandru Bhojwani - *CNO Financial Group, Inc. - CEO & Director*

Good morning, everyone, and thank you for joining us. The country continues to face unprecedented challenges brought on by the COVID-19 pandemic. The health crisis and economic disruption caused by the virus are significant and have exacted a real and substantial human toll. We continue to be grateful to those who work tirelessly to contain the pandemic and provide essential services. We keep in our thoughts and prayers, those who have lost a loved one to this virus or are ill and recovering.

While the shape of the economic recovery is uncertain, we remain focused on serving all of our stakeholders. Last quarter, we took measures to protect our workforce. At a time when many American workers are unemployed, we pledge that there will be no COVID-related layoffs in 2020. We introduced financial support programs for our exclusive agents who have seen their businesses disrupted. We also added additional physical,



financial and mental well-being resources to eligible associates and their families. In March, we moved 97% of our associates to work remotely. By adapting quickly, our customer service and agent support teams have been able to deliver consistent service with minimal disruption. Our exclusive insurance agents continue to use virtual selling and digital tools to conduct client consultations and make product recommendations to customers. Consumers who wish to meet with an agent in-person can request an appointment. In-person appointments are conducted in accordance with each state's physical distancing guidelines.

The majority of our associates and agents continue -- will continue to work remotely through at least mid-September. As the COVID-19 environment evolves state by state, it is too early to project beyond that date. As we discussed last quarter, sparked by the implications of the pandemic, we began reexamining the way in which we do business and accelerating our strategic plans in certain areas. These include investments in technology, distribution enhancements and improvements to the way we prospect and reach customers.

We're also reimagining our workplace. We have adapted extremely well to the next normal and successfully pivoted to a company-wide remote working model. As a result, we are rethinking our office footprint and remote technologies for the future in order to further support associate productivity and work flexibility.

I'd like to now turn to the performance of our businesses. I am very pleased with our second quarter operating results, which demonstrate the resiliency of our business model, including strong premium collection. The adaptability of our operations and the benefits of our diverse protection-oriented portfolio. We continue to operate from a position of strength in today's unprecedented conditions. Our sales have recovered from their April lows and continue to show steady improvement each month. We are not seeing excessive lapse rates from our middle market customers. Product margins were robust and discretionary spending was strictly controlled. Our capital and liquidity positions remain strong, we ended the quarter with an RBC ratio of 405% and \$208 million in cash at the holding company. These levels are after returning \$47 million to shareholders, including \$30 million in stock buybacks.

Turning to Slide 4. Operating earnings were up 4%, and operating earnings per share were up 15%. Excluding significant items, operating earnings per share were down 10% to \$0.43 as compared to \$0.48 in the prior year period. The decline was driven by a \$0.21 impact from lower investment income not allocated to products, mostly within our alternatives portfolio.

Our second quarter strength was attributable largely to very strong product margins, expense discipline and a lower share count due to share repurchases. In a challenging quarter, I was pleased to see that the benefits of our recent transformation continue to bear fruit. For example, in the Consumer Division, we're moving forward with our integrated purchase experience where consumers move seamlessly between telesales and exclusive agents. This blend of virtual and local service resulted in higher conversion rates without any degradation to the direct-to-consumer business. We expect to continue to reduce the barriers between our distribution channels as we advance towards a more fully integrated model. I will speak more to this topic in our Consumer Division update.

Turning to our growth scorecard on Slide 5. Life sales were up nicely, fueled by strong direct-to-consumer growth. Health and Long-term care sales were down by double digits as these products are typically sold in-person through exclusive agents. Overall, insurance sales were down 19% this quarter as compared to growth of 4% in the second quarter of 2019. The insurance collected premiums were up 1%, largely reflecting strong persistency and cumulative growth over the past year in Life, health and long-term care.

Consistent with industry-wide performance, annuity collected premiums were down 29% over the prior period. We continue to have considerable flexibility to reduce crediting rates as market conditions warrant. Understanding that our sales will be pressured, we exercised continued pricing discipline during the second quarter. Our ability to adjust crediting rates enables us to balance sales growth and profitability. As has been the case, we will accept lower sales to ensure that we are putting business on our books that meets our return thresholds. We noted in our press release that we had a favorable unlocking impact on our fixed index annuities from lowering our projected long-term new money rates to a level 4%. There are 2 key points about this unlocking impact that I want to note.

First, the positive impact on annuity reflects our intention to continue optimizing the balance between maintaining spreads and providing value to our customers. Second, lowering future interest rates had no current earnings impact to our traditional life and health businesses, including LTC. This is evidence of the healthy margins we have on these lines of business. Paul will provide a more detailed explanation. Annuity account



balances were up 4%, and client assets in our broker-dealer were up 17%. The number of broker-dealer accounts was up 10%, and the average account size was up 7%. Fee revenue was up 31% to \$20 million -- \$21 million, largely reflecting growth in third-party revenues predominantly from Medicare Advantage policies. The increase in assets in our broker-dealer and revenue growth from web benefits design.

Turning to our Consumer business on Slide 6. The COVID-19 crisis has underscored the crucial need for insurance products among our consumer base. Sales of more straightforward products, such as life insurance, remained strong in the second quarter. Sales of our more sophisticated products that have historically relied on face-to-face agent meetings, including our suite of health products, were more challenged. Overall, life sales within the Consumer Division were up 27% to \$47 million. Our direct-to-consumer life sales were up 52% year-over-year to a record \$30 million. The manner in which this life business was developed and fulfilled highlights the benefits of our recent transformation. First, the bulk of it originated from consumers who contacted us wanting to make a direct purchase. Second, while most of these leads were worked by our teleagents, more and more of these prospects are being routed, often within days to our exclusive field agents. Our teleagents are efficient at making a sale when a consumer is ready to act, whereas our field agents are able to make a local connection and form an ongoing relationship. Once the consumer is ready to move forward, our field agents might complete the sale over the phone, essentially acting as an extension of our teleagency. Or they can follow-up in-person, which tends to lead to a more enduring relationship.

During the second quarter, roughly 15% of all field written policies came as a result of this program. It has also resulted in higher overall lead conversion rates and lower marketing costs per application written. Our ability to provide customers with this type of hybrid experience, an integrated blend of virtual and local service, is key to how we think about serving our market. It allows us to build deeper, more meaningful relationships with our clients and establish a level of trust that is difficult to duplicate without feet on the street or local agents.

Turning to our health products. Sales were down more than 70% in April, but progressively improved over the course of the quarter as agents and customers became more comfortable with virtual appointments. For the month of July, health sales were flat, and we expect this improvement to continue through the balance of the year. Similar to what we're accomplishing with our life business in terms of providing consumers with an omnichannel sales and service experience, we are implementing several initiatives on the health side. First, we are enabling our exclusive field agents to represent all CNO products regardless of the underwriting entity. This expansion began last year with our short-term care products. Second, we launched the direct-to-consumer marketing program around our active care critical illness product. This is a product that is underwritten by Washington National and historically was sold only by that segment. It is now being marketed under the Colonial Penn brand with leads being routed to better's life agents. Finally, later this year, we plan to be more active in the direct marketing of our Medicare products. Similar to how we manage life insurance leads, we will leverage the entirety of our agent force to fulfill demand. Overall agent retention remained relatively stable throughout the quarter despite the difficult external conditions.

Recall that prior to the pandemic, we delivered 7 consecutive quarters of growth in our producing agent counts or agents who have closed a sale during the month. As a result of shelter in place and physical distancing restrictions early in the quarter, our producing agent count was down 12%. However, we have seen consistent improvement throughout the period. By the end of June, it was down 6%, and through July, it was down only 2%. Consistent with our experience in prior periods of job disruption, we expect the current environment to create a tailwind for our new agent recruiting efforts. However, as we highlighted last quarter, in March and April, our efforts to license new agents were stymied by the closure of state insurance licensing centers. In most cases, testing centers have fully reopened. As a result, our recruiting efforts late in the second quarter and through July have improved significantly.

Turning to Slide 7 in our worksite business. As a reminder, our worksite business began 2020 with significant momentum. We were on track to deliver another double-digit quarter for the pandemic set in. Understandably, employers quickly diverted their attention to COVID-19 crisis response. They limited office visitation, and in most cases, closed offices altogether. This severely pressured our worksite sales, which have historically relied heavily on face-to-face contact at the worksite. As a result, worksite sales were down \$9 million or 69%. We responded to the shutdown by arming our agents with virtual sales tools and training. They are now actively engaging with existing employer groups and employees to drive incremental sales. We did see continued strength within our smaller, independent agent sales with good success in the postal market and other public administration entities. These sales were up 29%, although still relatively small. While new sales have been soft, the profile of our existing employer groups has translated to very strong levels of employee persistency.



As a reminder, more than 70% of our covered employee base are employed by highly stable entities, including state and local governments, primary and secondary schools, utilities and other service organizations that are less likely to face long-term impacts from the pandemic. Web Benefits Design, or WBD, our benefits administration technology platform, continued to perform well under these difficult circumstances with fee revenue up 1%. The integration of WBD remains on track, including the anticipated launch of additional online enrollment capabilities in the fourth quarter.

As we highlighted last quarter, we expect a steeper path to recovery within the worksite business.

Turning to Slide 8. As I mentioned, we returned \$47 million to shareholders in the second quarter, including \$30 million in share buybacks. To be clear, we had the capacity to purchase significantly more shares during the quarter. We made a conscious and well-considered decision to take a measured approach given the considerable economic uncertainty that still exists. We believe that we will have the continued capacity to repurchase shares in the second half of the year, but intend to remain prudent as we carefully monitor the evolving circumstances.

Before I turn it over to Paul, I'd like to make a few comments on the senseless killings of George Floyd and too many others. This grief and anger is echoed in communities across the world, including cities that CNO calls home. As a company, people are at the center of everything we do. We stand firmly together in support of our colleagues and customers who are black, African-American and people of color. At CNO, we take diversity, equity and inclusion very seriously.

In 2018, we created a diversity equity and inclusion program to foster and encourage a more inclusive work environment. In June of this year, we added a full-time leader to support CNO's ongoing initiatives to develop and embed these principles across our organization and advance the important work of our diversity council. I want to take this opportunity to thank our CNO associates. Led by our business resource groups and our diversity council, associates and leaders have engaged in important, honest dialogue on race in America and the workplace. In recognition of the hard work and commitment to our associates, CNO was named among the best employers for diversity in 2020 by Forbes Magazine. While I'm proud of the progress we've made as an organization, there is still much work to be done. We, at CNO, hope to meaningfully contribute to real and lasting change.

And with that, I'll turn it over to Paul.

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Thanks, Gary, and good morning, everyone. I'll begin by providing a bit more detail on our second quarter results and then share our outlook for the balance of the year. Turning to the financial highlights on Slide 9. As Gary mentioned, operating earnings per share were up 15%, benefiting from 2 significant items, which I'll describe in a moment, and continued strong free cash flow, funding share repurchases that reduced our share count by 10% year-over-year. The first significant item was the impact of an actuarial unlocking exercise that we completed in the second quarter. We normally make these sorts of adjustments in the fourth quarter, but given market conditions and our outlook, we thought it was appropriate to do so in the second quarter of this year. Specifically, we reduced our new money rate assumption to 4% for both initial and ultimate new money rates. That compares to our previous assumption of 4% in 2020, 4.25% in '21, 4.5% in '22 and an average ultimate rate of 5.38%.

In addition, with lower new money rates, we assume that we will adjust the credited rates on our interest-sensitive products to the extent allowable over time in order to optimize the balance between the spread that we earn on those products and the value we provide to consumers. The lower new money rate had an adverse impact on our annuities and intersensitive life products in the amount of approximately \$46 million. The lower participation rates on our fixed index annuity had a favorable impact of about \$92 million, reflecting lower future option costs, which lowers the reserve related to those costs, resulting in a net \$46 million favorable impact in the quarter from unlocking. It's worth noting that the unlocking had no earnings impact in our traditional life, health and long-term care products, as the impact on those products was absorbed by the healthy reserve margins in those businesses. The second significant item in the quarter was \$23.5 million increase in our liability for claims under the previously disclosed Global Resolution Agreement that we entered into in November 2018. Under this agreement, a third-party auditor is acting on behalf of 41 states in the district of Columbia to identify unclaimed benefits from deceased insureds and contract holders where benefits are payable pursuant to unclaimed property laws. We received additional information from the third-party auditor that we verified and processed during the quarter, allowing us to more accurately estimate the ultimate liability under this agreement.



Excluding these 2 significant items, insurance margin and expenses improved versus the prior year, but investment income declined, driven by the change in investment income from alternative investments and calls and prepaids, driving an overall decline in operating income. I'll elaborate on insurance margin and investments in a moment.

Regarding expenses, allocated expenses decreased by \$7 million or 5% year-over-year, driven by the IT restructuring we announced last fall, as well as decreased travel and marketing-related expenses. Expenses not allocated to products, excluding the significant items, decreased by \$5 million or 25%, driven by declines in legal and other corporate expenses. As we mentioned last quarter, we continue to reconsider our office footprint and business travel needs and expect to generate significant incremental cost savings in those areas over the next several years. In the second half of this year, as Gary mentioned, we're planning incremental investments to better position the company for the future. These investments will put pressure on near-term expenses and we now expect expenses in the second half of 2020, excluding significant items, to be flat relative to 2019 levels.

Operating return on equity, excluding significant items, was 10.5% through June 30, 2020, compared to 10.9% in the prior year period, both on a trailing 12-month basis, with the decrease driven primarily by a decline in net income from alternative investments. Regarding nonoperating income, market conditions in the quarter had a modest net favorable impact of \$3 million or \$0.02 per share.

Turning to Slide 10 and our product level results. We continue to benefit from a diverse product offering with each product contributing meaningfully to earnings. In the second quarter, total insurance margin, excluding significant items, was up \$10.4 million or 5% over the prior year period, with growth in the annuity, health and long-term care lines offset by a decrease in the life margin. Our life margin reflects a \$14 million adverse mortality impact related to COVID-19. This is a bit higher than we had estimated in our previous outlook, reflecting higher U.S. debt, largely offset by a smaller impact per debt. The adverse economic conditions created by COVID-19 did not have a material impact in our Life, health and long-term care premium collections during the second quarter. Adjusting for state-mandated extended lapse period, persistency rates in our health and long-term care businesses were generally in line with normal expectations. The extended grace periods, however, prevented us from lapsing policies that would otherwise have lapsed, causing us to carry those reserves rather than release them.

It had an adverse impact on our supplemental health margins, in particular.

We would expect this impact to reverse when these extended grace periods expire. We did see some modestly favorable trends in persistency in our Life and annuities businesses, which we attribute at least in part to customers' desire to maintain protection-oriented coverage and savings during this uncertain time. Due to physical distancing practices related to COVID-19, consumers deferred medical and/or long-term care treatments. As a result, we saw a significant drop in paid claims in the second quarter in our health and long-term care businesses. We expect some portion of this trend to reverse in the subsequent quarter as and when physical distancing practices are relaxed. Within our annuities business, we saw favorable mortality in our other annuities block, which translated to \$10 million of favorable impacts. This was not COVID-related but instead resulted from a handful of terminations on large structured [salmon] policies. While terminations on these large policies do occur from time to time, we would not expect similar impacts to recur each quarter.

Turning to Slide 11 and our investment results. Investment income allocated to products increased by \$2 million or 1%, reflecting a 4% increase in net insurance liabilities, partially offset by a 16 basis point year-over-year decline in the average yield on those investments, 4.92%. Sequentially, the average yield declined 5 basis points, consistent with our prior guidance. Investment income not allocated to products decreased year-over-year by \$40.1 million, driven by unfavorable results from alternative investments in the 2020 period compared to gains in the 2019 period as well as lower call and prepayment income. Recall that we record our alternative investments results on a quarter lag, so results recognized in the second quarter reflect market conditions from the first quarter when the S&P was down 20%.

We may see some improvement in the third quarter, reflecting equity market recovery in the second quarter. Our new money rate of 4.49% was down 9 basis points year-over-year and up 3 basis points sequentially. This reflects \$920 million in funds invested in assets with a single A average rating and an average duration of 8.8 years.

Turning to Slide 12 and an overview of our investment portfolio. At quarter end, our invested assets were \$26 billion, up 6% year-over-year. Approximately 96% of our fixed maturity portfolio is investment-grade rated with an average rating of single A. BBB allocation comprised 41% of our investment-grade holdings compared to 39% a year ago. The impact of ratings migration has not been as significant as we initially projected.

As you can see on Page 24 of the appendix to our earnings presentation, we remain underinvested in sectors generally considered to be high-risk in the context of the pandemic including energy, airlines, gaming, hotels, nonessential retail and restaurants. You'll find further detail on our investment portfolio in the appendix to our presentation.

Turning to Slide 13. We continue to generate strong free cash flow to the holding company in the second quarter, with excess cash flow of \$91 million or 114% of operating income this quarter. This compares to \$82 million in the prior period. As Gary mentioned, we returned \$47.4 million to shareholders in the quarter, including dividends of \$17.4 million and share repurchases of \$30 million. And to reiterate, even under our adverse case scenario, we expect to have the capacity to continue to repurchase a modest level of shares in the second half of 2020 should we believe conditions permit.

Turning to Slide 14. At quarter end, our consolidated RBC ratio was 405%, down slightly from 408% at year-end 2019 and modestly above our targeted range of 375% to 400%. Our leverage ratio at 23.6% remains within our targeted range of 22.5% to 25%. Our Holdco liquidity of \$208 million was comfortably above our target minimum of \$150 million. We also had over \$300 million of operating company cash and cash equivalents at quarter end.

As a reminder, we have an undrawn \$250 million credit facility with a \$100 million accordion feature and have no debt maturities prior to 2025.

In January, AM Best affirmed our investment-grade rating and stable outlook. More recently, Fitch and S&P also affirmed our investment-grade ratings and stable outlook, both in the context of various pandemic-related stresses.

Turning to Slide 15 and our outlook for the remainder of 2020. Given the ongoing uncertainty related to how the COVID-19 pandemic will play out, and the continued economic impact it will have, we continue to model a range of potential outcomes for our business. The purpose of this exercise is not to predict certain outcomes, but to develop a range of potential outcomes and manage capital and liquidity in the context of the more adverse outcomes within that range.

We most recently updated our model in early July, applying base and adverse scenarios that are in alignment with certain rating agency assumptions and consistent with past financial crisis. The scenario's integrate assumptions about COVID-19 infection rates and death rates with associated

economic impacts, including both macroeconomic variables and investment impacts. We then developed our own financial projections in the context of those broader underlying assumptions. From a top line perspective, in our base case, we expect a continuation of the positive momentum we demonstrated in the second quarter. As additional data points in July, direct-to-consumer sales were up 41%. Consumer life and health sales in total were up 20%. Worksite life and health sales in total were down 52%. And annuity sales were down 13%. In our adverse case, sales are certainly more challenged.

From a bottom line perspective, in our base case, earnings in the second half of the year are expected to be down compared to the prior year, driven primarily by the expected net mortality impact of \$130,000 per 1,000 U.S. COVID-19 debt. Expenses in total are expected to be flat to last year despite accelerating investments to position the company better for the future, which is a sign of the effectiveness of our expense reduction work to date and our continued focus on managing expenses. Investment income not allocated to product is also expected to be generally flat. The base case is not necessarily our best estimate, but rather 1 end of the range of outcomes from our modeling. There is certainly downside risk to this case, represented by the adverse case, in particular, but there is also upside potential, primarily with respect to the morbidity impacts of COVID-19, which we have modeled as neutral.

From a capital and liquidity perspective, even in the adverse case, we expect to maintain our capital and liquidity targets, maintain our quarterly dividend to shareholders and have the capacity to continue modest levels of share repurchases.

And with that, I'll turn it back to Gary.

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Thanks, Paul. Looking at Slides 16 and 17. Despite many recent encouraging data points, we still face significant uncertainty surrounding the future path of the pandemic and the ultimate economic recovery. We recognize that COVID is creating a next normal that will permanently change many aspects of everyday life and shape future consumer expectations. The transformative steps we've taken -- we're taking to meet customers when and where they want to purchase insurance is preparing us for tomorrow's changing environment. We have proven that we successfully navigate change and serve all of our stakeholders from a position of strength. We continue to benefit from the actions we've taken over the last several years to diversify our business, strengthen our balance sheet and manage risk in our investment portfolio. This has positioned us well to weather a number of potential adverse scenarios. We remain focused on supporting our customers, associates and communities. We will continue to operate the enterprise prudently and compassionately. To everyone on the call and to all our shareholders, please stay healthy, and please stay safe.

Thank you for your interest in and support of CNO Financial Group. We will now open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Randy Binner from B. Riley.

Randolph Binner - B. Riley FBR, Inc., Research Division - Analyst

I just had 1 on the assumption review. Paul, I think you kind of outlined -- yes, call it, J curve of different return expectations in the investment portfolio. Could you just review kind of where those are out over time and what the ultimate is? And then kind of how that compares to the current new money return?

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Sure. And so we changed our both initial and ultimate new money rate assumptions to 4%. And that compares to the previous assumption of 4% in the current year, 4.25% next year and 4.5% in '22.

Randolph Binner - B. Riley FBR, Inc., Research Division - Analyst

Okay. It's just 4% forever.

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

4% forever. Yes as compared to the 4%, 4.25%, 4.5%, and ultimately new money rate of 5.38%. So a very meaningful decrease in the assumption.

Randolph Binner - B. Riley FBR, Inc., Research Division - Analyst

And so you're kind of drop and hold at 4.0%. And then where is the money you getting put to work right now?



Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Yes. So the new money rate in the current period was actually higher than 4%, 4.29%, I believe. And that reflects a couple of things. Number one, in the early part of the quarter, early April, there was still a fair amount of volatility that presented attractive opportunities for someone who could be patient and opportunistic, and that fits our profile.

So Eric and his team were able to make purchases at attractive valuations, generating attractive yields.

But if you look at the profile of what we invested in, which is summarized on Page 24 of the earnings call deck, you can see that it's primarily in high-quality investment grade, fitting nicely into our asset liability matching process.

And so we don't necessarily think that, that represents an opportunity in the second half or certainly going forward -- excuse me, I misspoke, our new money rate in the quarter was not 4.29%. It was 4.49%.

Randolph Binner - B. Riley FBR, Inc., Research Division - Analyst

Okay. And then just one more. On the life sales and kind of how that was supported by the structural transformation process. I guess I heard

that incoming leads help drive the result. But can you flush that out a little bit more because the result was good, but I guess I'm not entirely clear on how the structural change supported that result?

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Sure. Randy, this is Gary. Thanks for the question. So I guess I'll describe what we've done at a high level, and you can tell me if that addresses your concerns. So call, prior to the transformation, we really operated with 3 very separate business and there were areas of collaboration. I don't want to make it sound like there were no areas, but certainly not to the extent we have now. We have changed the way we hand off leads to our exclusive agents. So when a consumer sees a commercial and -- or some type -- something that interests them online or on TV or what have you, and when they reach out to us, either online or through the phone, we historically would handle it with that unit. So when someone saw Colonial Penn consumer, those telesales agents would work on a lead for as long as 60 days before handing it off. We've changed a number of our protocols as a result of the reorganization so that those leads are being processed and, I guess, analyze more quickly to determine whether they're more appropriately suited to an exclusive agent.

And what we've seen is we've seen no degradation in the close rates of our telesales and we've seen an increase in the close rate from those in-person sales by our exclusive agents. And all of that together brings down the average cost per lead because for the same marketing dollar, we're seeing higher close rates. And I believe in the script we shared that 15% of the life sales with our exclusive agents came from these types of programs. Now I've just glossed over a lot of details and operational elements. But that's the high level explanation. So we're doing this faster. We're doing more of it, and we're doing it with a greater efficacy than we ever have before. And that's what's driving these results. Does that make sense, Randy?

Randolph Binner - B. Riley FBR, Inc., Research Division - Analyst

Yes. No, that helps. That helps. So lead sharing is more active, being better managed on the margin that helped make a difference in the quarter.

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Yes. And we're developing better and better paradigms to assess when a lead comes in, how likely is this to be sold telesales, does this make sense to hand off sooner rather than later to in-person agents and so on. So as we do more and more of this, our models are becoming more and more efficient. So I would expect us to get better and better at it with every quarter.

Operator

(Operator Instructions) Our next question comes from the line of John Barnidge from Piper Sandler.

John Bakewell Barnidge - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Is there a way to dimension the growth in sales being from the direct-to-consumer channel versus maybe a realization by consumers because of COVID that they need insurance solutions for their financial planning needs?

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

John, thanks for the question. I just want to make sure I understand. So you're saying, are consumers getting more interested in life insurance because of what's happening with COVID-19, and that's why they're calling in more frequently, is that what you're asking?

John Bakewell Barnidge - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

That's what I'm trying to get at, especially because millennials are starting to buy houses, starting to have kids, which means they probably should buy life insurance.

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Yes. I'm going to look to Paul. But off the top of my head, I don't believe we've segmented the data that way where we precisely looked at incoming calls and asked them if their interest is due to COVID-19. I would tell you, anecdotally, the feedback we get, particularly from our exclusive agents who actually go out and meet with some of these folks that, that is most certainly happening. But I don't have hard data to give you. But I do think it's a reasonable assumption to assume that some of this demand is coming because people are getting more in tune with needs for these types of protection products.

John Bakewell Barnidge - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Okay. No, that's helpful. I didn't think it would be anything but anecdotally. And then you're talking about this next normal. And I know you're going through a process where you're trying to identify what that looks like, but maybe can you talk about what percent of your employees work in an office for COVID hit? And then maybe what you're thinking it could move to go forward?

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Yes. Thanks, John. So I want to make sure I answer this with a little bit of nuance. The way you asked the question, you asked about our employees. I want to remind you that part of the CNO family includes independent agents who technically are not employees. They're independent contractors and they run their own businesses. And those exclusive agents number somewhere around 5,000 folks. Those 5,000 folks have always, because of the nature of their job, worked a very significant balance between being out of the office and in the office. By definition, they're out meeting with clients or prospective clients, so they're out quite frequently, and they've always been working with this work from home and work from office model. So for those 5,000 folks, I want to be clear, again, they're not technically employees. But for those 5,000 folks, it's always been a very high percentage. And if anything, that percentage has moved up. If I had to throw it out, I'd tell you somewhere between 70% and 80% have worked with some kind of model like that. And today, it's somewhere between 80% and 90% of those 5,000 folks.

For the employees, so the way you asked the question, technically, the employees, we have about 3,000 folks, give or take. And those 3,000 employees, the vast majority, somewhere north of 90% have worked from the office. And if you look at the script, what we shared is, shortly after



the pandemic hit, we transitioned so that 97% of those folks are now working remotely. And even today, several months after this all started, that number is roughly accurate. Of our 3,000 employees, no more than a couple hundred are coming into the office with any frequency. We expect that number to go up slightly, meaning we expect more people to come into the office. But 1 of the areas we've identified for revisiting our model and really taking expense out of the organization is we don't expect to ever go back to where nearly 100% of our employees are in the office.

So we just don't think it's going to be there at all. We're estimating that we can reduce our real estate footprint by 50% or more. So we see a very significant shift in this next normal.

John, did that answer your question?

Operator

We have no further questions in queue. I'd like to turn the call back over to Jennifer Childe for closing remarks.

Unidentified Company Representative

Operator, thank you very much. We'll conclude the call here. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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