

LIFE INSURANCE CFO SURVEY #17: INTERNAL AND EXTERNAL REPORTING ON PERFORMANCE AND RISK MANAGEMENT

SUMMARY OF FINDINGS

In the second installment of its Life Insurance CFO Survey in 2007, the Tillinghast business of Towers Perrin focused on internal and external reporting on performance and risk management. Specifically, the survey asked about the methods companies are using for internal and external performance management reporting and explored companies' views on risk management reporting and recent Sarbanes-Oxley (SOX) experience.

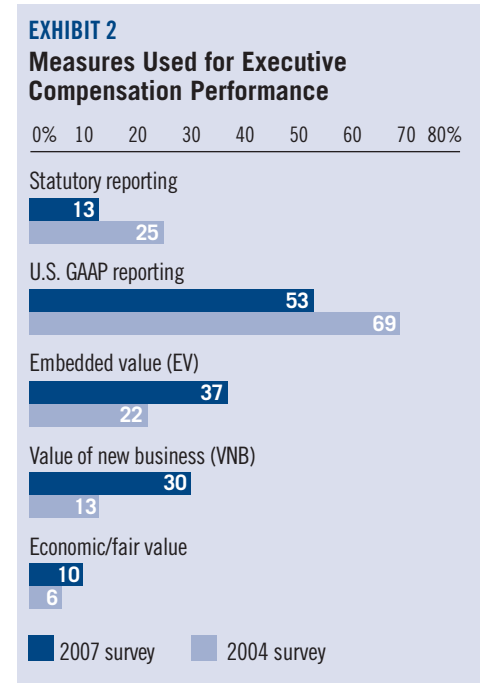
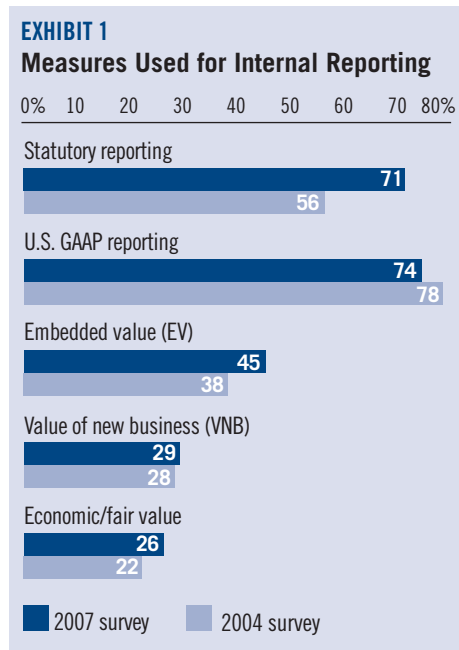
The survey found that companies are increasingly using value-based measures for financial reporting, executive compensation performance measurement and management decision making. On the other hand, the key metrics companies use to track and manage their business results continue to be fairly traditional. The survey also found that more companies are monitoring and reporting on risk on a regular basis. Although companies have made significant strides in the area of risk reporting, they still have a number of concerns about it. Finally, CFOs generally feel that the cost of complying with SOX significantly outweighs the benefits.

INCREASED USE OF VALUE-BASED MEASURES

While statutory and U.S. GAAP reporting still dominate companies' internal and external reporting methodologies, value-based measures are gaining ground for use in internal reporting and measuring of executive compensation performance. In fact, 45% of respondents use embedded value (EV) for internal reporting, and 37% use it for executive compensation performance measurement. Both of these are up significantly from our 2004 survey (*Exhibits 1 and 2*).

Most of the companies that use EV rely on it as a key tool in making day-to-day business decisions. EV is most frequently used in M&A valuations, incentive compensation and pricing. While value-added methods have historically been used as the basis for actuarial appraisal values in M&A situations, companies are increasingly relying on value-added measures like the value of new business (VNB) and EV when making decisions about pricing new products and measuring the financial impact of key decisions.

Despite the inroads made by value-based measures, the top three metrics used by companies to track and manage business results continue to be the more traditional measures of performance, like GAAP net



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income, first-year premium/revenue growth and return on GAAP equity (*Exhibit 3*). However, there has been a shift to EV over the past five years; growth in EV ranked as the number four metric in our current survey, while it did not make the top six in our 2002 survey.

UNCERTAINTY IMPACTING COMPANY PREPARATIONS FOR FAIR-VALUE ACCOUNTING

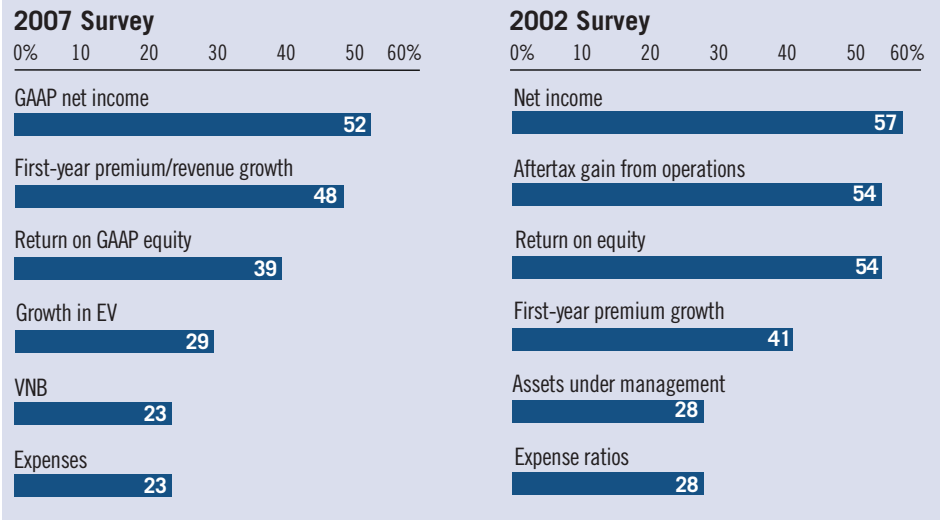
There is significant uncertainty about when or if fair-value accounting will become the required accounting standard in North America for insurance liabilities. When asked when they expect fair-value accounting to become a reporting standard, 39% of respondents think it will happen between 2010 and 2012, while another 39% believe it will happen later than 2012. The remaining respondents (22%) were unsure or think it will never happen (*Exhibit 4*).

This uncertainty seems to be impacting company preparation and causing many companies to adopt more of a “wait and see” attitude. In fact, more than 40% of all respondents are not involved in any type of active preparation for fair-value reporting. Thirty-two percent said they are only observing developments and currently taking no active role in discussions or preparations. Another 10% said they are not preparing for potential fair-value reporting requirements at all.

Not surprisingly, the level of preparation varies significantly depending on when companies think fair value will become the required standard (*Exhibit 5*, page 3). Companies that think fair value will become the required standard by 2012 are more likely than other respondents to be making active preparations. The combined efforts of

EXHIBIT 3

Top Metrics Used to Track and Manage Business Results Internally



the IASB, IAIS, EU and national regulatory bodies to implement some form of fair-value reporting makes this only a matter of time for U.S. companies, and we believe it is in their best interest to begin preparations.

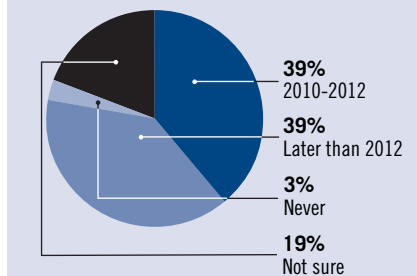
COMPANIES MAKING STRIDES IN RISK REPORTING

Regular risk monitoring and reporting are becoming the norm at most companies. The overwhelming majority of companies monitor key risk exposures and compliance with risk guidelines on a regular basis. Half of the companies surveyed regularly use risk dashboards at the business or corporate level.

Internally, most companies report about risk at least quarterly to their executive committee/board of directors, CEO/CFO or chief risk officer. Externally, 90% of companies report on key risk exposures and risk management activities, typically by providing separate information to rating agencies and other third parties.

EXHIBIT 4

When Will Fair-Value Accounting Become a Required Accounting Standard in North America?

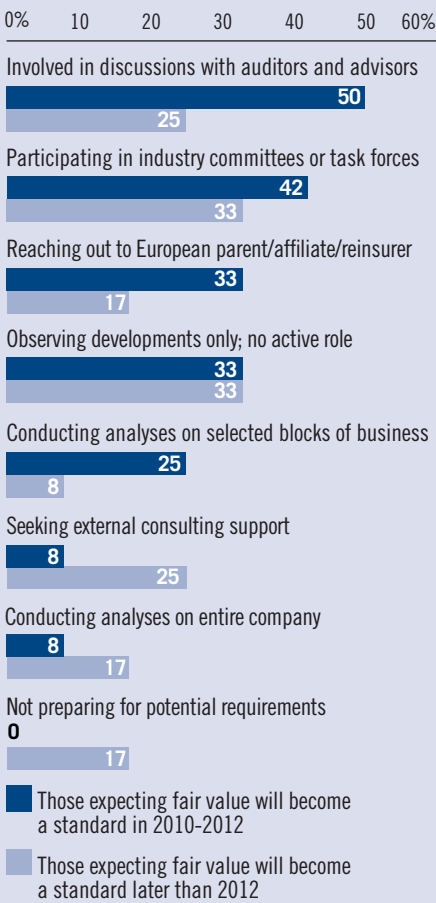


The survey found that companies use a wide variety of metrics to measure and quantify risk, and no single measure predominates. This is not surprising since companies are asked to report on risk to a number of different audiences (e.g., rating agencies, regulators and shareholders), each with different objectives. The top five metrics are earnings volatility, regulatory capital, economic capital, rating agency capital and asset adequacy analysis/cash-flow testing.

More than 40% of all respondents are not involved in any type of active preparation for fair-value reporting.

EXHIBIT 5

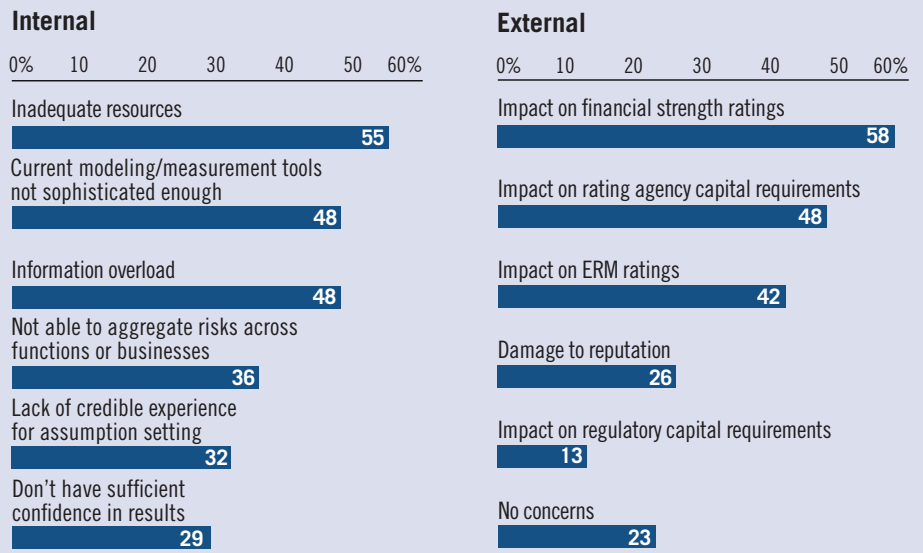
How Are Companies Preparing for Potential Fair-Value Reporting Requirements?



Despite these strides in risk monitoring and reporting, CFOs still have some concerns. With respect to internal risk management reporting, they are concerned that they have inadequate resources devoted to this and that their tools are not sophisticated enough. With respect to external risk management reporting, they are most concerned about any potential effect on perceived financial strength ratings and rating agency capital requirements (*Exhibit 6*).

EXHIBIT 6

Greatest Concerns About Internal and External Risk Management Reporting



COST OF COMPLIANCE WITH SOX OUTWEIGHS BENEFITS

Nearly 90% of CFOs have significant concerns about SOX, which was implemented in 2002 to improve the quality of financial reporting, independent audits and accounting services for public companies. Their greatest concern is that the cost of compliance is too high (*Exhibit 7*, page 4). In fact, more than 80% of the CFOs surveyed believe that the cost of compliance with SOX outweighs the benefits, with 53% saying that cost significantly outweighs the benefits. Only 4% of respondents feel that the benefits outweigh the cost (*Exhibit 8*, page 4).

This underscores a key problem area for insurers, as we are five years past the implementation of SOX and companies remain concerned about the lack of sufficient benefits to justify the costs. Companies may be spending too much time focusing on SOX

compliance, which diminishes time that can be spent focusing on larger business issues and challenges.

Although CFOs are unhappy about the cost of compliance, they do acknowledge that the quality and reliability of external reporting have improved with the implementation of SOX. Nearly three-quarters think external reporting has improved since the implementation of SOX, but only 8% think the improvement has been significant.

EXPECTATIONS REMAIN FLAT FOR PREMIUMS AND REVENUE

CFOs' outlook for second quarter 2007 results continues to be moderate for premiums and revenue, but ticked up sharply for net income. Nearly 60% of respondents predicted 4% or higher growth in new life and annuity premiums over the same quarter last year, comparable to the 58%

More than 80% of CFOs surveyed believe the cost of compliance with SOX outweighs the benefits.

predicting that growth in our prior survey (*Exhibit 9*). Fifty-two percent expected second quarter GAAP net revenue to increase by 4% or more, compared to 60% in our prior survey (*Exhibit 10*). However, 65% said GAAP net income

would increase by 4% or more, compared to 57% in our prior survey (*Exhibit 11*).

Tillinghast has 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. The indices for new life and annuity premiums (104) and GAAP net revenue (105) have remained fairly constant. However, the index for GAAP

net income has risen sharply from 104 in our last survey to 107 (*Exhibit 12*).

Note: These results reflect CFOs' outlook at the time they completed the survey and may or may not reflect company performance actually emerging.

EXHIBIT 7

Most Significant Concerns Regarding Sarbanes-Oxley

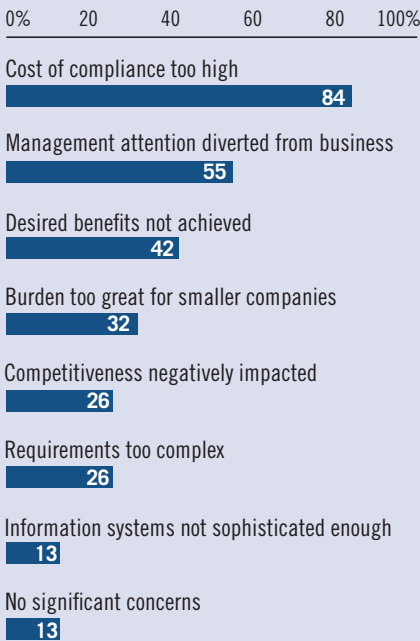


EXHIBIT 8

Benefits of Sarbanes-Oxley Versus Cost of Compliance

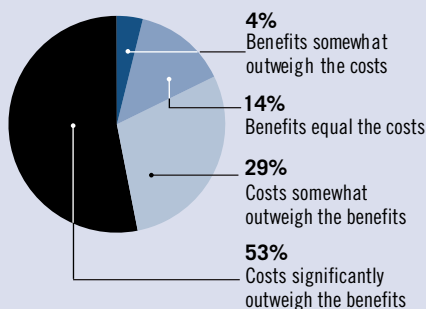


EXHIBIT 9

New Life and Annuity Premiums (outlook for second quarter 2007 results compared to the same quarter last year)

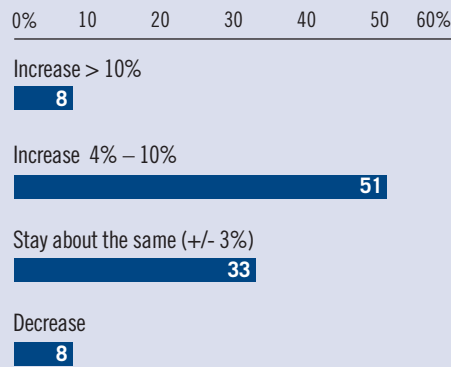


EXHIBIT 10

GAAP Net Revenue (outlook for second quarter 2007 results compared to the same quarter last year)

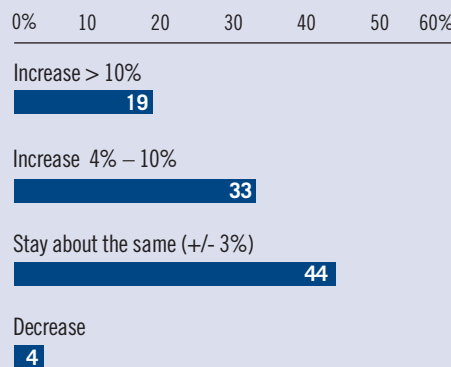


EXHIBIT 11

GAAP Net Income (outlook for second quarter 2007 results compared to the same quarter last year)

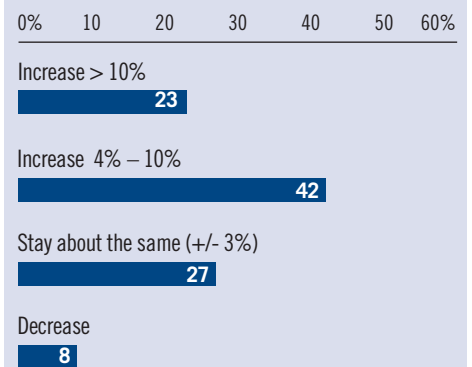
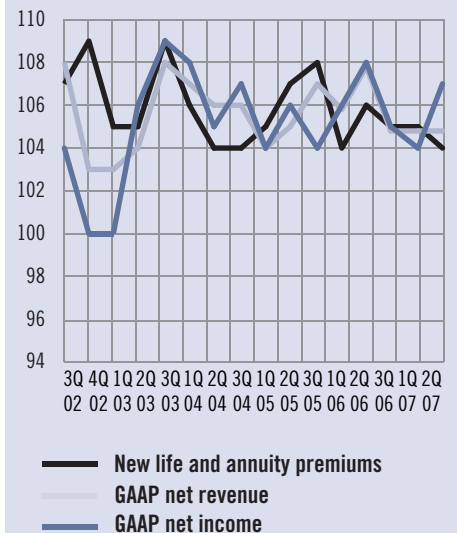


EXHIBIT 12

Year-Over-Year Growth Index



Note: Respondent base varies from quarter to quarter

ABOUT TILLINGHAST'S NORTH AMERICAN LIFE INSURANCE CFO SURVEY

This Web-based survey, which was conducted in May and June 2007 by the Tillinghast business of Towers Perrin, is the 17th in a series of pulse surveys that explore issues important to the North American life insurance industry and its CFOs. This three-part survey focused on performance and risk management reporting. It also explored CFOs' views on SOX and their expectations for second quarter results.

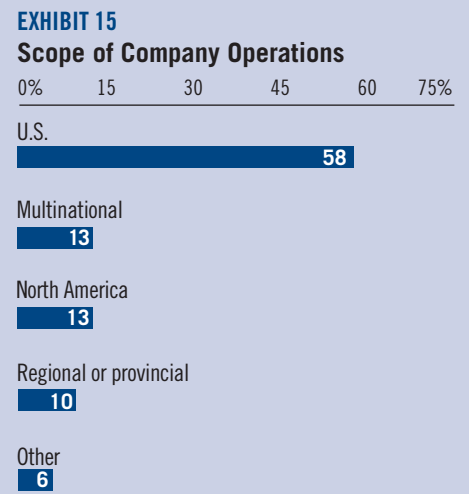
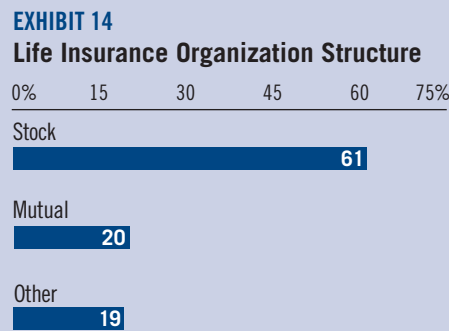
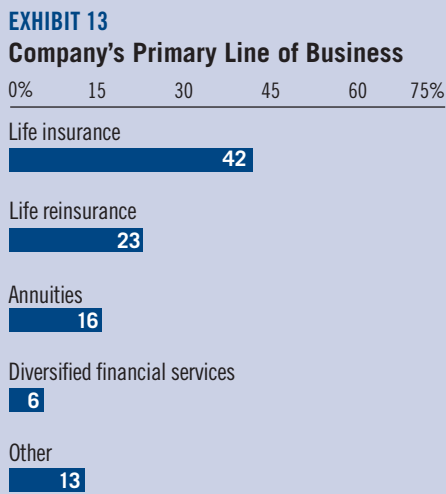
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PARTICIPANT PROFILE

In this survey, 31 CFOs (40% of the program's 77 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 (*Exhibits 13 and 14*); 45% had assets of \$5 billion or more, and 13% were multinationals (*Exhibit 15*).





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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.