TOWERS PERRIN

LIFE INSURANCE CFO SURVEY #22: MERGERS AND ACQUISITIONS, AND CAPITAL RAISING

SUMMARY OF FINDINGS

In the first installment of its Life Insurance CFO Survey in 2009, the Tillinghast insurance consulting business of Towers Perrin focused on mergers and acquisitions (M&A) and capital raising. Specifically, the survey explored companies' experience with, and future plans for, M&A transactions and related issues. It also explored participants' views on capital raising, especially in light of current economic conditions.

The survey found that the current economic environment has been a major impediment to M&A and capital raising activity over the past year. This has led to significant pent-up demand. As the economy stabilizes, we are likely to see an uptick in M&A transactions and capital-raising activity. The economy has also had a negative impact on companies' satisfaction with the success of their recent M&A transactions.

The future outlook for M&A and capital raising is uncertain. On the M&A front, we are likely to see demand and supply mismatches, especially related to "protection" business. On the capital-raising front, it may take more than a year for the environment to improve, with the debt market recovering the fastest and the securitization market lagging significantly behind. With respect to the outlook for financial results, CFOs painted the bleakest picture we have seen since the inception of our survey in 2002.

ECONOMY DAMPENS M&A AND CAPITAL-RAISING ACTIVITY

Current economic conditions are significantly limiting M&A and capital-raising activity. Respondents said that general economic conditions and capital and cash constraints are major impediments to their companies undertaking acquisitions or divestitures (*Exhibits 1* and *2*). Further, respondents cited expensive debt markets (64%) and depressed equity markets (50%) as key obstacles to their companies' ability to raise capital. This has resulted in relatively low levels of M&A and capital-raising activity over the past year.

EXHIBIT 1

Impediments to Undertaking an Acquisition

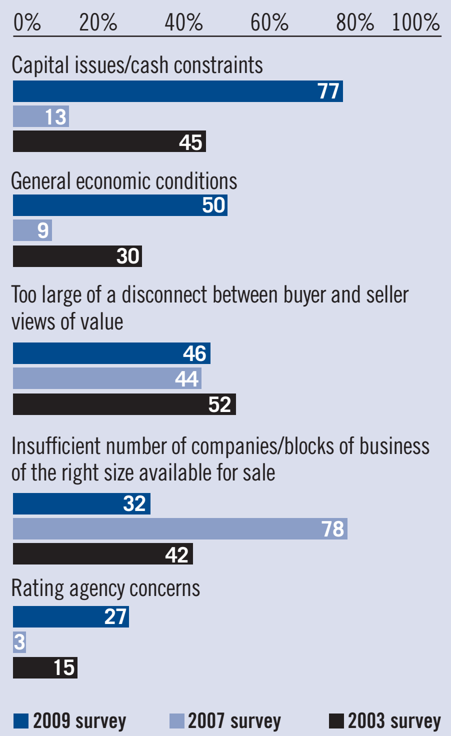
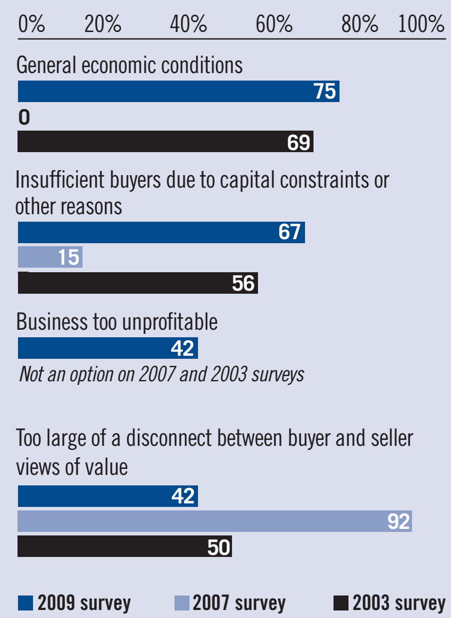


EXHIBIT 2

Impediments to Undertaking a Divestiture



UPDATE

If the economic environment stabilizes, we will likely see a significant uptick in M&A and capital-raising transactions in response to pent-up demand.

However, if the economic environment stabilizes, we will likely see a significant uptick in M&A and capital-raising transactions in response to pent-up demand. Respondents said it is possible or highly likely that they will acquire a block of business (71%), acquire a company (50%) or issue debt (50%) in the next 12 months (*Exhibits 3* and *4*). Clearly, companies want to make acquisitions and access the capital markets, but are currently facing overwhelming constraints. As the outlook for completing transactions and the associated pricing improve, we would expect to see deals that had been previously pulled off the market to once again be put into play. The dearth of buyers has resulted in very unattractive pricing from a sell-side perspective, which we expect will change as more companies see their financial prospects and balance sheets improve.

The fundamental reasons for companies entering into an M&A transaction remain the same: Companies looking to acquire want to achieve profitable growth and economies of scale regarding expenses, as well as enhance their distribution capabilities. Companies looking to divest want to shed noncore or underperforming business and improve their financial position.

EXHIBIT 3

M&A Activity

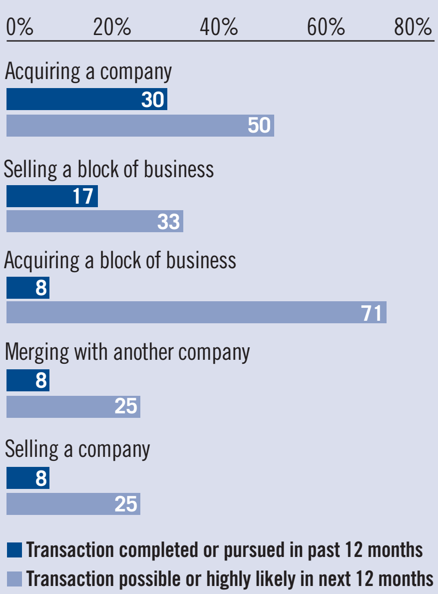
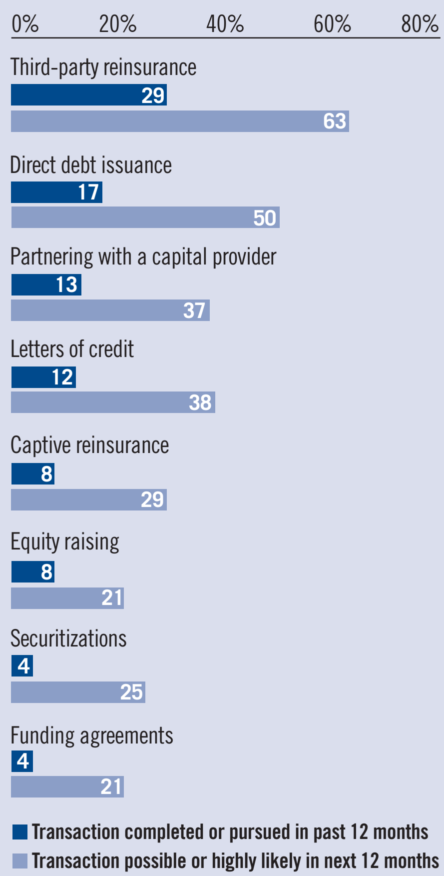


EXHIBIT 4

Capital-Raising Activity



ECONOMIC CONDITIONS INFLUENCING SATISFACTION WITH M&A DEALS

Current economic conditions have also contributed to decreased CFO satisfaction with the success of recent M&A transactions. Only 38% of respondents said that all or most of their deals over the past three to five years met or exceeded expectations *(Exhibit 5)*. Even more startling, 23% said that all or most of the deals fell below expectations. This is the lowest level of satisfaction in our three most recent M&A surveys. However, these results are consistent with non-industry specific surveys that date back to the mid-90s.

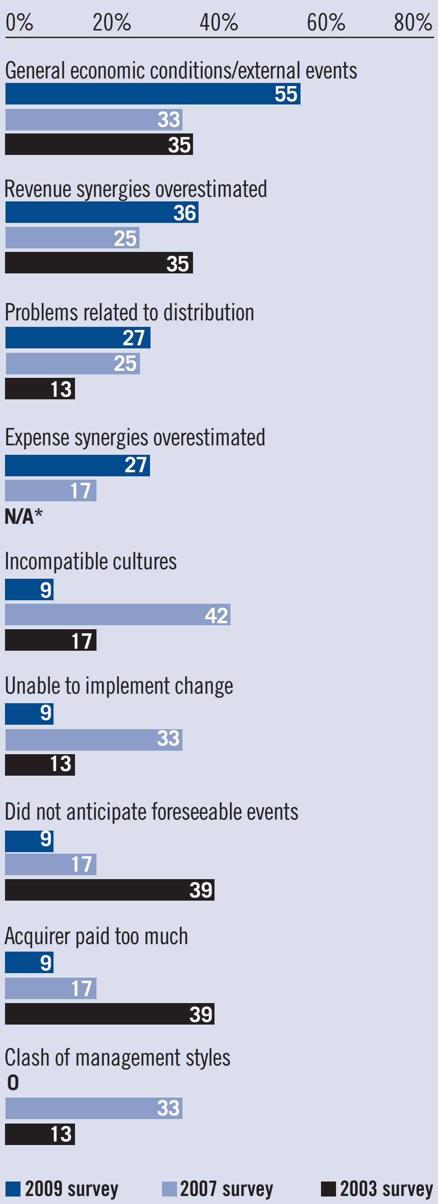
EXHIBIT 5

Success of M&A Transactions During Past Three to Five Years Relative to Expectations

As the environment improves and M&A transactions start flowing again, we may see mismatches in supply and demand.

EXHIBIT 6

Problems Encountered in M&A Transactions That Did Not Fully Meet Expectations



*2003 survey did not split out revenue and expense synergies.

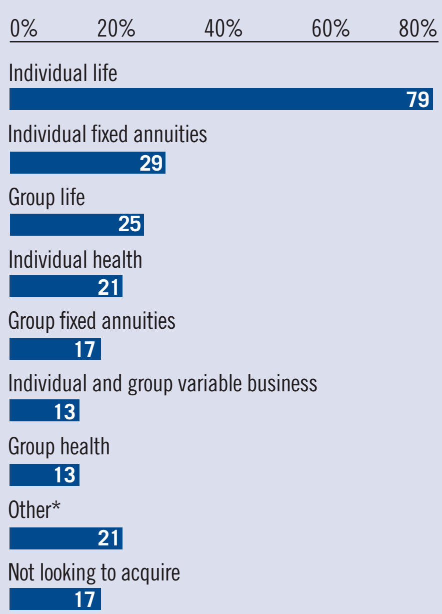
For those deals that did not meet expectations, the primary reason was general economic conditions *(Exhibit 6)*. By contrast, in our 2007 survey, the primary reasons for dissatisfaction were related to "culture" — for example, incompatible cultures, clash of management styles and inability to implement change. And, in our 2003 survey, the primary reasons for dissatisfaction were related to inadequate due diligence — for example, not anticipating foreseeable events or the acquirer paying too much. Since our 2003 survey, we've seen a greater focus on due diligence and, in our experience, most M&A transactions over the past several years have been accompanied by exhaustive due diligence, including scenario analysis. Our most recent survey highlights that, although due diligence is clearly indispensable, current economic conditions may overshadow these efforts.

DEMAND EXCEEDS SUPPLY FOR INDIVIDUAL LIFE BUSINESS

As the environment improves and M&A transactions start flowing again, we may see mismatches in supply and demand. Many companies are looking to acquire "protection" business such as individual life (79%) and group life (25%) over the next 12 months *(Exhibit 7)*. This may be driven by a desire to balance their heavy concentration of spread-based business. However, few companies are looking to divest individual and group life businesses *(Exhibit 8)*. Instead, fixed and variable

EXHIBIT 7

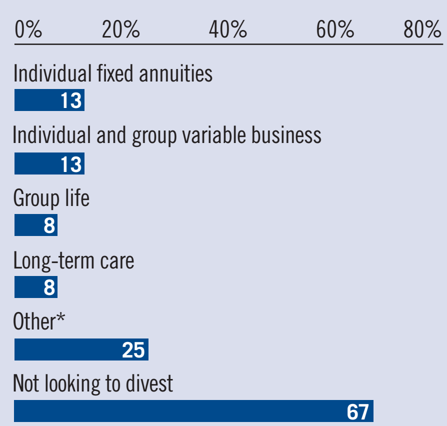
Looking to Acquire in Next 12 Months



*Includes long-term care, international business, distributor and reinsured life

EXHIBIT 8

Looking to Divest in Next 12 Months



*Includes individual life, individual health, group fixed annuities, group health, P&C and medical administrative services

The outlook is uncertain, and it may take more than a year for the capital-raising environment to improve.

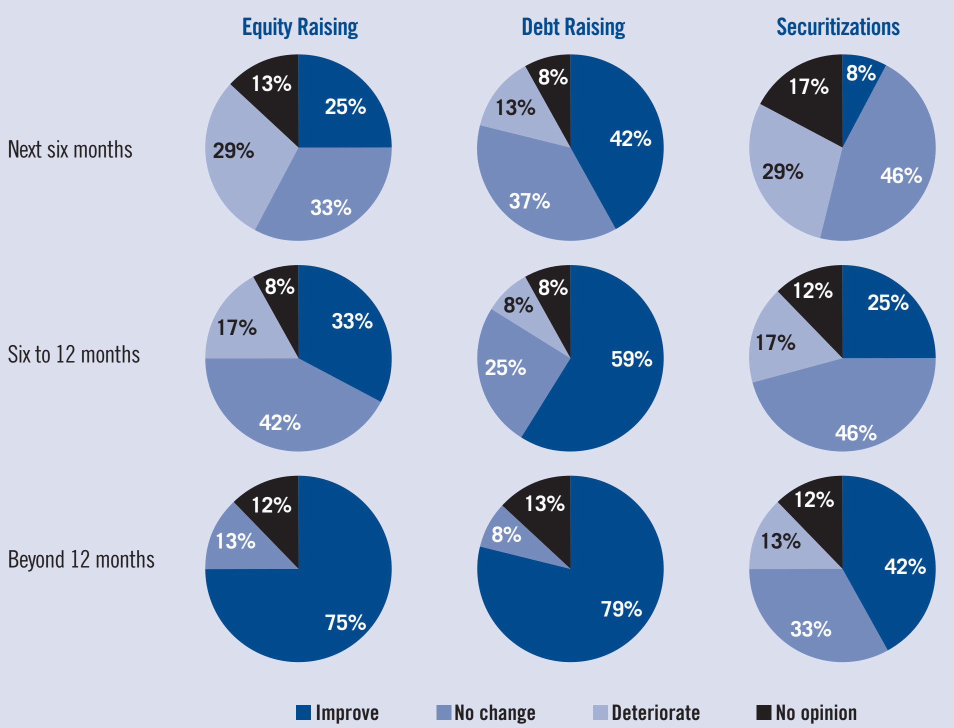
annuity blocks are more likely to be available in the near term. This mismatch between demand and supply will mean that any company looking to divest protection business can expect a good deal of interest and therefore attractive pricing, but sellers of annuity blocks may have a harder time finding buyers.

TURNAROUND MAY BE MORE THAN A YEAR AWAY

The outlook is uncertain, and it may take more than a year for the capital-raising environment to improve. The debt market is expected to recover the fastest. More than 40% of respondents believe the debt-raising environment will improve in the next six months, and nearly 80% believe it will improve beyond 12 months *(Exhibit 9).* At the other end of the spectrum, only 8% of respondents believe the market for securitizations will improve in the next six months, and only 42% believe it will improve more than one year from now. Expectations for the equity market fall somewhere between those for debt and securitizations. While 25% believe the environment for equity raising will improve in the next six months, 75% think it will improve beyond 12 months. These views are clearly influenced by the current slowdown in securitization activity, making it harder for companies to raise capital at a reasonable cost. As market conditions change, we expect that this will further accelerate M&A activity.

EXHIBIT 9

Future Outlook for the Capital-Raising Environment



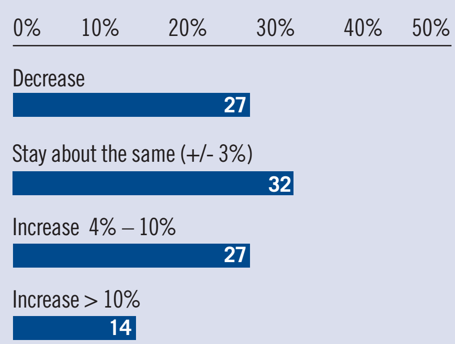
BLEAK OUTLOOK FOR GROWTH IN PREMIUMS, REVENUES AND NET INCOME

CFOs had a fairly pessimistic outlook on first quarter 2009 results. The majority of respondents said they believe that new life and annuity premiums, GAAP net revenue and GAAP net income will stay the same or decline compared to the same quarter last year. Only 41% of respondents predicted growth in new life and annuity premiums over the same quarter last year, while 27% predicted a decrease *(Exhibit 10).*

EXHIBIT 10

New Life and Annuity Premiums

(outlook for first quarter 2009 results compared to the same quarter last year)



Only 25% of respondents expected first quarter GAAP net revenue to increase over the same quarter last year, while 35% predicted a decline *(Exhibit 11)*. A mere 15% said GAAP net income would increase compared to the same quarter last year, versus 35% who predicted a decrease *(Exhibit 12)*.

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 no growth. Given the current economic climate, it is not surprising that all three indices dropped significantly in the first quarter of 2009 — at least six points for each index. The premium index fell from 107 to 101; the GAAP net revenue index dropped from 103 to 97, and the GAAP net income index experienced the steepest decline, from 102 to 95 *(Exhibit 13)*. This is the first time in the history of our survey that the year-over-year growth indices have dipped below 100, a reflection of the current bleak economic climate and dimmed outlook for future profit growth.

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

EXHIBIT 11

GAAP Net Revenue

(outlook for first quarter 2009 results compared to the same quarter last year)

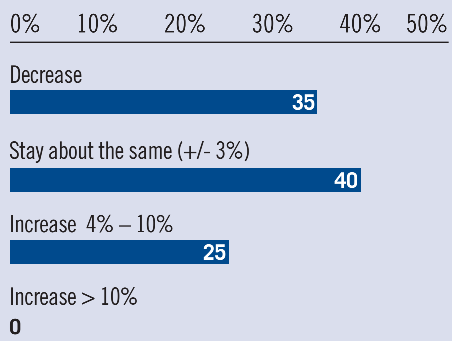


EXHIBIT 12

GAAP Net Income

(outlook for first quarter 2009 results compared to the same quarter last year)

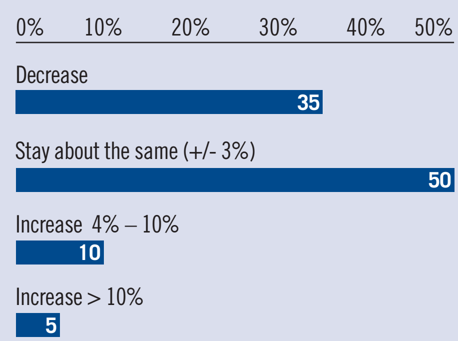
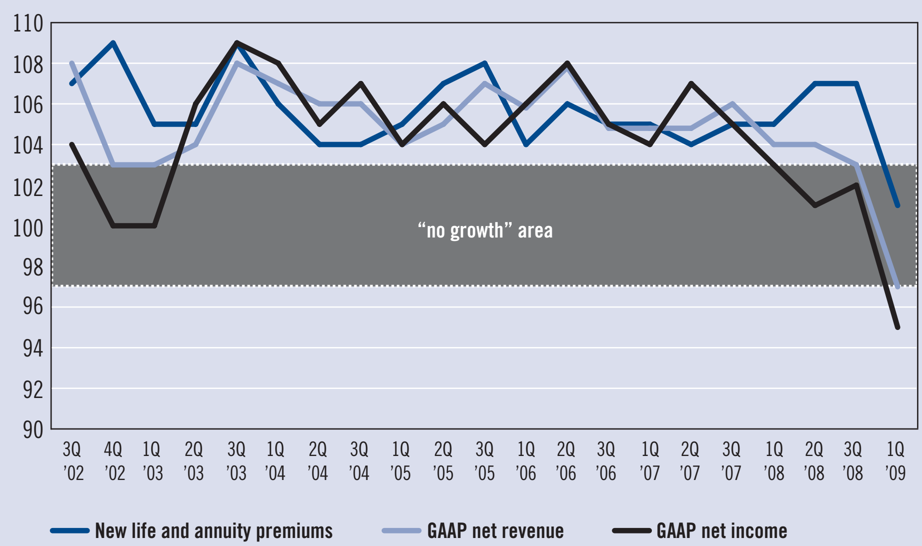


EXHIBIT 13

Year-Over-Year Growth Index



ABOUT TOWERS PERRIN'S NORTH AMERICAN LIFE INSURANCE CFO SURVEY

This Web-based survey, which was conducted in February and March 2009 by the Tillinghast insurance consulting business of Towers Perrin, is the 22nd 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 issues relating to mergers, acquisitions and capital raising. It also explored CFOs' expectations for first quarter 2009 results.

For more information, contact:
Jack Gibson
(212) 309-3922
jack.gibson@towersperrin.com

Hubert Mueller
(860) 843-7079
hubert.mueller@towersperrin.com

John Nigh
(212) 309-3958
john.nigh@towersperrin.com

ABOUT TOWERS PERRIN

Towers Perrin is a global professional services firm that helps organizations improve performance through effective people, risk and financial management. The firm provides innovative solutions in the areas of human capital strategy, program design and management, and in the areas of risk and capital management, insurance and reinsurance intermediary services, and actuarial consulting.

Towers Perrin has offices and alliance partners in the world's major markets. More information about Towers Perrin is available at *www.towersperrin.com.*

PARTICIPANT PROFILE

In this survey, 24 CFOs (32% of the program's 75 registered members) participated. Since not all survey questions were 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 14* and *15*); 65% had assets of $5 billion or more, and 17% were multinationals *(Exhibit 16).*

EXHIBIT 14

Company's Primary Line of Business

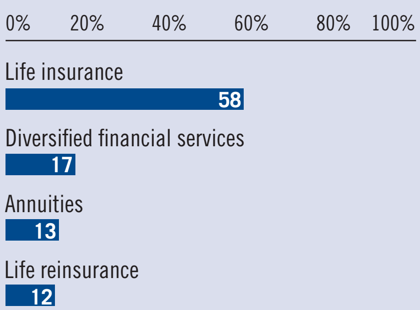


EXHIBIT 15

Life Insurance Organization Structure

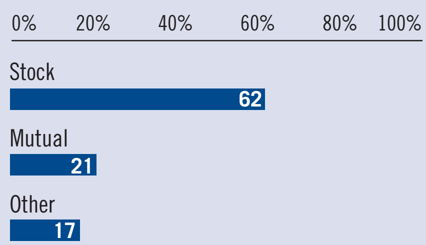


EXHIBIT 16

Scope of Company Operations