



CSC Executive Roundtable

Chris Stroup
Chairman Wilton Re

April 14, 2005

Organization for My Comments



- **Some thoughts on the (underperforming) U.S. life insurance industry**
- **The need (?) for life reinsurance**
- **Wilton Re**

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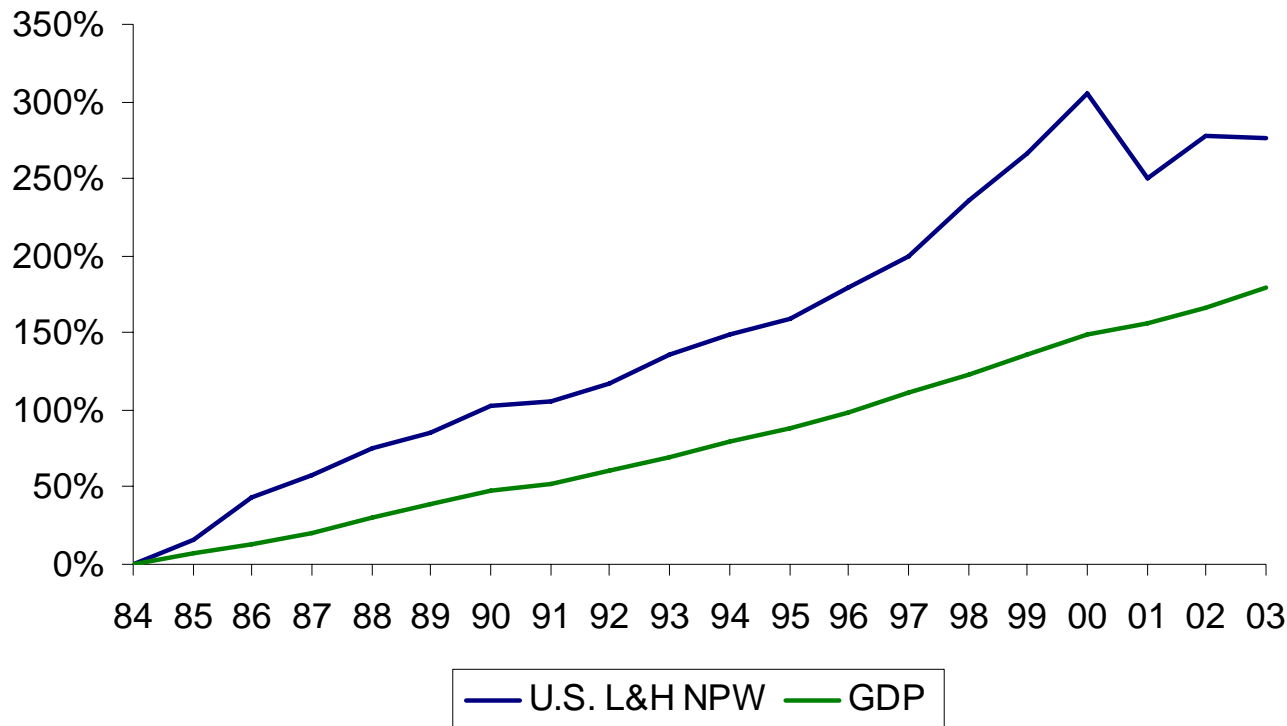
Life Insurance Observations

Industry Growth



U.S. Life Insurance premiums have grown at a faster rate than the economy

Cumulative Growth in Life & Health Premiums vs. GDP



Sources: A.M. Best and Bureau of Economic Analysis.

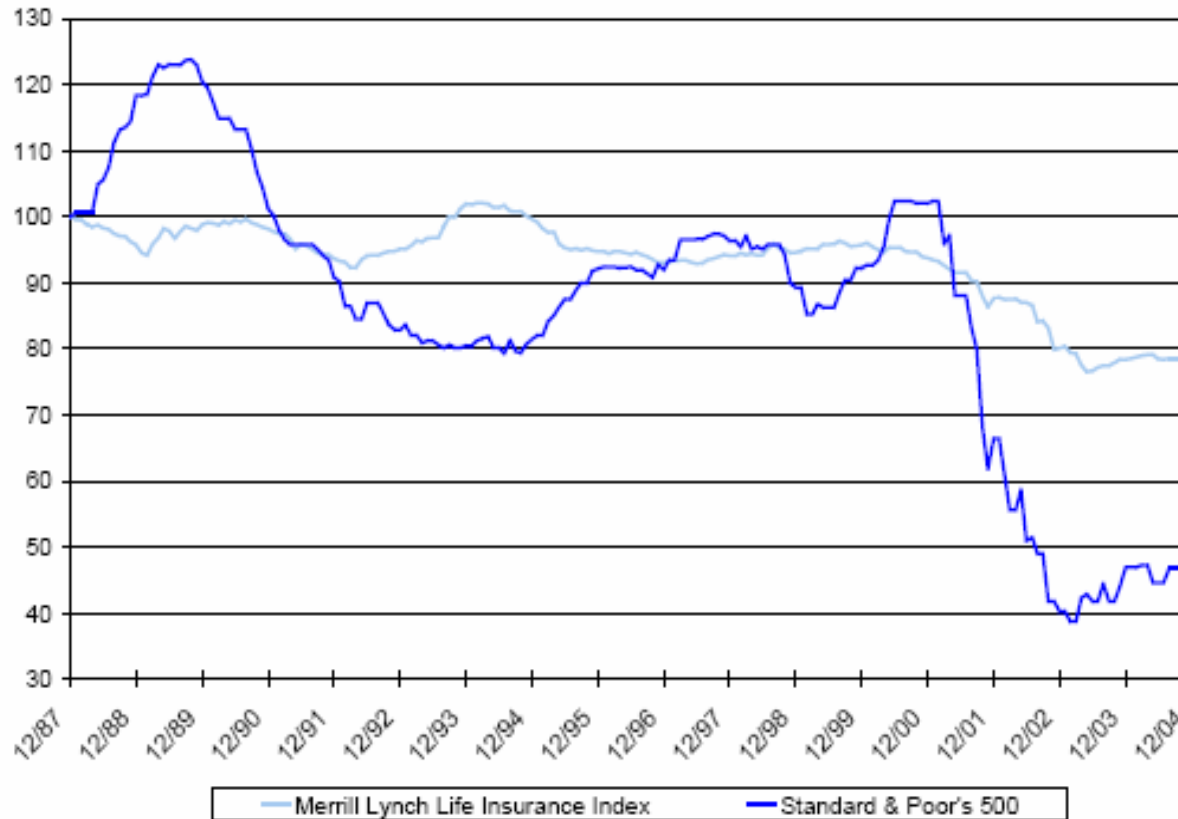
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Earnings Volatility



And Life Insurance earnings are more predictable than the S&P 500

EPS Estimate Revision Index



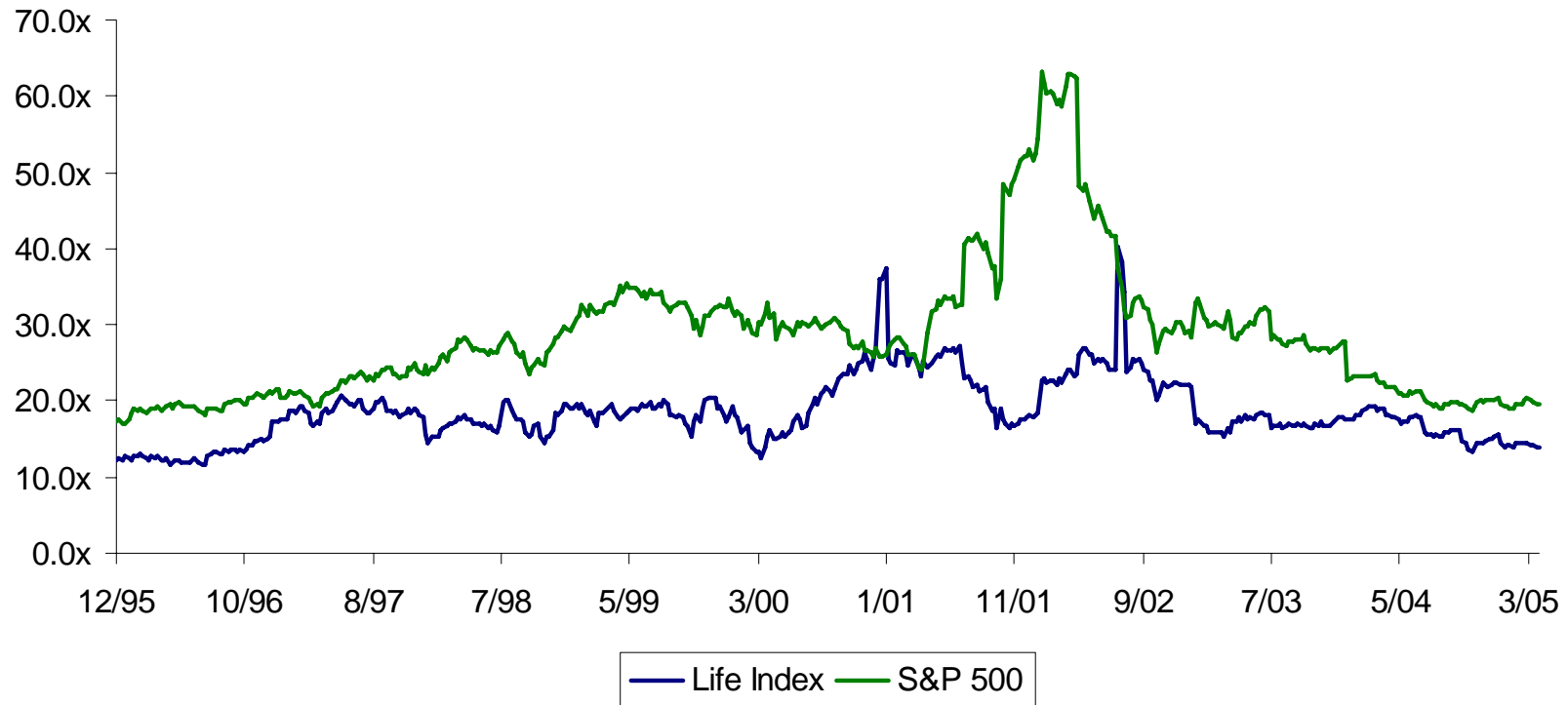
Source: IBES.

Relative Valuation



But life insurers trade at a discount to the market – Why?

Life Insurers' LTM P/E vs. S&P 500

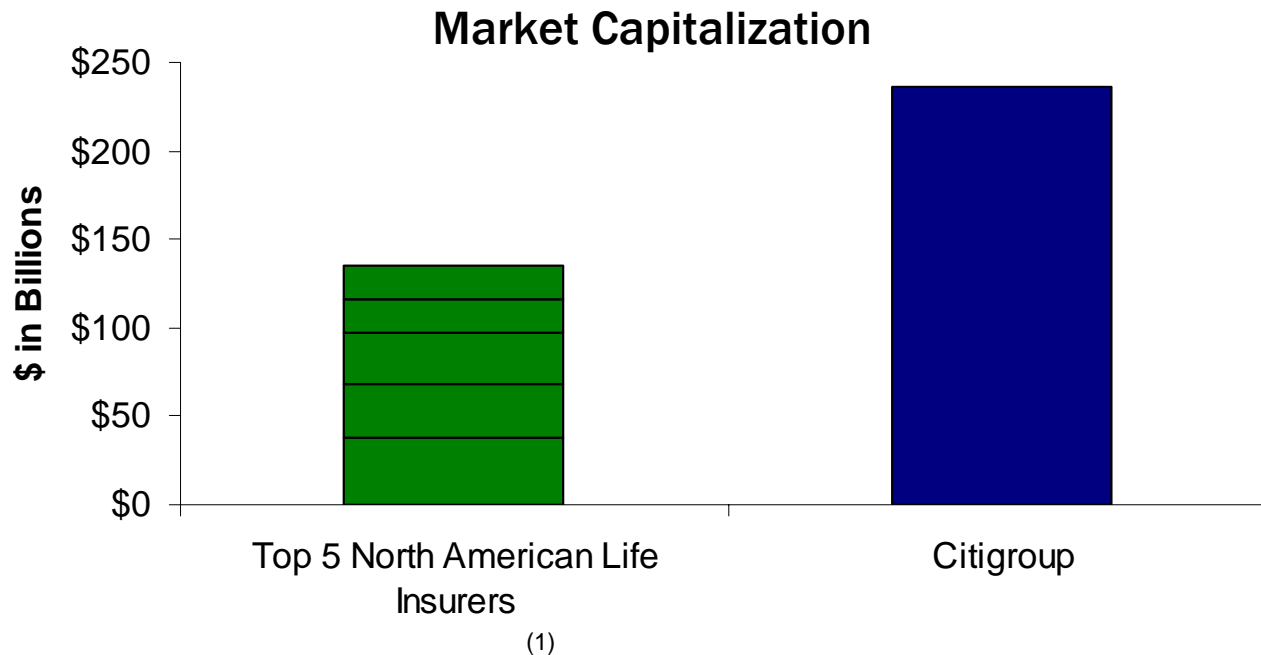


Source: Bloomberg.

Market Value



The market capitalization of Citigroup is larger than that of the Top 5 North American life insurers



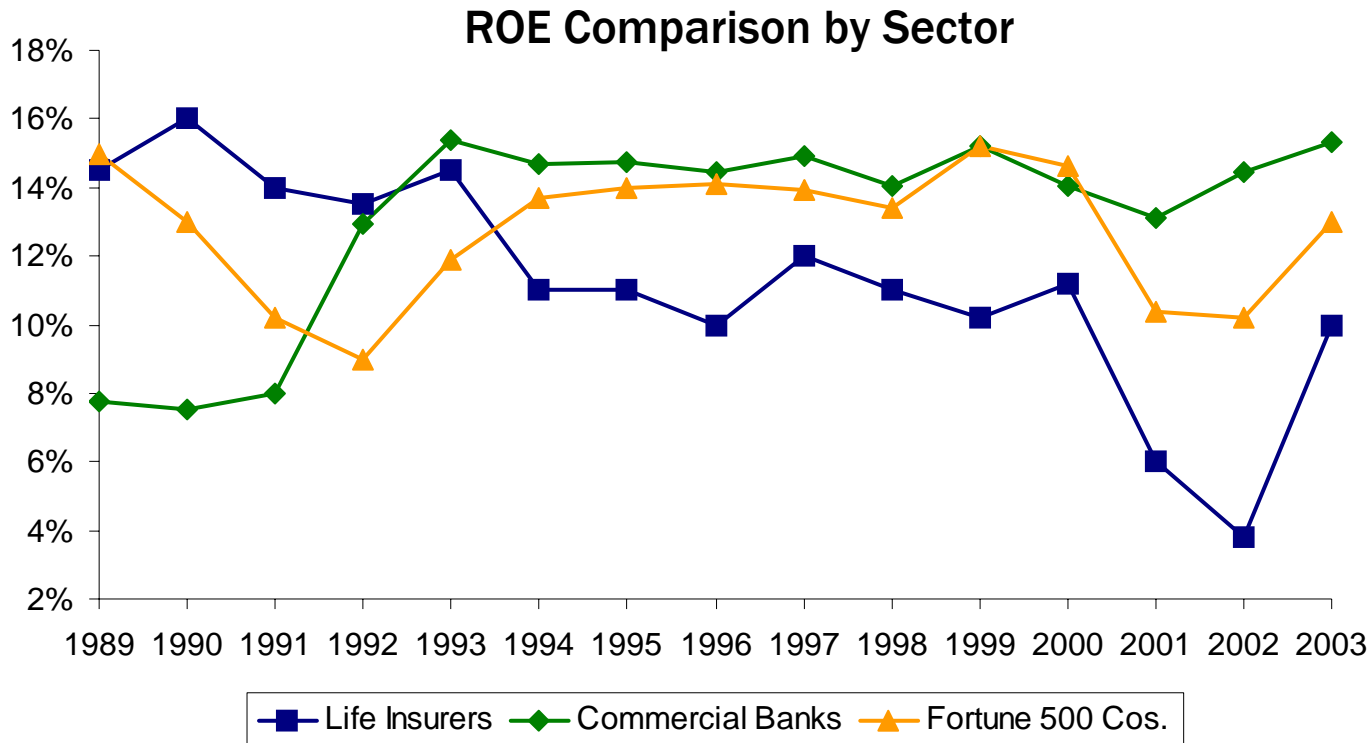
- Institutional investors don't need to own life insurance stocks

(1) Includes Manulife, Prudential, MetLife, Sun Life and AFLAC. Met excl. Travelers acquisition.

Operating Performance



Life Insurers' results have lagged other financial services industries and the broader market



- **Investors have no compelling reason to own life insurers**

Sources: Insurance Information Institute and FDIC.

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Reasons for a Difference in ROEs



- **The E's**
 - **Capital requirements**
- **The R's**
 - **Long-dated liabilities**
 - ◆ **Costs to administer**
 - ◆ **Discipline in pricing**
 - ◆ **Barriers to exit**
 - **Cost of regulation**
 - ◆ **National vs. 50 states**

Differences in Costs



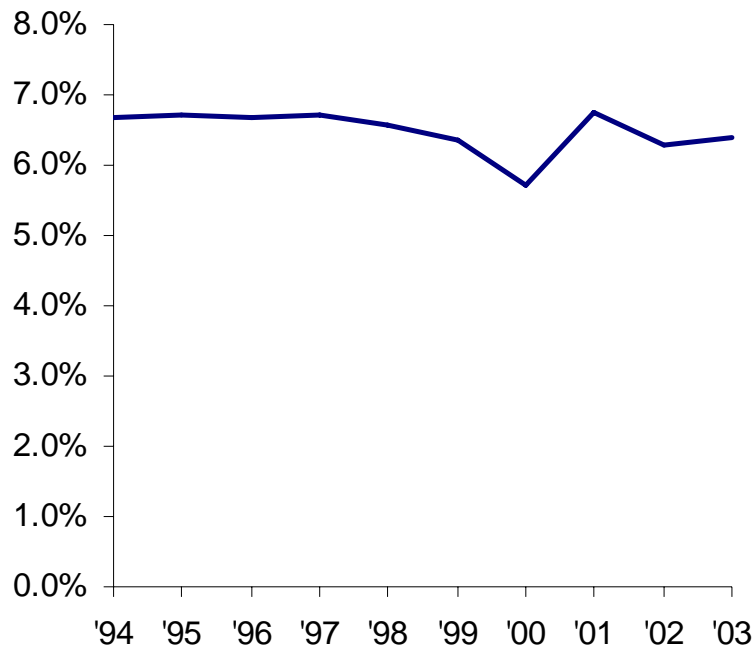
- **Distribution**
 - Captive vs. intermediaries
- **Administration**
 - Product varieties
 - Duration
 - Legacy systems
- **Lack of expense focus**
- **Compensation metrics**

Operating Efficiency

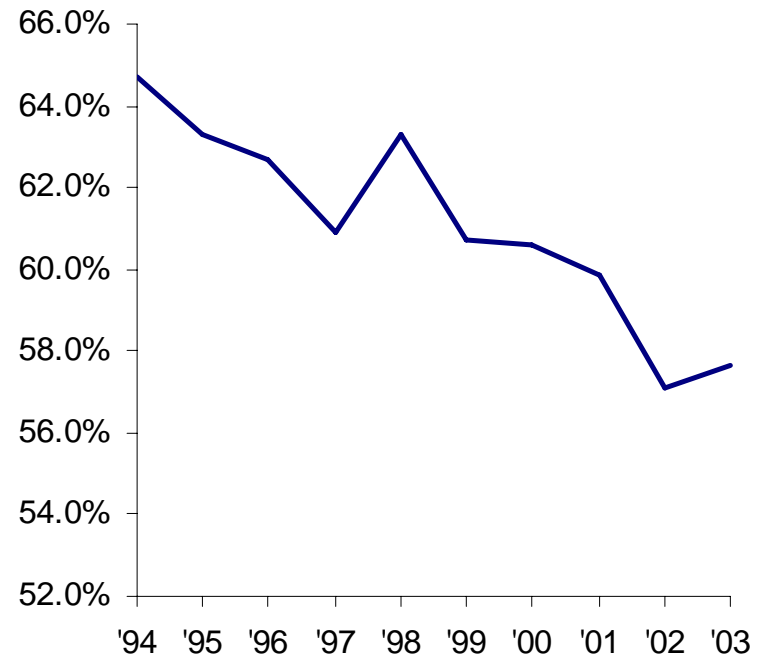


Banks have increased efficiency over the last ten years, while life insurers have not

**Life Insurers
General Expenses/Total Revenues**



**Commercial Banks
Efficiency Ratio⁽¹⁾**



Sources: A.M. Best and FDIC.

(1) Defined as non-interest expense divided by the sum of net interest income and non-interest income.

Executive Compensation



The metrics used to compensate CEOs of life insurers may not be as profit-focused as other financial services firms. Top factors considered for CEO compensation per 2004 proxies:

Merrill Lynch

- Record net earnings of \$4.4 billion and pretax profit margin of 26.5%

Morgan Stanley

- The company's net income increased 18%
- Profit margins remained steady at 28%
- The company's ROE was 16.8%

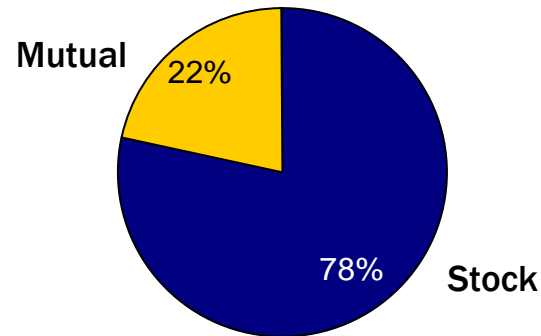
Public Life Insurance Company

- The committee...took into consideration the effectiveness of his leadership and its impact on the enterprise
- In 2004, the company improved or maintained its financial strength ratings
- The sales force grew for the first time in a number of years
- The company continued to enhance top-line growth

Mutual Company Influence



Mutual Company Share of 2003 Industry Surplus



"The primary responsibility of a mutual insurance company is to ensure that the long-term benefits promised to its policyholders are secure and protected. By remaining a mutual, New York Life can continue to manage for the long term, instead of the quarter-to-quarter orientation of the investment community."

— New York Life Chairman and CEO Sy Sternberg

Hypothesis: Higher Market Valuation for Specialized Players



- **Classification of financial services companies according to high, low or medium degree of focus/specialization**
 - **Low – diversified companies that are opportunistic from business perspective**
 - **Medium – companies in the process of narrowing their focus through asset sales and strategic focus**
 - **High – specialized or highly focused companies with regard to manufacturing, market, distribution and/or geography**
- **Price/Book Value (P/B) ratios of financial service companies do show correlation with degree of focus**

Strategic Focus



Advantages

- Better returns on scarce resources
- Fewer activities allow better control and risk management
- Greater operating leverage and efficiency = lower unit costs
- Less demand for scarce management resources
- Better potential for integrating company activities and departments
- Encourages customer focus over “silos” or self-focus

Disadvantages

- Higher financial risk
- More volatile earnings
- Higher cost of debt
- Less flexibility
- Danger of market saturation

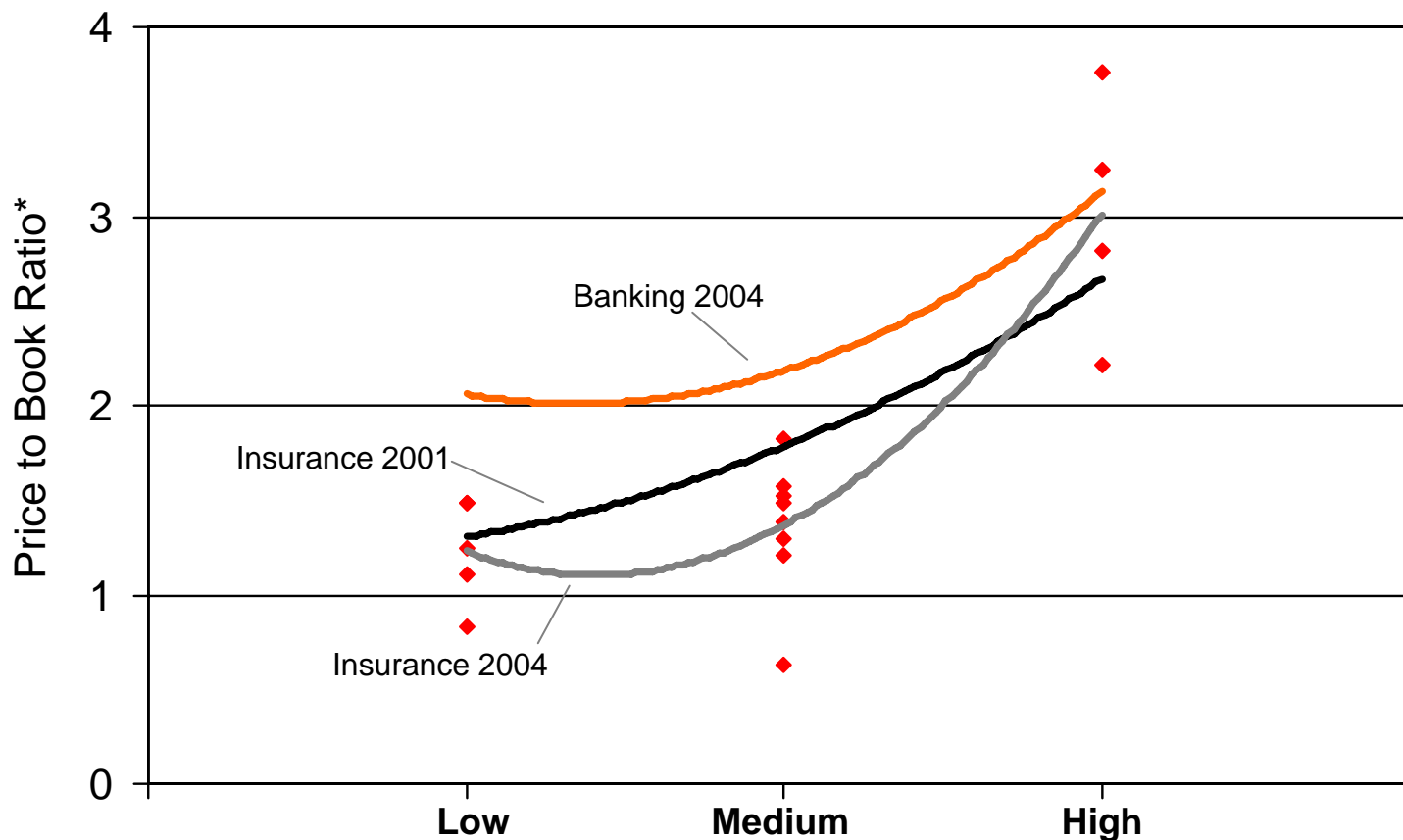
Progression Towards Market Focus



	<u>Asset Managers</u>	<u>Securities Firms</u>	<u>Banks</u>	<u>Insurers</u>
<i>Capitalization Efficiency</i>	+++	+++	++	+
<i>Operating Leverage</i>	+++	+	++	++
<i>Flexibility of Regulation</i>	+++	+++	++	++
<i>Investor Ownership</i>	+++	+++	++	+
<i>Specialization</i>	+++	++	++	++
<i>Forward Price/Earnings</i>	19	14	14	11

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Price/Book Ratios and Level of Strategic Focus



Source: Ernst & Young.

Notes:

2001 P/B: End of 2Q 2001 prices and book value.

2004 P/B: 4/30/04 prices and EOY 2003 book value.

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Strategies/Tactics



- Reduce operating expenses
- Reduce capital costs
- Increase strategic focus
 - Outsourcing
 - Run-off Solutions

Outsourcing



- Outsourcing can provide a way to increase focus on core competencies

Business Function	Outsourcing Potential
Underwriting	Medium
Distribution	None (already outsourced)
IT	High
Administration	High
Product Manufacturing	Medium
Asset Management	High
Human Resources	High
Claims	Medium

Run-off – Value Proposition



- **Run-off Solutions provide numerous benefits for client companies**
 - **Frees target surplus and embedded value on attractive terms**
 - **Promotes expense efficiency through divestiture of costly legacy systems and administration infrastructure**
 - **Enables management to focus its attention and capital on core lines**
 - **Transfers mortality, investment, expense and administration risk to the reinsurer**

A Proven Strategy



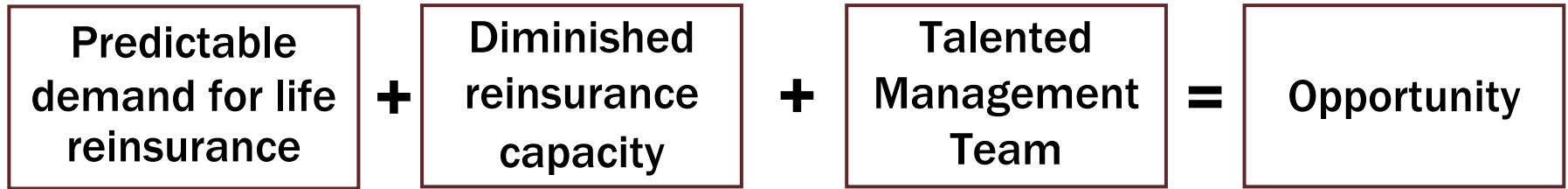
- **Swiss Re invested in excess of \$3 billion in run-off transactions from 1998 to 2004**
- **Protective Life has been a consistent supplier of run-off solutions for 20 years**
- **Some examples of successful transactions**
 - **CNA exits life insurance with sale to Swiss Re**
 - **Irish Life exits U.S. market with sales to Swiss Re and Protective**
 - **Royal & Sun Alliance exits US life market with sale to Swiss Re**
 - **Clarica disposes of selected U.S. operations with sale to Swiss Re**

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The Need for Life Re?

The Opportunity Equation

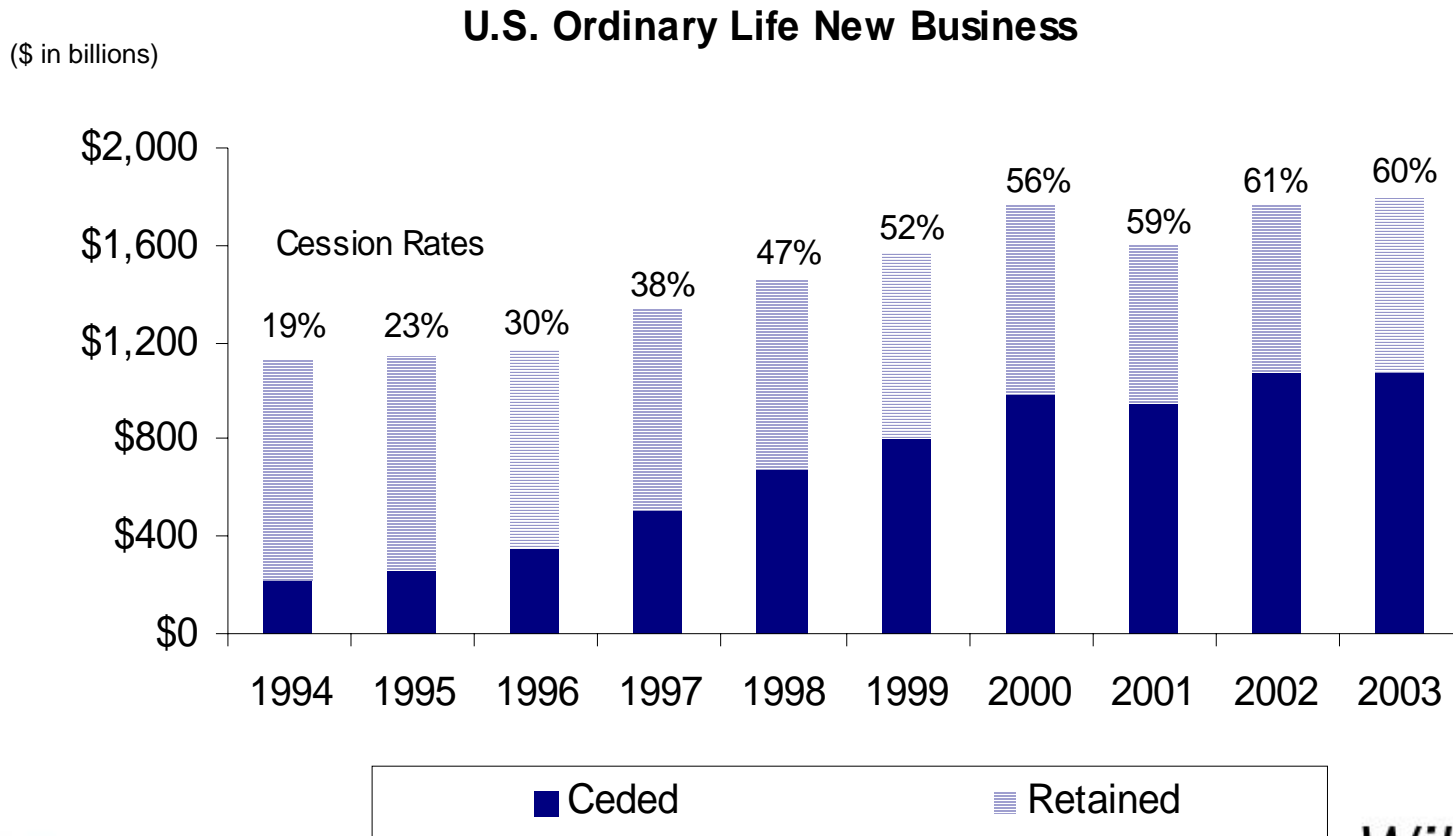


- Capital constraints
- Sales growth
- Change in fundamental business model of life insurers
- Rating agency scrutiny
- Consolidation
- Capital constraints
- Return to other core businesses
- Proven executives
- Disciplined sponsors
- Focused strategy

U.S. Life Reinsurance Penetration



- The amount of new U.S. ordinary life insurance business ceded to reinsurers has grown at a CAGR of 20% since 1994



Sources: Society of Actuaries Reinsurance Surveys, ACLI, CLHIA.

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U.S. Life Reinsurance Market Share



- Business has concentrated among the top 5 participants
 - Industry price levels are rising
 - Reinsurance credit concentrations are concerning primary companies

Top 10 U.S. Life Reinsurers by Inforce

(\$ in billions)

Rank	Company	1998		2003		
		\$ Inforce	Mkt. Share	Company	\$ Inforce	Mkt. Share
1	Swiss Re	\$406.4	15.5%	Swiss Re	\$1,572.7	27.8%
2	Lincoln Re	294.7	11.2%	RGA	895.6	15.8%
3	Transamerica Re	282.4	10.8%	Scottish Re Pro Forma (a)	833.7	14.7%
4	ERC Life Re	272.0	10.4%	Transamerica Re	526.0	9.3%
5	RGA	261.2	10.0%	Munich American Re	515.6	9.1%
6	ING Re	201.8	7.7%	ERC Life Re	405.1	7.2%
7	Allianz Life Re	96.5	3.7%	Generali USA Life Re / BMA	229.4	4.1%
8	American United Life	94.7	3.6%	Revios Re (Gerling Global)	135.6	2.4%
9	Guardian Life	94.4	3.6%	General Re Life	126.4	2.2%
10	General Re Life (Cologne)	91.0	3.5%	Canada Life	102.2	1.8%
	Total Top 5	\$1,516.8	57.8%	Total Top 5	\$4,343.5	76.8%
	Total Top 10	\$2,095.1	79.8%	Total Top 10	\$5,342.3	94.5%

(a) Pro forma for acquisition of ING Re's North American individual life business.

Source: Society of Actuaries / MARC Re.

The Current State of the Life Reinsurance Market



“One consequence of consolidation is that life reinsurers are better positioned to rationalize prices as well as negotiate more favorable treaty terms; the more favorable pricing environment is being driven by both reduced capacity and increasing demand.”

*- Consolidation Drives Capacity Crunch in North American Life Reinsurance Market
A.M. Best
August 23, 2004*

“Some are suggesting that we are in, or at least are facing, a hard market for life reinsurance, with an expectation of not only increasing prices and tighter terms and conditions, but also healthy reinsurance growth rates.”

*- Life Reinsurance: Capacity and Other Challenges 2004
Conning Research & Consulting, Inc.*

“U.S. life reinsurers have unprecedented pricing power following another wave of consolidation in 2003...”

*- U.S. Life Reinsurance Midyear Outlook: A Seller's Market Underpins Stable Outlook
Standard & Poor's
June 7, 2004*

“Constrained capacity in the U.S. following consolidation has resulted in pricing power for life reinsurers and has not yet been met by much pushback from primary cos.”

*- RGA: Some Mortality Volatility But Industry Trends Remain Favorable
Dowling & Partners Research
July 28, 2004*

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Introduction to Wilton Re

Introduction



- **Holding company formed in September 2004**
 - **\$628 million of equity capital commitments through a private placement**
 - **Primary sponsor, Trident III, L.P., committed \$200 million**
 - **Other major investors include Vestar Capital Partners and Friedman Fleischer & Lowe**
 - **Transaction closed December 2004**
- **Filling a market need by replacing capacity lost to consolidation or withdrawal with financial and intellectual strength**
- **Received A.M. Best rating of A-**

Solutions Offering – Traditional



- Reinsurance of the mortality risk on life insurance policies written in the U.S. by primary insurers
 - New automatic capacity
 - Will consider general account accumulation products
 - No facultative facility
- Wilton Re will not dilute its focus
 - No guaranteed asset elements of variable products
 - No accident & health
 - No non-U.S. clients

Solutions Offering – Run-off



- **Acquisition of closed blocks or entire companies**
 - Enables life insurers to unlock value in non-core businesses
 - Optimizes returns by reallocating “trapped” capital
 - Allows insurers improved management focus on core business
- **Willingness to take responsibility for the administration of the business**
 - Frees seller of the need to maintain legacy systems
 - Eliminates expense risk for clients

Executive Management



Chris C. Stroup, Chairman

- Led Swiss Re's North American life reinsurance business from 1998 to 2003
- Led Swiss Re's Admin Re business which executed over 30 transactions with aggregate capital invested of \$2.4 billion
- CFO and Director of Life Re Corporation from 1996 to 1998
- Partner at Ernst & Young LLP

John E. Tiller, Chief Executive Officer, U.S. Operations

- Led GE/ERC's global life & health reinsurance business from 1999 to 2003, growing to \$3 billion of premiums in force, including successful acquisition and integration of in force blocks and acquisitions, most notably the life & long term care reinsurance business of American United Life
- Managing Partner at KPMG's Insurance and Actuarial Consulting
- Principal at Tillinghast
- Co-author of "Life, Health and Annuity Reinsurance"

Michael N. Smith, Bermuda Operations

- Former Chief Life & Health Officer in Bermuda for Swiss Re
- Served as Vice President in the Administrative Reinsurance unit of Swiss Re's North American operations
- Member of the Insurance Admissions Committee of the Bermuda Monetary Authority, and currently sits on the Board of the Canadian Institute of Actuaries

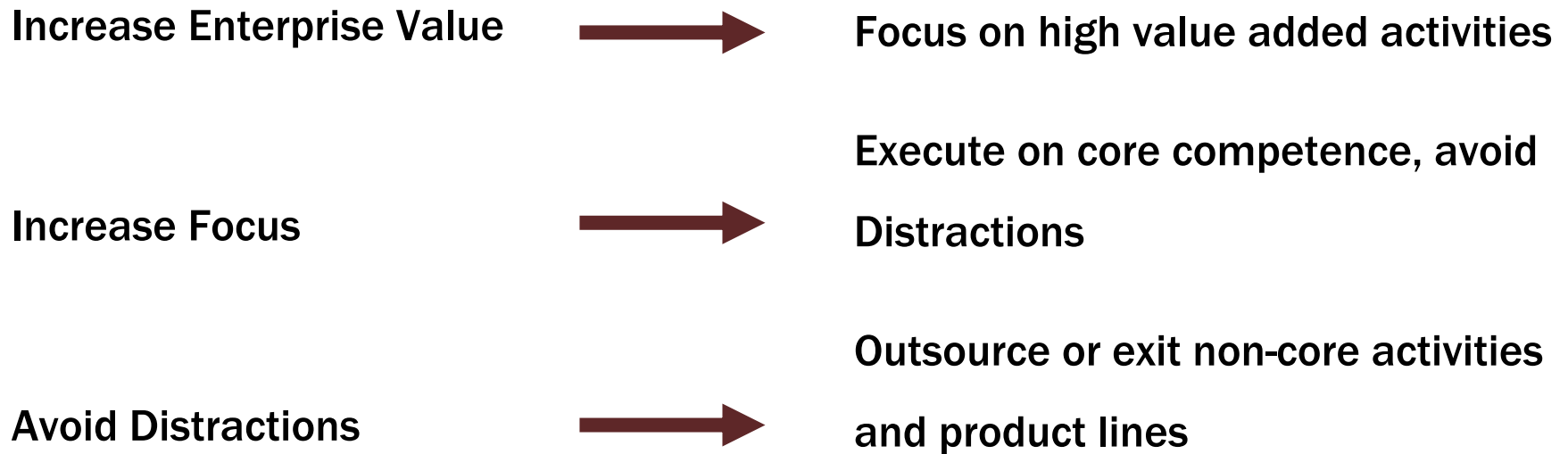
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Wilton Re – Competitive Advantages



- **Focused business plan**
 - U.S. mortality business focus
 - Avoid U.S. equity (variable life and annuity), morbidity, or international exposure
- **Management with proven track record**
- **“Just-in-time” capital; return rather than volume driven**
- **Disciplined risk-takers**
- **Unencumbered capital (no legacy exposures)**

Conclusion



Results in Highest and Best Use of Capital – Both Human and Financial