



U.S. Life Insurance Industry

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PRMIA Meeting

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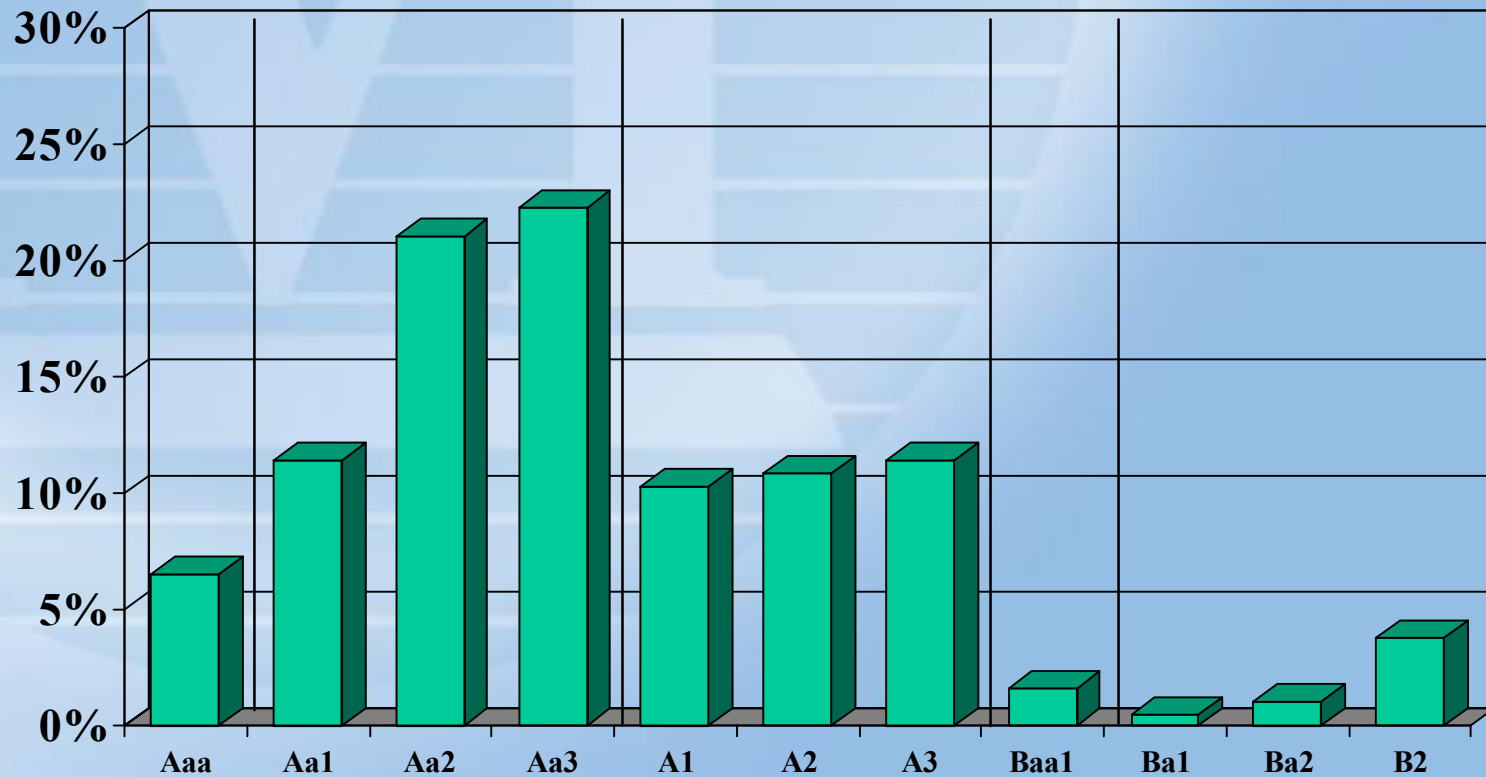
Presentation Overview

- State of the Industry
 - Ratings & Rating Trends
- Key Credit Issues
 - Credit Losses in Investment Portfolio
 - Lower Investment Income/Low Interest Rates
 - Equity Market Impact on Variable Annuities
 - Actions of Recently Demutualized Stock Insurers
 - Growth of Institutional Spread Business
 - Declining Capital Adequacy Trends

Life & Health Insurance Sector

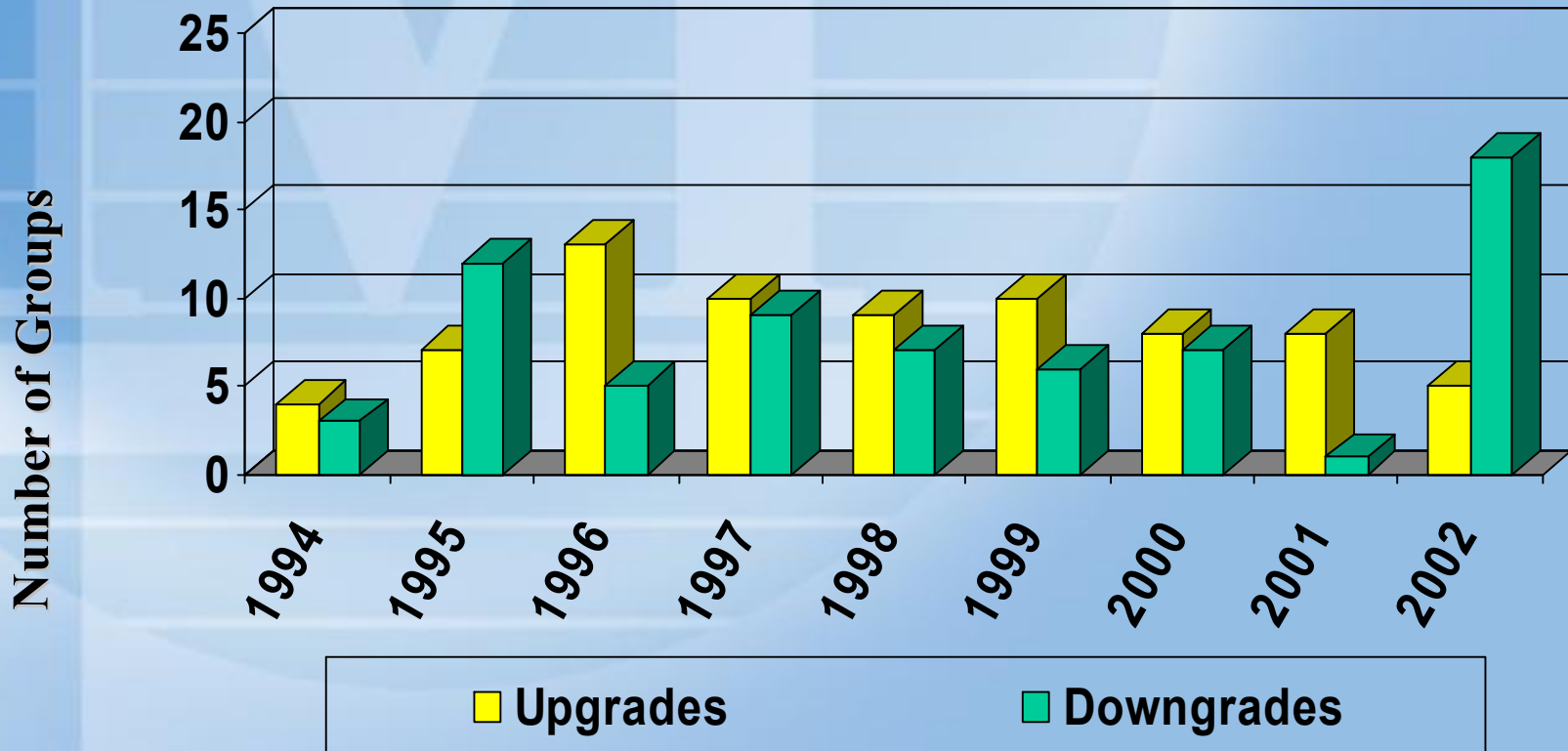
- A1 Average IFSR
- Baa1 Average Debt Rating at Holding Company
- Rated slightly lower than other financial services companies
- Rating outlook is negative
- 75 groups; 184 IFSR ratings
- Recent rating actions: 20 groups (mostly stock companies) downgraded or changed outlook

Distribution of US Life Insurance Financial Strength Ratings -- 12/31/2002



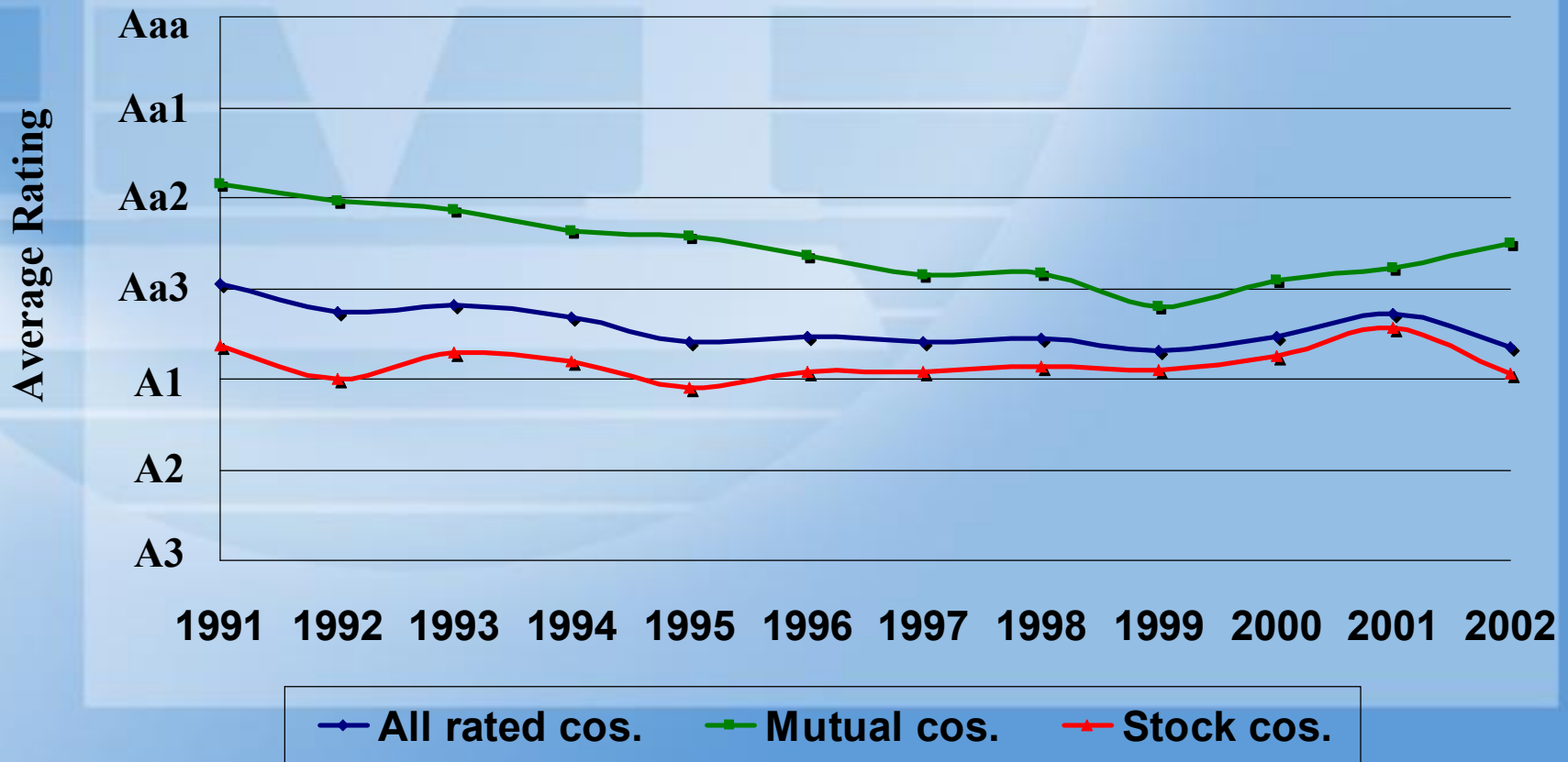
184 companies

History of Rating Actions -- U.S. Life Insurance Financial Strength Ratings 1994-2002



* The 2002 rating changes exclude 4 IFSR upgrades that were as a result of a change in rating methodology.

Insurance Financial Strength Rating Trends 1991-2002



Strengths

- Conservative financial & operating leverage
- Good asset quality in well-diversified portfolios
- Strong liquidity
- Tax advantaged products

Negative Pressures

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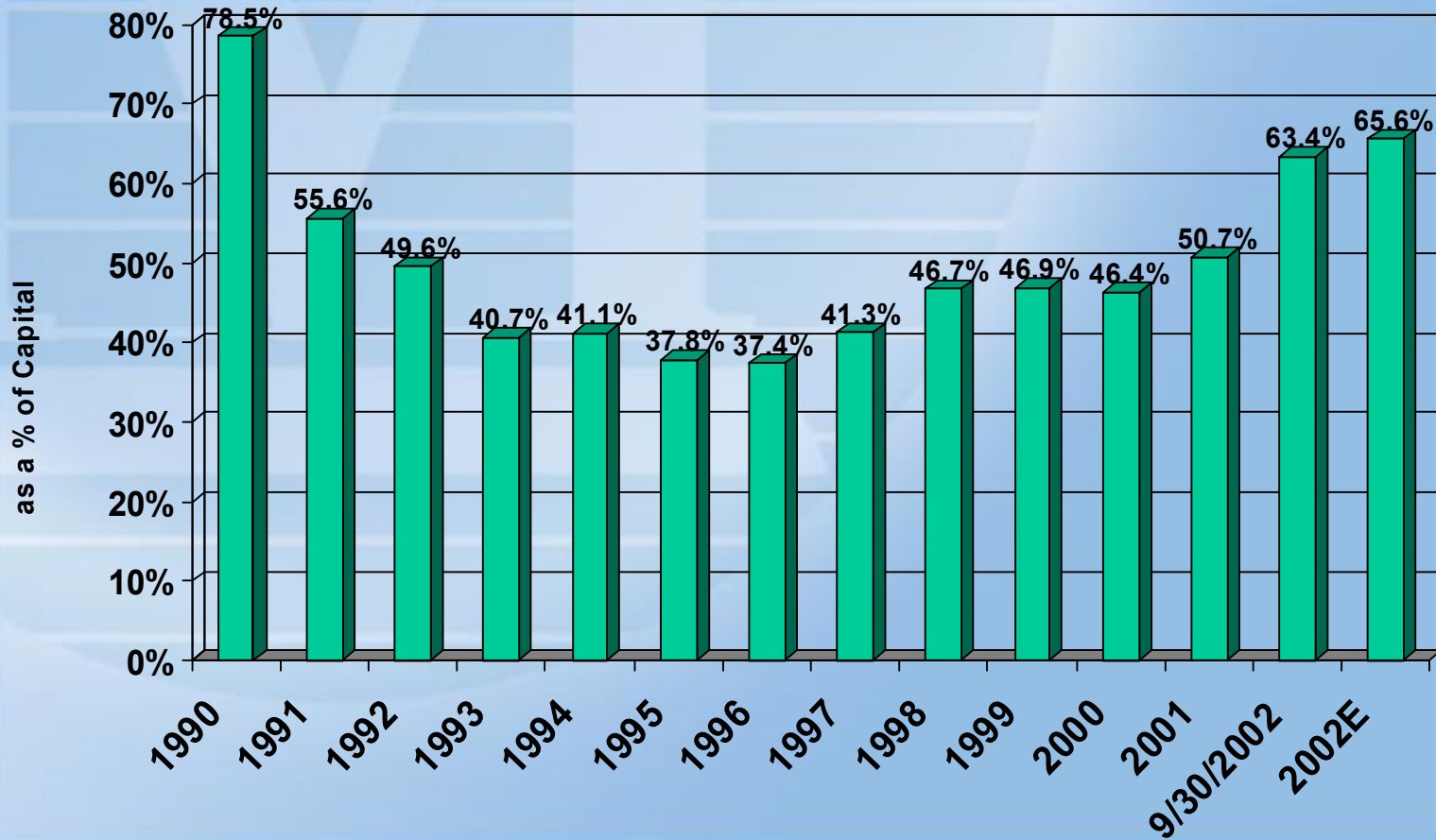
These trends are pressuring earnings and capital formation and weakening some companies' financial flexibility

Credit Losses in Investment Portfolio

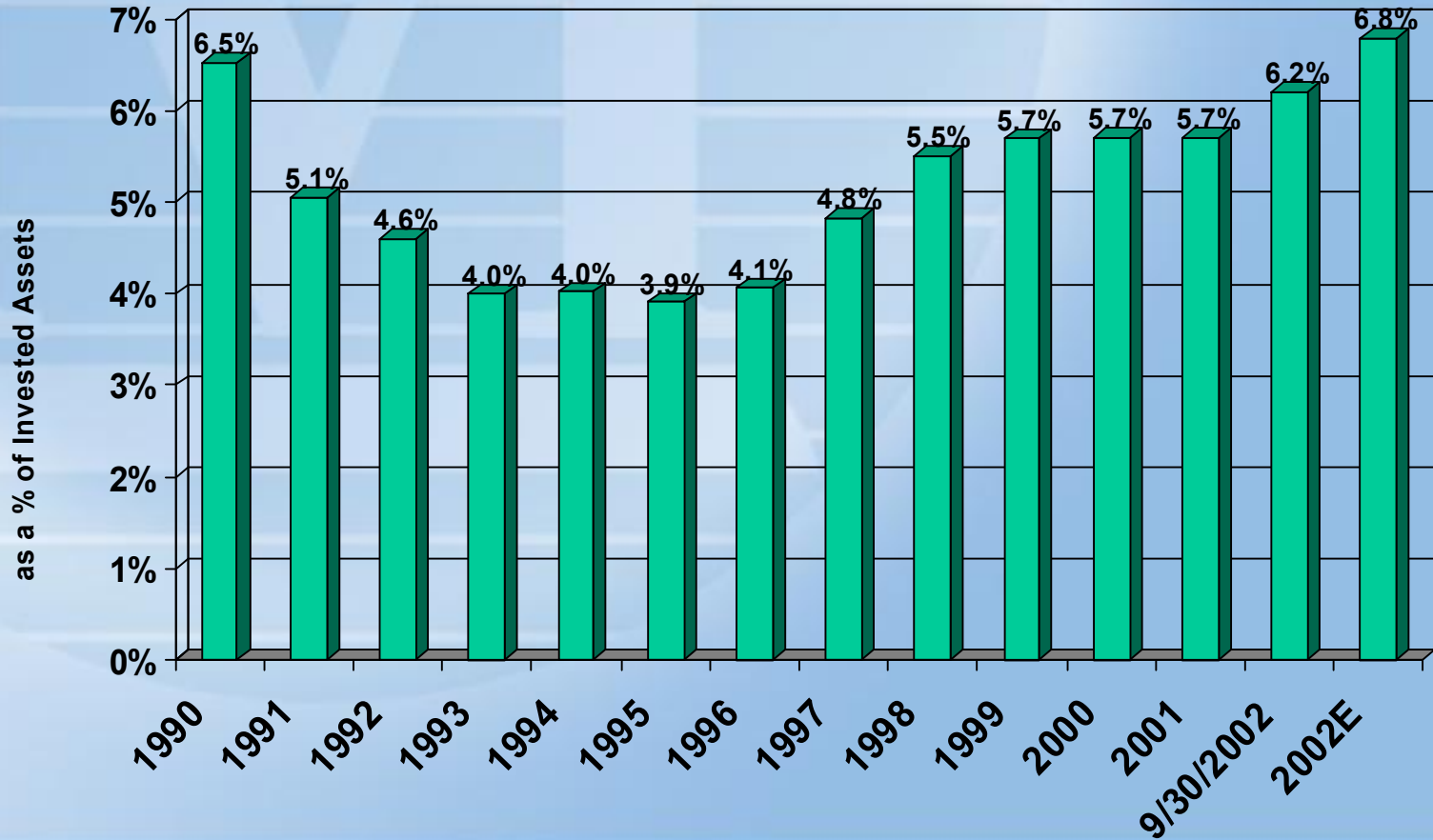
- Default rates and downgrades at all-time high
- Portfolios are well diversified by asset class, industry, and issuer exposures
- Aggregate credit losses are significant in context of earnings, not capital
- Expectation of continued high levels of defaults and credit losses given the environment

Impact of higher credit losses will depend on company's liability structure and guarantees

Below-Investment-Grade



Below-Investment-Grade



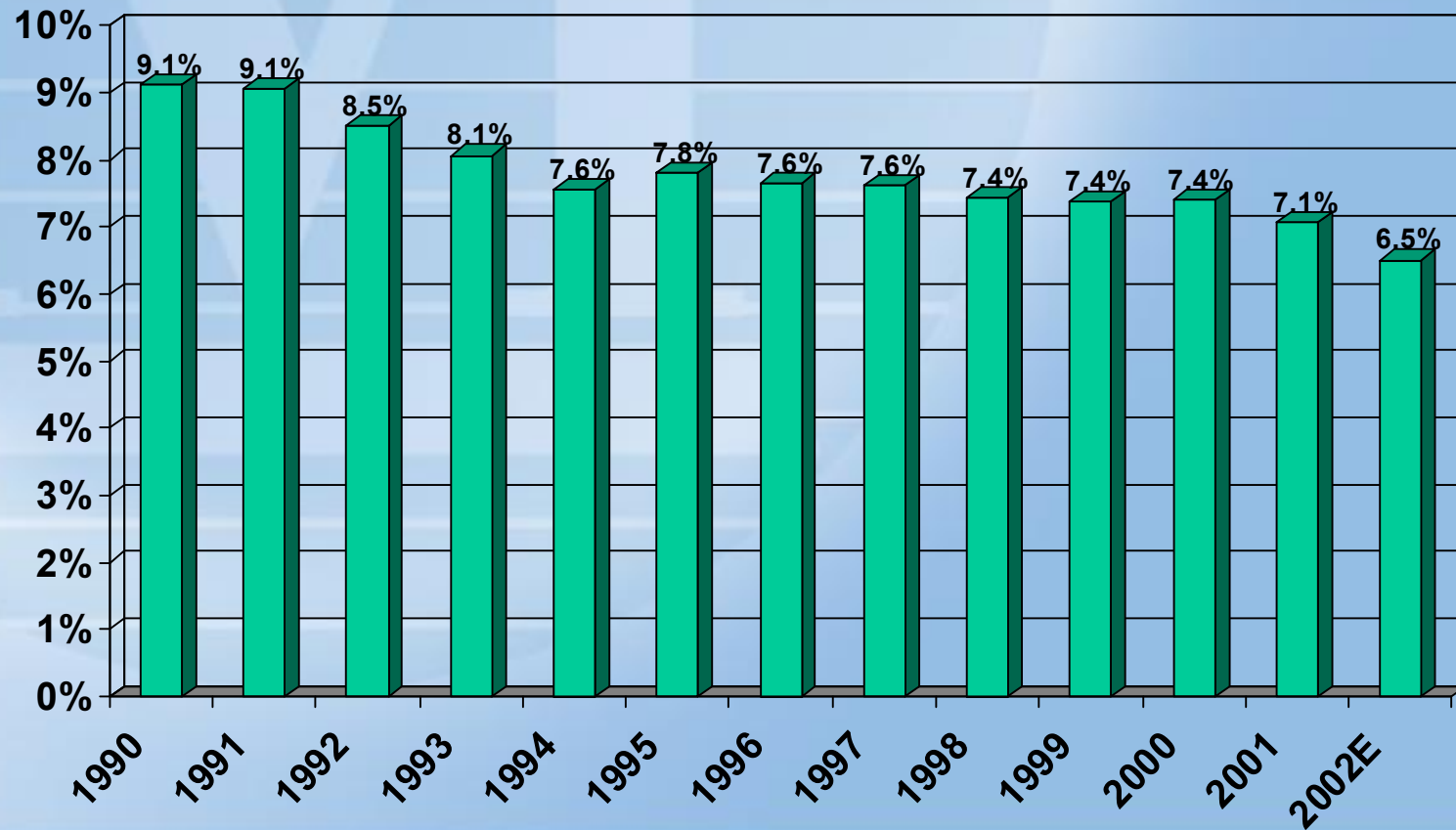
Lower Investment Income/Low Interest Rates

Lower net investment income due to:

- Low interest rate environment
- Callable & prepayable securities
- Harvesting of capital gains
- Lower returns on venture capital/limited partnership
- Credit losses

Impact of lower investment income will depend on company's liability structure and guarantees

Net Investment Yield



Equity Market Impact on Variable Annuities

- Fees based on assets under management are down
- Reserve requirements for GMDBs are increasing
- DPAC amortization is accelerating and vulnerable to recoverability issues

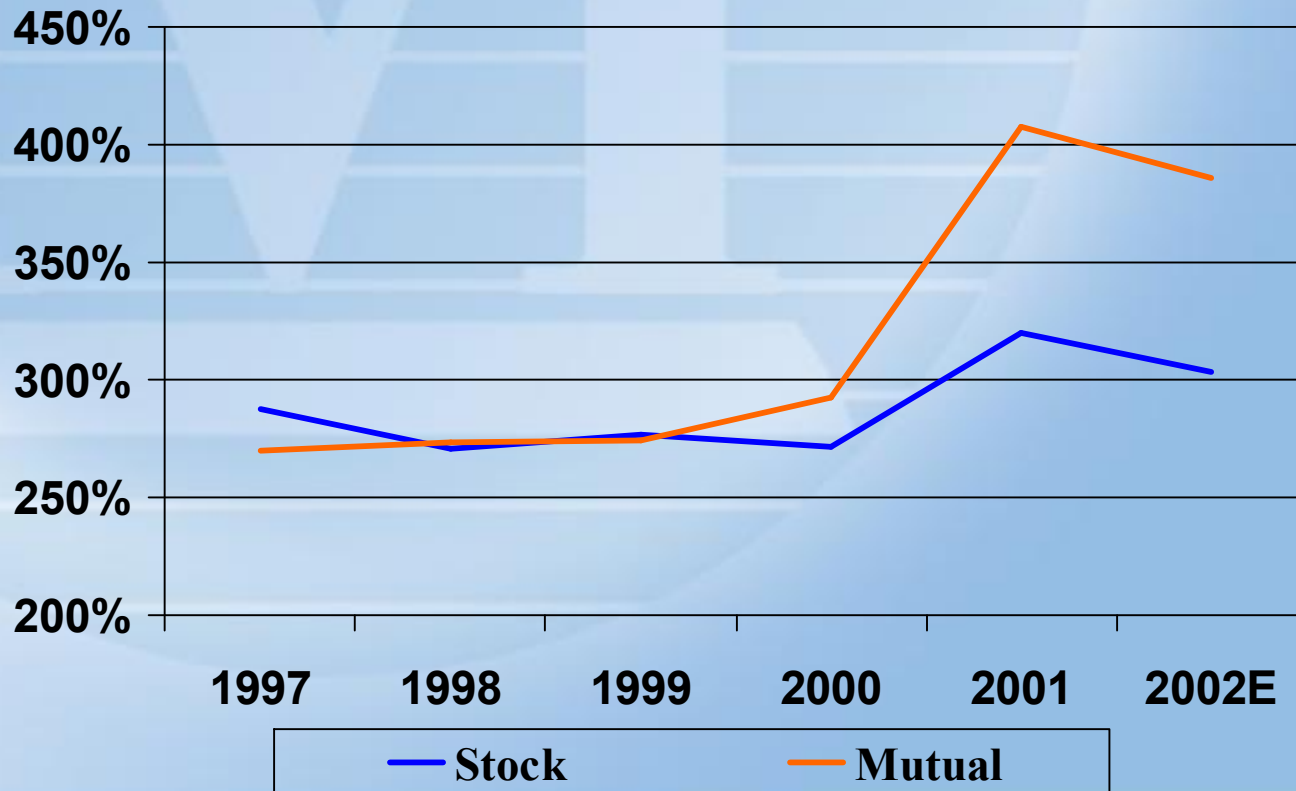
Impact on companies depends on age of business, fund performance, GMDB options, and equity market assumptions.

Recently Demutualized Stock Insurers

- Inherent conflicts between interest of shareholders and creditors
- Pressure to improve ROEs; deploy “excess” capital
- Lower capital ratios
- Greater use of debt in capital structure
- Stop selling par whole life

Greater divergence in ratings between mutuals and stock insurers

NAIC RBC Ratio for Stock Vs. Mutuals



Growth of Institutional Spread Business

- Credit risk in investment portfolio coupled with long-duration interest guarantees
- Liquidity risks with puttable/surrenderable contracts
- Liquidity risks with rollover/refinancing

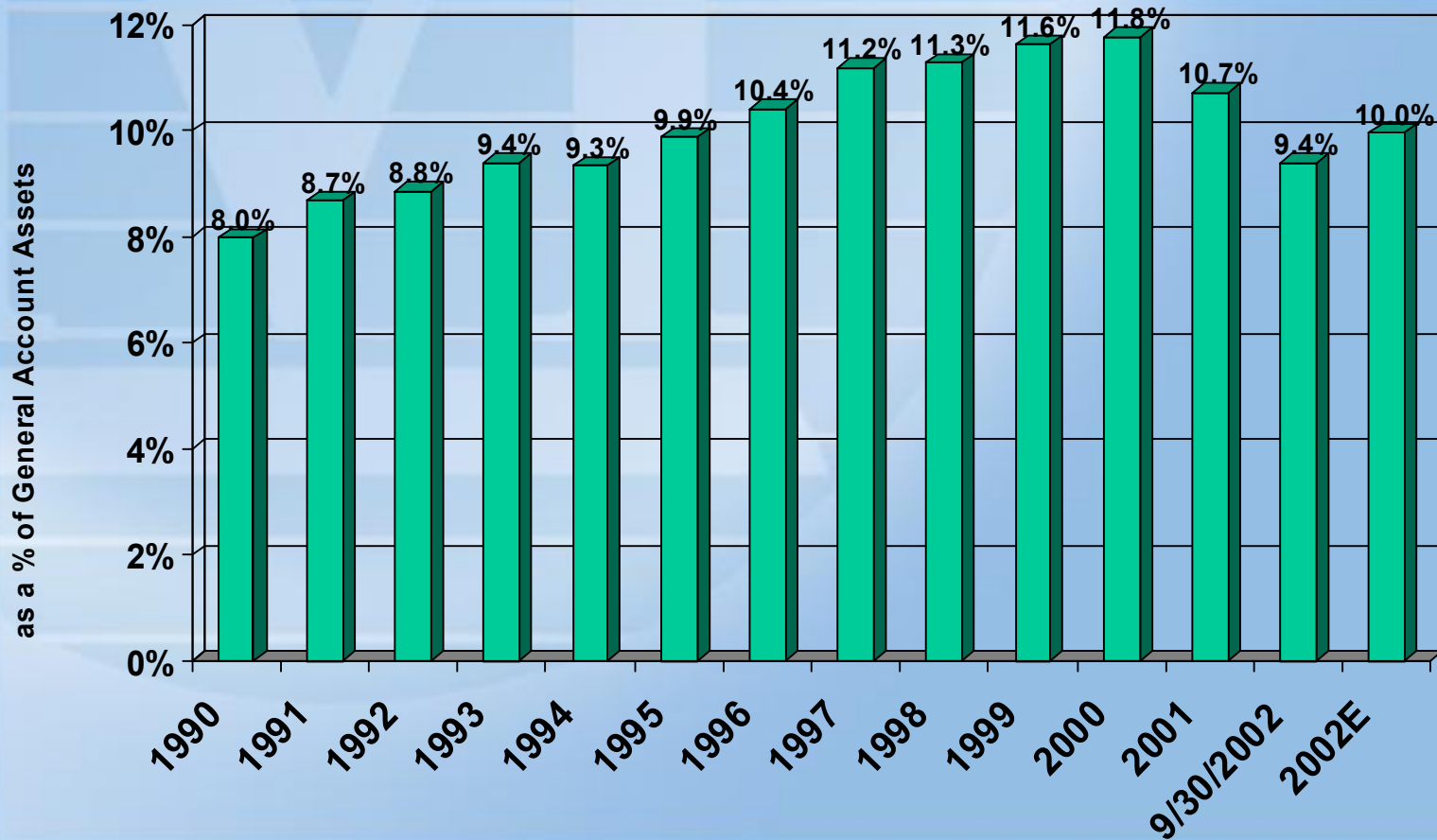
These risks are heightened in this environment

Declining Capital Adequacy Trends

- Growth of general account liabilities
- Lower operating earnings
- GMDB reserves
- Credit losses
- Greater stockholder dividends to holding company

Less cushion now to absorb future credit losses, GMDB reserves, and general account growth

Statutory Capitalization Ratio



Environment will Impact Companies Differently

Risk exposures must be evaluated in context of:

- Mix of business (e.g. par life, VAs, GICs)
- Earnings capacity
- Capital adequacy
- Financial leverage
- Organizational structure (stock vs mutual)

Rating implications will be company-specific based on business and financial fundamentals

Conclusions

- Negative outlooks indicate if trends continue, ratings will need to be adjusted
- Greater industry risks today, but better capitalized
- Industry will remain highly rated