U.S. Life Insurance - 2002 Industry Outlook

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9/30/2002 See last page for Important Disclosures. 1

Topics of Discussion

- ➔ ***Fundamentals***
- ➔ ***Industry Issues***
- ➔ ***Picking Stocks***

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Fundamentals

Demographics of Retiring Baby Boomer with DC versus DB Pension Will Drive Growth

- *Wealth Management* - industry has re-tooled to sell financial services to aging baby boomer
- *Focus* - accumulation, distribution and ultimate transfer of wealth
- *Earnings Sensitivity* - earnings bases today for top companies are much better balanced between spread and fee income

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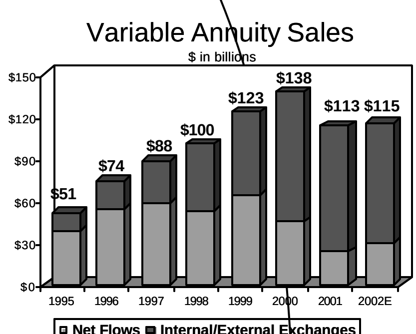
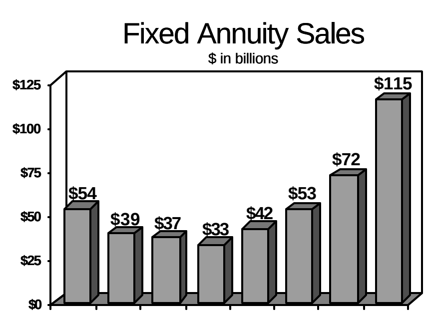
U.S. Annuity Sales

Despite shift from VAs to FAs, project record sales in 2002





Source: Salomon Smith Barney estimates.

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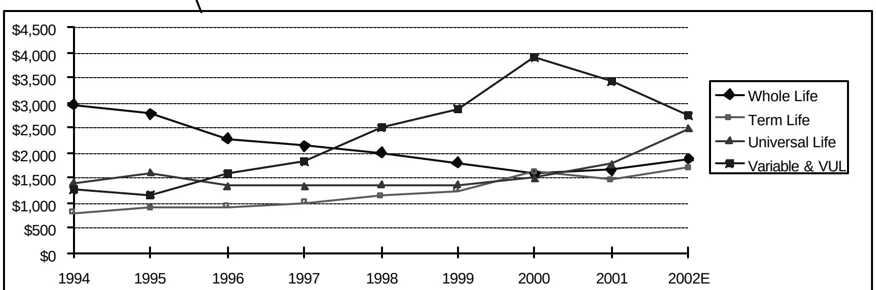
U.S. Life Insurance Sales

Expect Retirement Income Tax Management Plus Estate-Planning Issues To Drive Strong Growth

TOTAL INDUSTRY PERIODIC RECURRING FIRST-YEAR LIFE PREMIUMS
($ IN MILLIONS)



Source: Salomon Smith Barney estimates.

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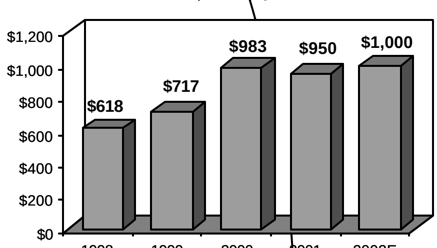
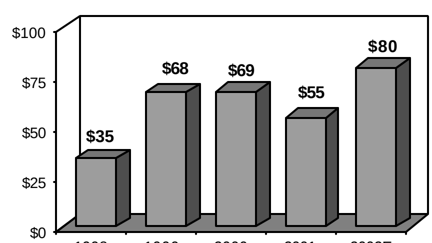
Long Term Care Sales

Demand has been slow to build

Individual LTC
$ in millions



Group LTC
$ in millions



Source: Salomon Smith Barney estimates.

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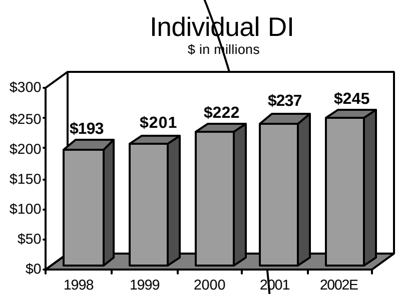
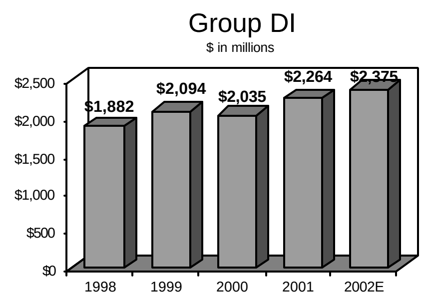
Disability Income Sales

Mature industry and vulnerable to economy





Source: Salomon Smith Barney estimates.

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Industry Issues:

- ***Growth in Earnings***
  - Down equity markets and low interest rates for past 3 years have resulted in negligible growth in earnings for most insurers. DAC and GMDB have become issues
- ***Consolidation***
  - U.S. Life Industry is in late stage of consolidation vs. early one; handful of independent players remain
- ***Investment Quality***
  - Recent corporate insolvencies such as Enron and WorldCom have highlighted investment holdings
- ***9/11***
  - No long term impact on pricing or demand

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Earnings Challenge - AUM Growth

- ***Equity Market Declines***
  - Since its high in March 2000, S&P 500 has declined approximately 40%, and YTD in 2002 is down 25%
- ***Product Shift***
  - While equity markets have pressured variable product sales, has been aggressive shift to fixed where sales are setting record levels, despite low interest rates
- ***ROA versus ROE***
  - While variable products generate higher ROEs in 15%+ range vs. 13% for fixed, ROAs on fixed produces are much higher at 80 bps vs. 30-40 bps

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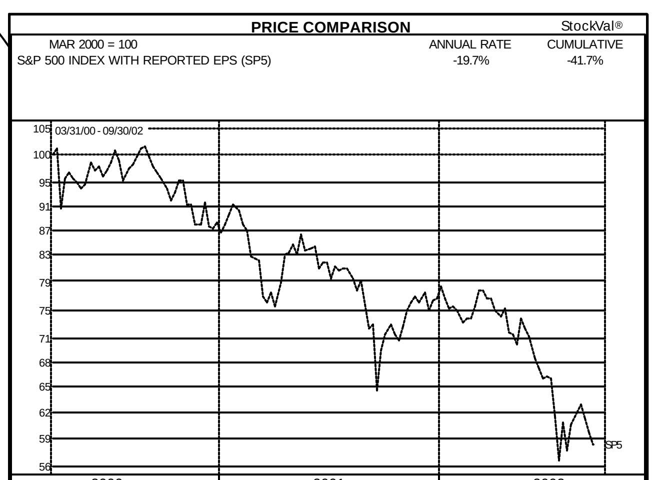
S&P 500: March 31, 2000 To Present



Source: Stock Val

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Earnings Challenge - DAC

- ***FAS 97 Unlocking Has Caused Surprises***
  - Retrospective application of adjustments to gross profit margin assumptions has significantly impacted 2002 results and will depress earnings in 2003
- ***DAC Policies Receiving Considerable Focus***
  - Most insurers assumed long-term equity market growth rates in pricing VA products of 8-10%; market declines likely mean sales of past 2-3 years will not be profitable
- ***Recoverability = Accounting Quality***
  - DAC as % of annuity assets ranges between 2%-8%; Lower level equals more conservative accounting

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July 1996 to Present Actual S&P 500 Performance vs 8%, 9%, and 10% Assumed Growth

Source: Salomon Smith Barney estimates.

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July 1997 to Present Actual S&P 500 Performance vs 8%, 9%, and 10% Assumed Growth

Source: Salomon Smith Barney estimates.

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July 1998 to Present Actual S&P 500 Performance vs 8%, 9%, and 10% Assumed Growth

Source: Salomon Smith Barney estimates.

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July 1999 to Present Actual S&P 500 Performance vs 8%, 9%, and 10% Assumed Growth

Source: Salomon Smith Barney estimates.

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July 2000 to Present Actual S&P 500 Performance vs 8%, 9%, and 10% Assumed Growth

Source: Salomon Smith Barney estimates.

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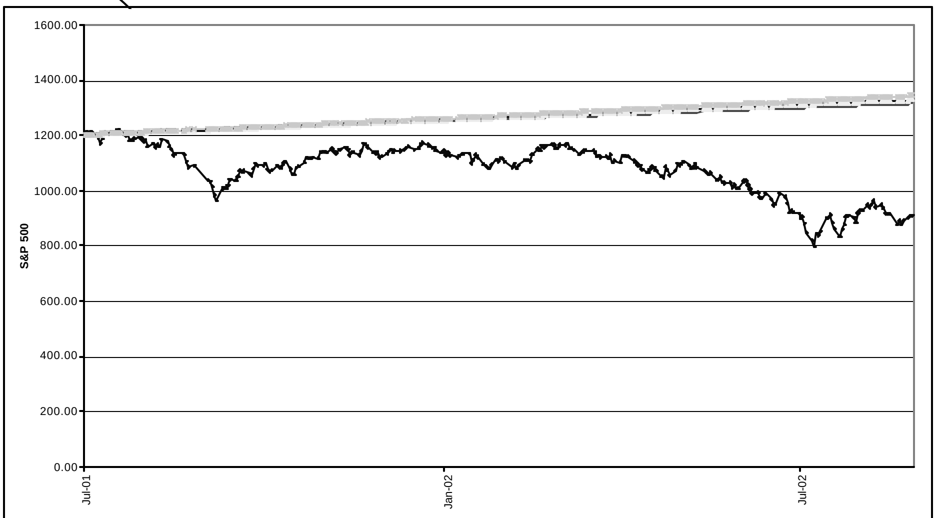
July 2001 to Present Actual S&P 500 Performance vs 8%, 9%, and 10% Assumed Growth



Source: Salomon Smith Barney estimates.

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Earnings Challenge - GMDB

- ***Different Accounting Treatments***
  - Statutory, per AG 34, requires establishing reserves to pay future claims. Under GAAP, no rules exist – some insurers reserve, but most use “pay as you go”
- ***Statutory Reserve Requirements Have Risen***
  - As “rule of thumb”, statutory GMDB reserves doubled in 2001, and are up least that YTD in 2002, reducing excess capital that could be used for share repurchase
- ***VA GMDB Risk Varies By Type***
  - Historically, most common was “return of principal”, while most recent has been “high water”

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Types of GMDBs

1. **Return of premium ("ROP")** - Guarantees 100% of deposits (less withdrawals) upon the contractholder's death.
2. **Ratchet/stepped-up benefit** - DB is stepped-up to contract value on anniversary date ("high water mark"), where it is locked-in until next step-up.
3. **Roll-up** - GMDB equal to greater of (a) contract value or (b) premium payments (less withdrawals) increased annually at specified interest rate. Increases risk to insurer in flat or down markets, because it guarantees fixed increase in benefit despite lower equity markets.
4. **Combination** - Most aggressive and risky. DB set to greater of roll-up or highest account value on anniversary date.

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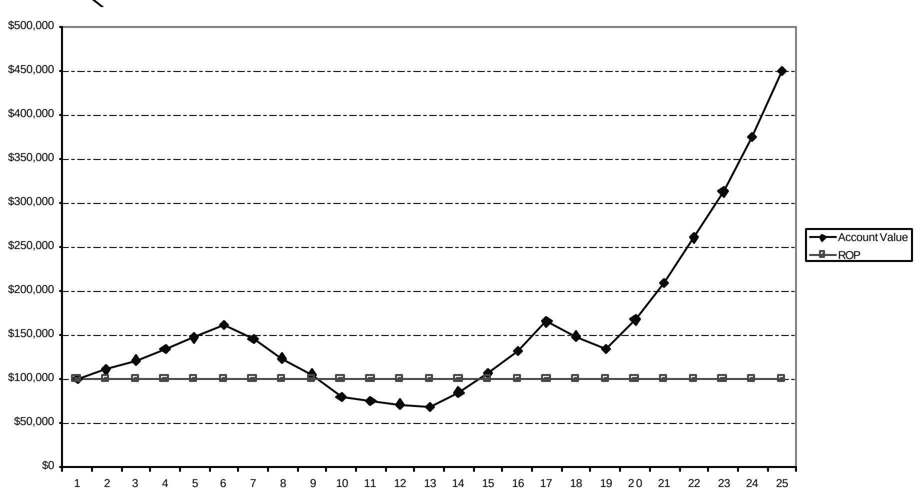
Return of Premium



Source: Salomon Smith Barney estimates.

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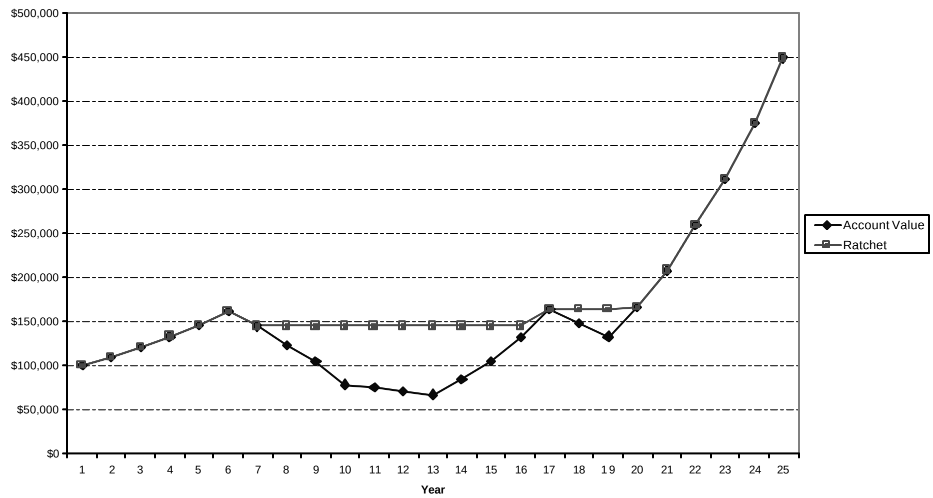
Ratchet/Stepped-Up Benefit



Source: Salomon Smith Barney estimates.

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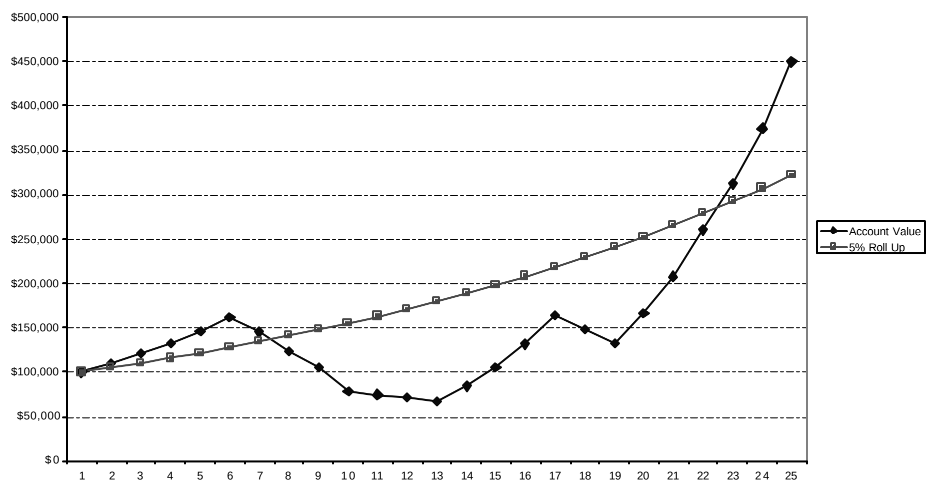
Roll-Up



Source: Salomon Smith Barney estimates.

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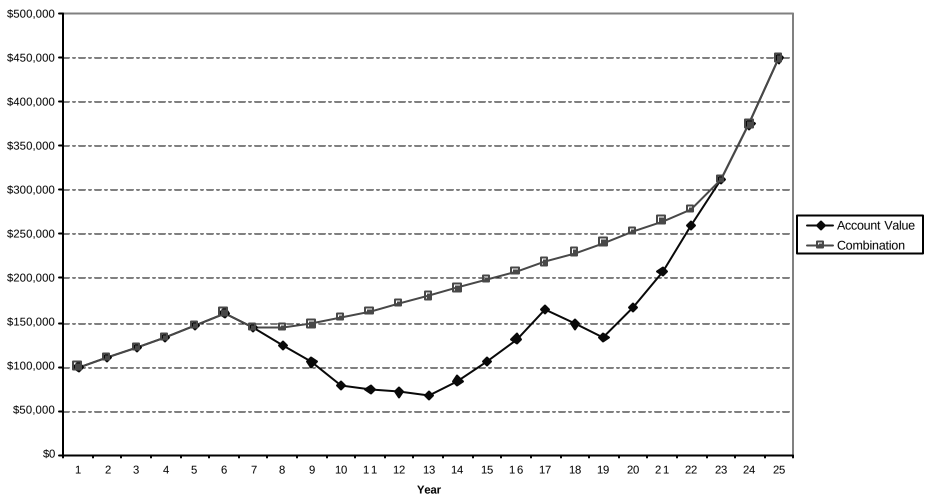
Combination



Source: Salomon Smith Barney estimates.

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Consolidation

- ***Expect Pace To Slow***
  - Share price declines of large financial services players and European life insurers have dulled their acquisition appetites for immediate term
- ***Anticipate More Intra-Industry Transactions***
  - More smaller deals as insurers look to maximize scale and exit non-core/under-performing lines
- ***Few Deals To Date Have Been Successes***
  - Despite slew of transactions over past 5 years, only a handful we view as being successful

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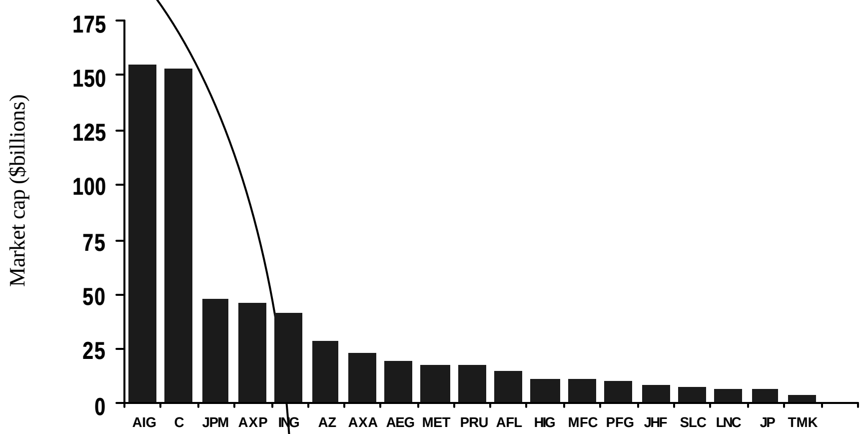
Consolidation – Late Stage



Source: Bloomberg

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Investment Quality

- ***Everything "Old Is New"***
  - Has become major issue for rating agencies which have changed their industry outlook to negative
- ***High Risk Assets Equal Approx. 15%***
  - Including below-investment grade bonds, equities, real estate, non-performing mortgages and other
- ***View Portfolios Overall As Well Managed***
  - RBC models seem to have been effective in managing investment risk relative to real estate crisis of late 80's; some Europeans have issues

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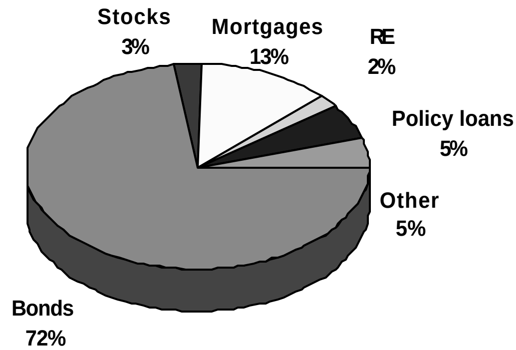
General Account Asset Mix – 2Q02



Source: Life insurance coverage universe company reports

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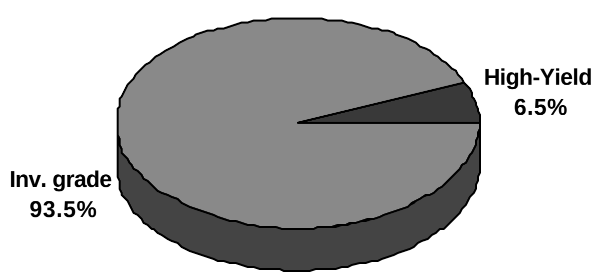
Bond Portfolio Credit Quality – 2Q02



Source: Life insurance coverage universe company reports

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Valuing Life Insurance Stocks

- ***United States*** – primary measures are price/book value, price/earnings, and discounted cash flow. All of these are based on US GAAP
- ***Europe and Canada*** – primary technique is embedded value (EV), which estimates economic value of in-force plus adjusted net worth. Value of future business then estimated and added to EV to give "enterprise value"

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How We Pick Stocks

- ***Business Fundamentals*** - i.e. product types, revenue growth rates, margins, distribution channels, market positions, management
- ***Earnings Predictability*** - Upside from positive much less than downside from negative. Market arguably over-pays for predictability
- ***Potential Catalysts*** - Look for "events" that can drive share appreciation such as change, market sensitivity and consolidation

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Stock Picking – Flight to Quality

- YTD in 2002, S&P 500 has declined 24%, versus 12% drop for SSB Life index
- Revenue growth, credit quality, interest rates, accounting & ratings remain valuation issues
- Life insurance viewed as “defensive” group. If sentiment turns favorable, vulnerable to rotation
- Sector Rating is “Overweight.” Of 16 stocks we cover, 7 are rated “Outperform”, 6 - “In line”, and 3 - “Underperform”

stock ratings are relative to analyst's industry rating

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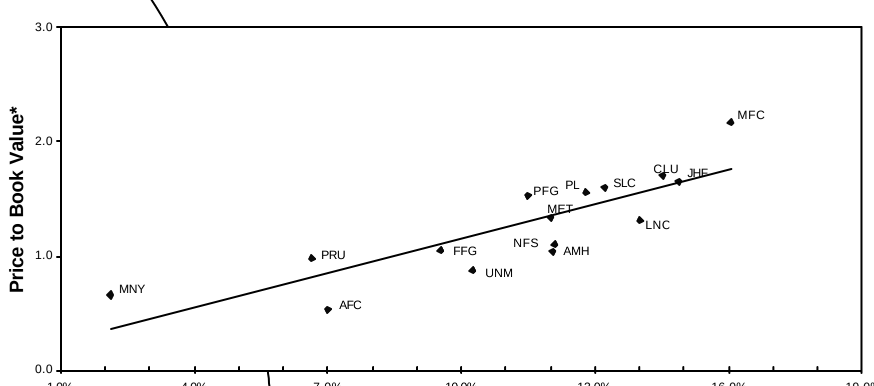
Regression Analysis

U.S. Life Insurance Industry



*Excluding the effects of FAS 115

2002 Projected Return on Equity*

Source: Salomon Smith Barney estimates.

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Summary - Outlook Strong

- ***Demographic*** – retirement of boomers and pension system shift should drive long-term 11%-13% gains
- ***Earnings –*** will remain constrained by relatively flat growth in AUM during the past three years
- **Investments/DAC/GMDB** – will pressure earnings and may result in changes to product compensation
- **Rating Agencies** – have negative view on industry
- ***Life sector possesses good growth potential – is not mature industry***
- ***Sector recommendation is "Overweight" based on expected market recovery***

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This presentation will be available for viewing on the SOA web site after the symposium.

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