



May 20, 2003

Dear Smith Group Client:

We continue our service of providing competitive information by releasing the following information. This report is based upon insurers' 1st quarter and 2003 earnings releases. Using sales and inforce numbers from JHA, a supplementary report on these is included.

The data and information upon which these reports are based are readily available in the public domain. The report is based primarily upon companies' press releases, statistical supplements, SEC filings, and earnings calls. Smith Group also reviews stock analysts reports. Smith Group adds value to this information through its compilation, analysis and by providing insights to the information.

By providing this information we do not intend to make predictions about insurers nor their results. Rather, we are simply providing information for you to use to help increase your understanding of the complicated business and times in which we operate.

As always, we welcome your questions and comments. Please contact Tom Kirner (207-879-5680, tkirner@smithgroupre.com) to discuss the material further.

UnumProvident (UP):

The big news for 1Q was the LTD reserve hit of \$454 million before tax resulting in a company wide net loss of \$246.4 million. UP is also changing reporting segments. They are lumping in STD, LTD, ID, LTC and “disability services”. Fortunately, in this quarter they broke-out group income (STD & LTD) results.

Profit (Before FIT and net unrealized investment Gains/Losses):

Reported group disability (LTD & STD) losses of \$423.7 million for 1Q03. Without the reserve strengthening, the operating profit on group income would have been \$30.3 million down sharply from \$87 million in 1Q02. A decline in net claim recoveries in LTD and lower earnings in STD were given as the reasons.

Group Life and AD&D reported profits for 1Q03 of \$63.8 million, up from \$44.4 million last year.

EP/Sales (Sales on submitted basis):

LTD premium was \$606.4 million this quarter up from \$568.4 for 1Q02. STD premium was \$155.7 million from \$148 million in 1Q02. Group Life and AD&D premium was \$428 million for the quarter up from \$408.5 million.

First quarter sales were mixed, LTD sales were \$67.9 million versus \$79 million a year ago. STD fully insured sales were down – \$26.9 million vs. \$36.5 for 1Q02. Life sales were \$54.3 million in 1Q03 versus \$53.3 in 1Q02. AD&D sales were \$6.7 million down from \$9.9 million a year ago.

Notable statements:

- ?? Several quarters of lower claim recoveries with one of three claim offices being the source prompted the analysis of reserves.
- ?? When questioned why other carriers did not report slower recoveries, UP replied that most did not have enough data but that privately other carriers were telling UP they too have recovery concerns.
- ?? Persistency in group disability improved in 1Q03.
- ?? Discount rate on new claims reduced to 5.34%
- ?? 1Q LTD loss ratio was 91.4% (up from an expected range of mid-80%)

Hartford:

Profit (Net income after tax before capital gains/losses):

Overall Group (Life, STD, & LTD) net income was \$34 million, up 21% over 1Q02.

Overall group loss ratio was 80.3%.

EP/Sales:

Disability sales (LTD & STD) were \$103 million for 1Q03, down from \$113 million in 1Q02. Life sales were \$89 million vs. \$193 million a year ago. Disability premiums were \$243 million, flat compared to 1Q02. Group Life premiums were \$243, up from \$233 million in 1Q02.

Notable statements:

- ?? Increased competition in the large case group disability and group life markets were the reason for lower sales. Some signs the markets are starting to get a bit better.

CIGNA:

Profit (Excluding realized investment gains/losses, net of taxes):

The Indemnity segment that includes indemnity medical, disability and life declined to \$49 million for 1Q03 from \$95 million in 1Q02. This was because of lower margins in the medical business, partially offset by higher group life and accident insurance earnings.

EP/Sales:

LTD premiums this quarter rose to \$132 million from \$118 million last year. Life premiums declined 1% to \$375 million for the quarter compared to \$380 million in the year-ago quarter.

Notable statements:

- ?? Good results in life and disability.
- ?? Solid sales growth in life and disability due to growth in the sales force and penetrating the middle market.
- ?? The disability business is performing well.

MetLife:

Profit (Operating Earnings pre tax and before after-tax investment gains (losses)):

Non-medical profit for 1Q03 was \$59 million compared to \$53 million for 1Q02. Group disability loss ratio in the quarter was 96.5%, continuing its downward trend. Group life earned \$78 million this quarter compared to \$68 million in 1Q02.

EP/Sales:

Group LTD premiums for 1Q03 were \$241 million up from \$198 a year ago. Group life grew to \$1.340 billion in 1Q03 up from \$1.250 billion in 1Q02.

Notable Statements:

- ?? Closing 5% of opportunities, steady from prior periods.
- ?? Disability reserve buy-outs fueled growth (of 18% in LTD premium); without buy-outs growth was 12.5%
- ?? Unique risk profile – participating policies and ASO – help make Met less subject to economic issues that may be affecting other insurers.
- ?? Reserves have been reviewed and are conservative relative to experience.
- ?? More rationality in the market environment for life sales, although still see outliers.

Standard:

Profit (Pre-tax income after realized capital gains/losses):

Employee Benefits profit was \$43.1 million for 1Q03 up from \$36.7 a year ago.

EP/Sales:

LTD sales for the quarter were \$16.9 million down from last year's \$19.6 million. The reason given was fewer large case sales. EP for LTD was \$175 million up from \$137.9 a year ago. This was primarily due to the TIAA acquisition and inforce growth. STD sales were \$9.4 million this quarter down from \$15.4 million in the quarter a year ago. STD EP grew to \$40.6 million from \$34.9 million in 1Q02. Life sales were \$16.1 million down from \$26.2 in 1Q02. Life premium was \$150 for 1Q03, up from \$117 in the quarter a year ago.

Notable Statements:

?? LTD proposals are up 15% in part due to an increase in market activity.

?? Incidence and recoveries were steady.

?? LTD new claim discount rate remained stable at 5.25%.

Prudential:

Profit (Adjusted operating income before taxes):

Group Insurance (LTD, STC and LTC) profit for Employee Benefits in 1Q03 was \$34 million compared to \$37 million for 1Q02. The decline was due to an exceptionally good 1Q02 loss ratio. Disability loss ratio was 93.9% for 1Q03 compared to 84.6% in 1Q02. Life loss ratio for the first quarter of 2003 was 91.9% flat from this period last year.

EP/Sales:

Group disability (LTD, STD, & LTC) premiums for 1Q03 were \$67 million up from \$53 million in the quarter a year ago. Group disability sales for this quarter were \$67 million up from \$53 million in the quarter a year ago. Group Life sales were \$88 million down from \$162 million 1Q02. The drop in sales was attributed to a highly competitive environment. Disability persistency was 92.1% while persistency for life was 96.4% in the 1st quarter.

Notable statements:

?? No unusual issues relative to disability claims resolutions.

?? Successful in placing rate increases on life and disability on a selective basis.

CNA:

Profit (Net operating income after tax excludes net realized gains (losses), income (loss) from discontinued operations and the cumulative effect of a change in accounting principal.):

In the first quarter of 03, net operating income for Group was \$19 million, however, net realized investment losses were \$34 million, resulting in a net loss of \$15 million. Net operating income for 1Q02 was \$18 million by comparison.

EP/Sales:

EP decreased due to the loss of the National Postal Mail Handlers contract. Net EP was \$315 million for 1Q03.

Notable statements:

- ?? Our Life and Group businesses remained profitable with good prospects for profitable growth.
- ?? Favorable mortality was partially offset by the absence of favorable operating results for the Mail Handlers Plan.

Fortis:

As expected, the Fortis press release and financial supplements are too high level to learn anything factual about LTD.

Fortis did report that Fortis Benefits (the operation that includes LTD) had net operating income of \$8.1 million, \$1.3 million higher than 1Q02. The improvement was due to reduced claim incidence in Disability (LTD and STD), offset by higher mortality in group life.

Aetna:

Profit (Operating earnings exclude other items, net realized capital gains or losses, income from discontinued operations and cumulative effect adjustments.):

Group Insurance (life, Disability and LTC) operating earnings were \$32.6 million in 1Q03 compared to \$33 in first quarter 2002.

EP/Sales:

For 1Q03, premiums for group were \$375.8 million compared to \$362.6 in 1Q02.

Notable Statements:

- ?? Expect group earnings to be \$137-\$140 million for the full year.
- ?? 1Q results reflected a lower benefits ratio than 4Q02.

Liberty

As a mutual company, Liberty does not have quarterly earnings releases. They do publish an annual report. Detail at the group insurance level is not available.

Notable statements on 2002:

- ?? Our group disability and life business improved on all fronts – earnings, new business and renewals; this despite a highly competitive group insurance industry.

Reliance Standard Life (RSL):

Profit (Operating income pretax, excluding after-tax realized investment gains or losses): Operating income for Group (LTD, life, excess workers comp) for 1Q03 was \$33.5 million up from \$30.3 million a year ago.

EP/Sales:

Disability premium, mostly LTD, was \$55.6 million for 1Q03 compared to \$45.9 million a year ago first quarter. Sales of disability in 1Q03 were \$21 million down from a very strong 1Q02 of \$24.6 million. Life EP was \$60.4 million in 1Q03 from \$48.4 in 1Q02. Life sales this quarter were \$19.8 million compared to \$20.3 million up 1Q02

Notable Statements:

- ?? Have raised prices due to lower discount rates for LTD.
- ?? Seeing a little increased market activity as a result of problems with the LTD market leader.

Guardian

As a mutual company, Guardian does not have quarterly earnings releases. They do publish an annual report, however it does not contain any detail in group.

Notable statements on 2002:

- ?? Posted \$740 million in new sales in our Group employee benefits business, the third consecutive year of sales increases despite a challenging economic environment.

Jefferson Pilot (JP):

Profit (After FIT and before net unrealized investment Gains/Losses):

Benefit Partners' profit 1Q03 was \$11.9 million, down from \$12.9 million in 1Q02. Higher incidence in life claims was the reason. Overall loss ratio was 74.1% for this quarter compared to 71.7% a year ago.

EP/Sales:

Overall group sales were \$73 million for 1Q03 up 30% over 1Q02 sales of \$56.1 million. LTD sales were \$19.7 million, STD sales were \$14 million, Life sales were \$24.8 million.

Notable Statements:

- ?? STD and LTD loss ratios are excellent.
- ?? Conservative plan design (78% of cases have a max of \$6,000 or less and the majority of plans have a 60% replacement ratio or less), solid underwriting and expense advantage allow Jefferson Pilot to grow yet have 3 years of solid financial results.
- ?? Have increased prices due to interest rates.
- ?? 97% of cases and 56% of premium are on cases of 500 lives or less.

Sun: (All numbers were reported in Canadian dollars)

Profit (Net income after tax):

US Group Life & Health (LTD, STD, Stop Loss and life) earned \$9 million in 1Q03 down from \$12 million earned in 1Q02.

EP/Sales:

GL&H premiums for 1Q03 were \$261 million up from \$251 million a year ago. Sales of health (disability and stop-loss) were \$48 million, flat compared to 1Q02. Life sales were \$12 million for this quarter, down from \$16 million in the year ago quarter.

Notable Statements:

- ?? Lower earnings in the quarter were due to higher disability claims.
- ?? Higher mortality in group life as well.

AIG:

No detail is reported.

GE ESG:

No detail is reported.

NWML:

As a mutual company, NWML does not have quarterly earnings releases. They do publish an annual report, however there was no information on LTD in it.

Principal:

Profit (Operating earnings after tax before capital gains/losses):

Principal combined all life and health (individual and group) as a segment for earnings. Life and Health after tax operating earnings were \$59.1 million for this quarter compared to \$54.3 million for 1Q02. Loss ratio for group disability in 1Q03 improved to 78.2% from 93.3% in the quarter a year ago. Life loss ratio improved to 71% in 1Q03 from 73.3% in 1Q02.

EP/Sales:

Group disability (STD & LTD) premiums for 1Q03 were \$32.9 million up from \$25.4 million in 1Q02. Group disability sales were \$14.9 million for this quarter up from \$10 in the first quarter 02. Group disability lapse rate was 4.6%. Group life EP for 1Q03 was

\$54.4 million compared to \$53.9 million in the quarter a year ago. Group life sales were \$14.7 million for this quarter, up from \$10.3 million in 1Q02. Life lapse rate was 7.2%.

Notable Statements:

- ?? Life and Health had strong growth of 9%.
- ?? Improved loss ratios in both life and disability.

ING:

Employee Benefits premium dropped to €174 million from €201 million 1Q03 to 1Q02.

Overall Observations:

- ?? Most carriers continue to discuss disciplined underwriting and pricing in a difficult environment.
- ?? Many carriers indicating adding sales staff in 03.
- ?? In companies in which group operations are a small segment, little discussion about group.
- ?? Most companies reported favorable earnings results. UP was the only company to discuss slower recoveries.

1Q03 Disability Results Summary

Company	Earnings	Sales	EP
UP	?	?	?
Hartford	?	?	?
CIGNA	?	?	?
MetLife	?	na	?
Standard	?	?	?
Prudential	?	?	?
CNA	?	?	?
Aetna	?	na	?
RSL	?	?	?
JP	?	?	?
Sun	?	?	?
Principal	?	?	?

Companies mentioning LTD reserve discount rates on new claims:

- ?? UnumProvident 5.34%
- ?? MetLife 4.25%
- ?? Standard 5.25%
- ?? Principal 5.50%

Companies mentioning adding sales reps: Jefferson Pilot, Reliance Standard Life, CIGNA, and Standard.