

## LIFE INSURANCE CFO SURVEY #11: MANAGING CURRENT AND FUTURE DEMANDS ON CAPITAL

### SUMMARY OF FINDINGS

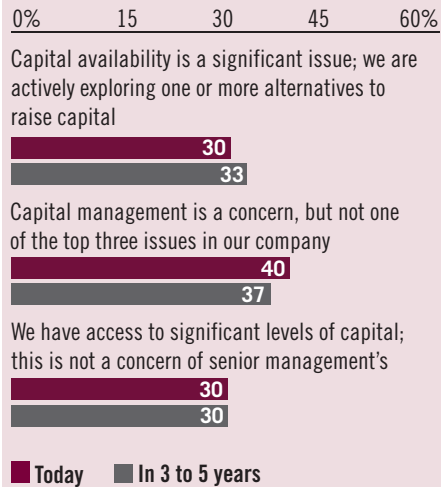
*In the 11th installment of its Life Insurance CFO Survey, the Tillinghast business of Towers Perrin focused on issues related to managing current and future demands on capital. The survey also solicited CFOs' views on capital-raising needs related to Regulation XXX and Actuarial Guideline 38 and the tools they are using to meet capital needs, including reinsurance, M&A and securitizations. The survey found that life insurance CFOs are very concerned about current and future availability of capital to fund growth and meet regulatory requirements. While CFOs are using a variety of more traditional methods to address their current capital needs, they are increasingly looking to securitization as an alternative to better manage demands on capital. Insurance companies are actively managing capital to reduce earnings volatility and enhance return on equity (ROE).*

### CAPITAL MANAGEMENT IS A PRESSING CONCERN

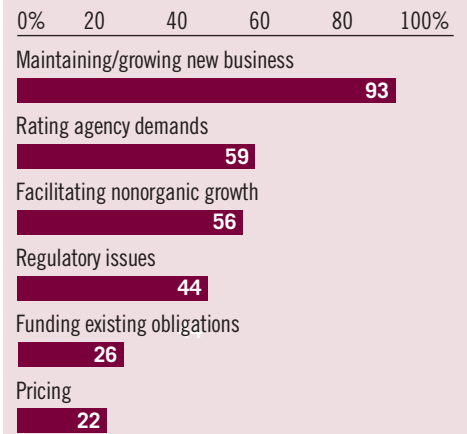
Capital management is a key concern for more than two-thirds (70%) of the CFOs surveyed, and this issue shows no signs of abating over the next three to five years (*Exhibit 1*). In fact, 30% of respondents believe the availability of capital is a significant issue for their company that is causing them to actively explore different alternatives for raising capital.

It is not surprising that capital management is such a pressing issue. As *Exhibit 2* shows, companies face many competing demands for capital, including maintain-

### EXHIBIT 1 Concerns About Capital Availability



### EXHIBIT 2 Sources of Demand for Capital

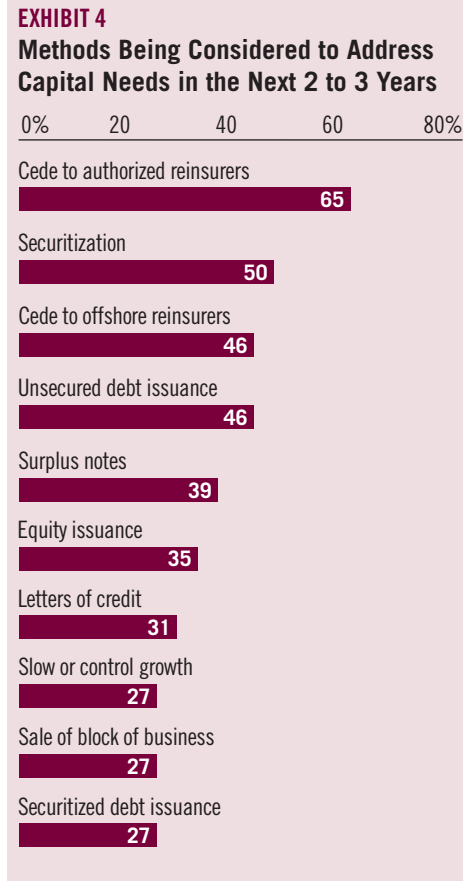
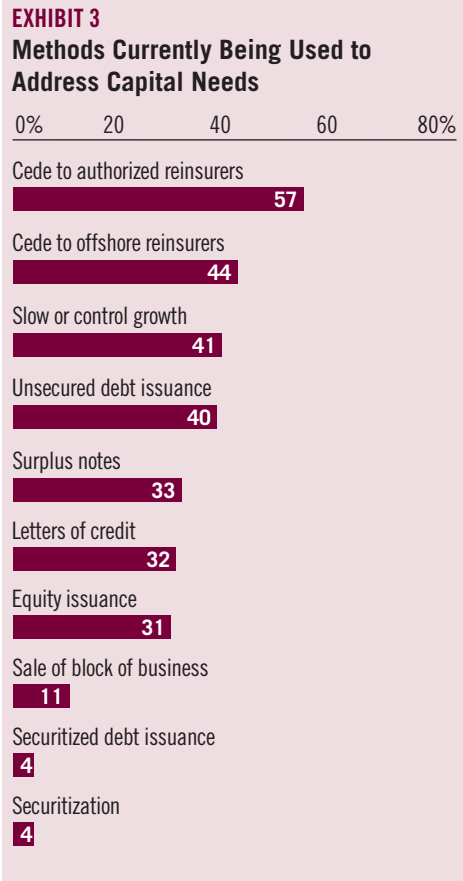


ing and growing new business (cited by 93% of respondents), and funding their acquisition strategies (56%). Companies also need to maintain and/or enhance their capital position to address regulatory issues and respond to the demands of rating agencies. There continues to be tremendous pressure on life insurance companies to maintain or achieve profitable growth and, for many companies, efficient use of capital is the key to achieving this goal.

Over the next two to three years, 50% of the CFOs surveyed are considering using securitization to address future capital needs.

**INCREASING USE OF SECURITIZATION**

Increasingly, securitization is becoming an attractive alternative to better manage demands on capital. While reinsurance (authorized or offshore) is the most popular means of addressing capital needs at present, securitization has not been utilized to a large extent yet (*Exhibit 3*). However, when CFOs were asked about the methods they are considering to address capital needs over the next two to three years, they ranked securitization second (*Exhibit 4*). In fact, 50% of the CFOs surveyed are considering using securitization to address future capital needs, compared to the 4% who are already using it today.



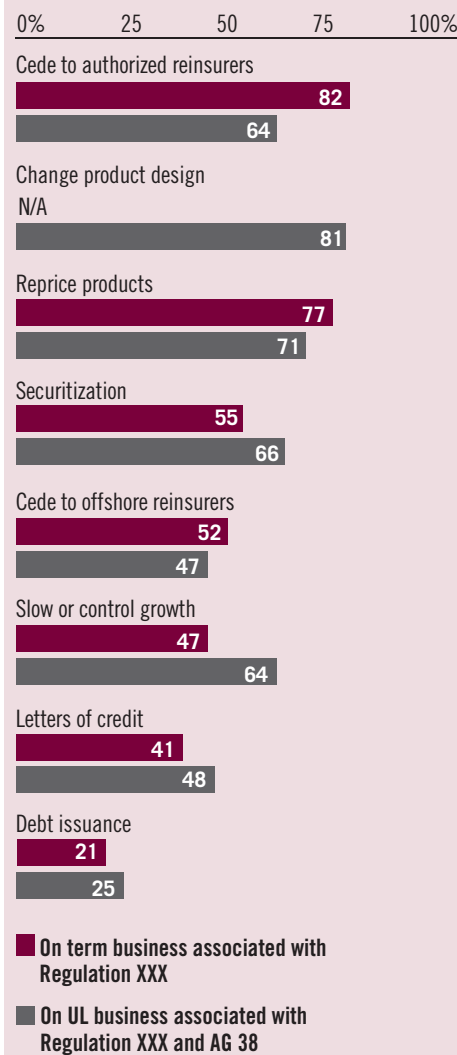
## Life insurers are actively managing capital to reduce earnings volatility and enhance GAAP ROEs.

Companies are already using or exploring securitization to manage statutory surplus strain on term and UL business associated with Regulation XXX and AG 38 (*Exhibit 5*). Other popular strategies include ceding business to authorized reinsurers, repricing products and changing UL product design. We believe that the growth in popularity of securitization as a means of collateralizing risks is the confluence of two perceived trends. The first is a reaction to reinsurance pricing, and the second is the willingness of financial markets to provide funds for these securitizations.

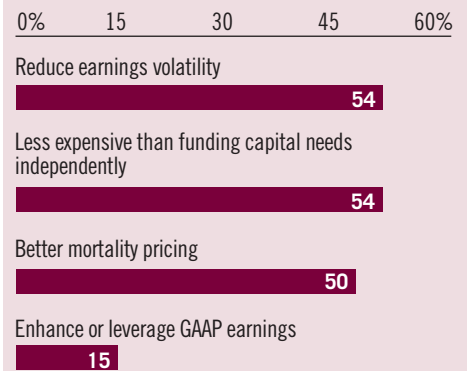
### CFOs SEEK TO REDUCE EARNINGS VOLATILITY AND ENHANCE ROE

Life insurers are actively managing capital to reduce earnings volatility and enhance GAAP ROEs. In particular, CFOs are very concerned about controlling earnings volatility. In fact, over half of them indicate that this is their primary reason for using reinsurance (*Exhibit 6*). At the same time, CFOs cite the need to boost their company's ROE in response to outside pressures. Increasingly, companies are pursuing securitization of redundant reserves for either term or UL products with extended no-lapse guarantees to enhance their GAAP ROEs (*Exhibit 7*). CFOs' use of alternative methods for better capital management reflects the increasing demands by third parties, such as analysts and rating agencies, for life insurers to achieve steady growth in GAAP earnings and GAAP ROEs over time.

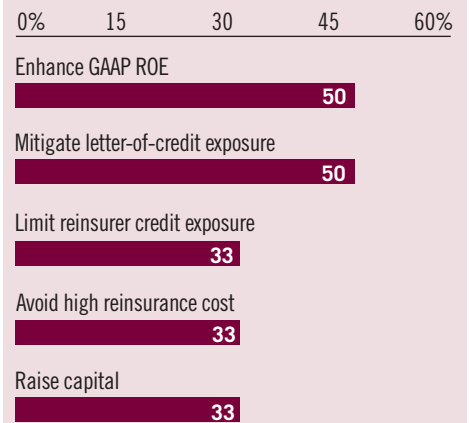
**EXHIBIT 5**  
Actions Companies Are Taking/Exploring to Manage Statutory Surplus Strain



**EXHIBIT 6**  
Primary Reasons for Using Reinsurance



**EXHIBIT 7**  
Primary Reasons for Pursuing Securitization Transaction



Over 60% of respondents predicted 4% or higher growth in new life and annuity premiums over the same quarter last year.

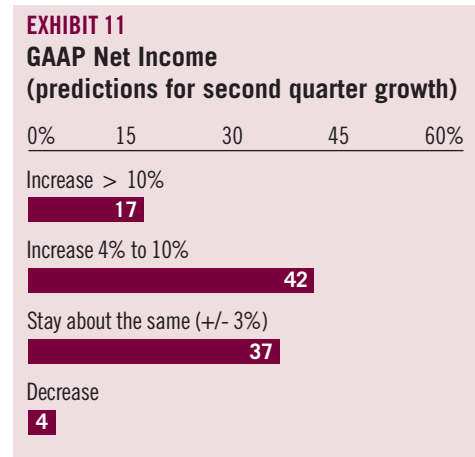
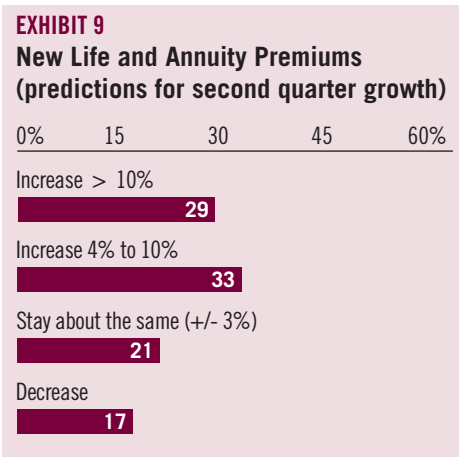
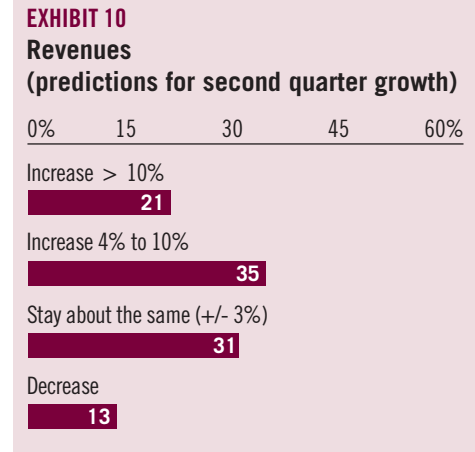
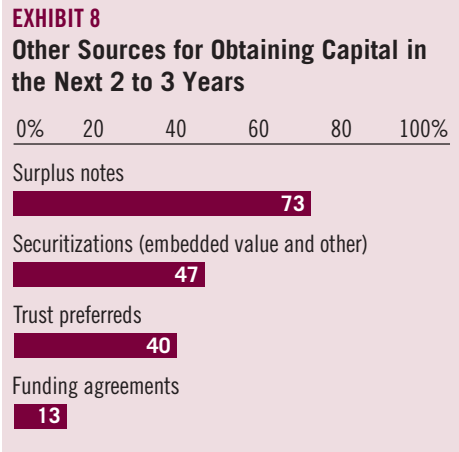
**CFOs ARE CONSIDERING NONTRADITIONAL SOURCES OF CAPITAL**

Considering the importance of this issue and CFOs' concerns over capital availability, it is not surprising that they are looking beyond traditional methods of managing capital and are considering non-traditional sources. Nearly three-quarters are considering surplus notes (*Exhibit 8*). Nearly half are looking at securitizations, either embedded value or other types, to address their capital needs over the next two to three years.

We believe that the growing trend toward securitization and other non-traditional capital sources is a healthy consequence of the transparency of insurance products. This enables insurance companies to consider non-traditional sources of capital funding that (with the exception of surplus notes) were really not available a few years ago.

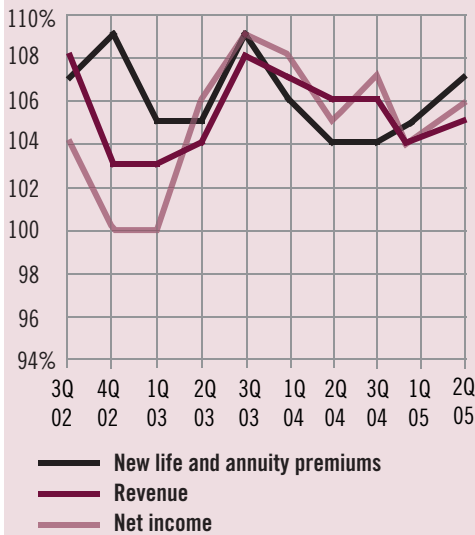
**POSITIVE OUTLOOK FOR SECOND QUARTER 2005 RESULTS**

CFOs' outlook for second quarter 2005 results was positive for premiums, revenues and net income. Over 60% of respondents predicted 4% or higher growth in new life and annuity premiums over the same quarter last year, and 56% expected second quarter revenues to increase by 4% or more (*Exhibits 9 and 10*). In addition, nearly 60% expected second quarter net income to increase 4% or more compared to the same quarter last year (*Exhibit 11*).



After a drop in recent quarters, CFOs' prognoses for year-on-year growth in revenues and earnings are returning to 2004 levels.

**EXHIBIT 12**  
Year-Over-Year Growth Index



Note: Respondent base varies from quarter to quarter.

Tillinghast has also developed growth indices (based on the weighted average of survey responses) to summarize respondents' year-over-year growth outlook. Values between 97 and 103 are taken to be basically flat growth. Indices for the current quarter indicate a more positive outlook than we saw in the last survey. Currently, indices range from 105 for revenues to 106 for net income and 107 for premiums (*Exhibit 12*). After a drop in recent quarters, CFOs' prognoses for year-on-year growth in revenues and earnings are returning to 2004 levels. This is somewhat surprising, given the pressure on spreads from lower interest rates and the lack of momentum in the stock market.

**ABOUT TILLINGHAST'S NORTH AMERICAN LIFE INSURANCE CFO SURVEY**

This Web-based survey, which was conducted in May and June 2005 by Tillinghast, is the 11th in a series of pulse surveys that explores issues important to the North American life insurance industry and its CFOs. This three-part survey focused on managing demands on life insurers' capital, capital-raising needs and tools, and CFOs' expectations for second quarter results.

For more information, contact:

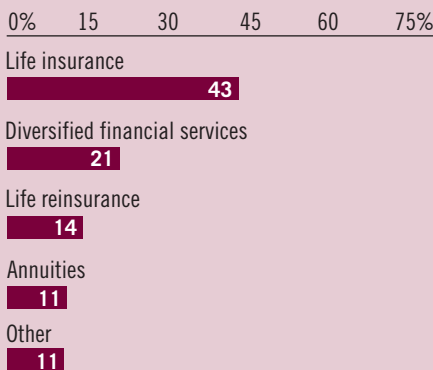
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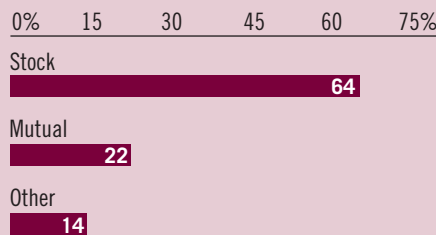
**PARTICIPANT PROFILE**

In this survey, 28 CFOs (40% of the program's 70 registered members) participated. Since all survey questions were not applicable to all companies, the respondent base varied from question to question. Respondents primarily included CFOs from large and midsize North American life insurance companies; 55% had assets of \$5 billion or more, and 21% were multinationals (*Exhibits 13, 14 and 15*).

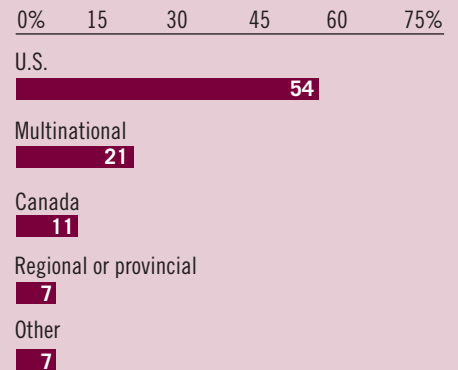
**EXHIBIT 13**  
Company's Primary Line of Business



**EXHIBIT 14**  
Life Insurance Organization Structure



**EXHIBIT 15**  
Scope of Company Operations





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## ABOUT TOWERS PERRIN

Towers Perrin is a global professional services firm that helps organizations around the world optimize performance through effective people, risk and financial management. The firm provides innovative solutions to client issues in the areas of human resource strategy, design and management; actuarial and management consulting to the financial services industry; and reinsurance intermediary services.

Our businesses include HR Services, Reinsurance and Tillinghast.

The Tillinghast business of Towers Perrin provides consulting and software solutions to insurance and financial services companies and advises other organizations on risk financing and self-insurance. We help our clients improve business performance in areas related to their financial, risk, product, distribution and capital issues. More information about Tillinghast is available at [www.towersperrin.com/tillinghast](http://www.towersperrin.com/tillinghast).