



August 14, 2003

Dear Smith Group Client:

We continue our service of providing competitive information by releasing the following information. This report is based upon insurers' 2nd quarter 2003 earnings releases.

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.

Q2 2003 Earnings Releases & Conference Calls Summaries

UnumProvident (UP):

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

Reported group disability (LTD & STD) gain of \$48.3 million for 2Q03 compared to 2Q02 gain of \$85 million.

Increased incidence, slower recoveries, and lower discount rate were the causes.

Group Disability Benefit Ratio was reported as 90.8% up from 83.4% for 2Q02.

Group Life and AD&D reported profits for 2Q03 of \$53.4 million, compared to 2Q02 \$57.3 million.

Life Benefit Ratio was reported as 78.4%, up slightly from a year ago. Note that UK results are also included in these figures.

EP/Sales (Sales on submitted basis):

LTD premium was \$634.5 million this quarter up from \$576 for 2Q02.

STD premium was \$160 million up from \$155.2 million in 2Q02.

Group Life and AD&D premium was \$386 million for the quarter up from \$366.2 million in 2Q02.

2Q03 LTD sales were \$110.7 million versus \$76.6 million a year ago.

STD fully insured sales were \$26.5 million vs. \$27 for 2Q02.

Life sales were \$75.1 million in 2Q03 versus \$51.8 in 2Q02.

AD&D sales were \$5.6 million down from \$8.5 million a year ago.

Notable statements:

Trying to be more effective in the mid-to-small case market to balance the business.

Small cases are more profitable and more predictable.

Pricing is a challenge, can't change in force to new higher price levels overnight.

In response to why UP's results in disability are different than other companies (who are seemingly reporting better results) UP responded that the segments companies reported made the difference, others report life in with disability (presumably masking disability results).

Hartford:

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

Overall Group (Life, STD, & LTD) 2Q03 net income was \$35 million compared to \$30 million in 2Q02.

Overall group loss ratio was 78.7 down from 2Q02 loss ratio of 82.4%.

EP/Sales:

Disability sales (LTD & STD) were \$51 million for 2Q03 compared to \$41 million in 2Q02.

Life sales were \$30 million vs. \$33 million a year ago. Disability premiums were \$237 for 2Q03 compared \$249 million in 2Q02.

Group Life premiums were \$240 compared to \$252 million in 2Q02.

Notable statements:

Solid 17% growth in earnings driven by strong underwriting and disciplined claims management.

Second half top line growth should be better.

Expect double-digit growth in sales in the second half.

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CIGNA:

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

☞☞The Indemnity segment that includes indemnity medical, disability and life declined to \$39 million for 2Q03 from \$100 million in 2Q02.

☞☞The results reflect lower income in the medical business.

EP/Sales:

☞☞LTD premiums this quarter rose to \$128 million from \$122 million last year.

☞☞Life premiums declined to \$355 million for the quarter compared to \$389 million in the year-ago quarter.

Notable statements:

☞☞Group life, disability and accident results in line with expectations.

☞☞Good sales in disability, especially effective in increasing share in the middle market.

☞☞Penetration in the mid-market contributed to results.

MetLife:

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

☞☞Non-medical profit for 2Q03 was \$61 million compared to \$41 million for 2Q02.

☞☞Group disability loss ratio in the quarter was 95.1%, continuing its downward trend.

☞☞Group life earned \$79 million this quarter compared to \$74 million in 2Q02.

EP/Sales:

☞☞Group disability premiums for 2Q03 were \$238 million up from \$212 a year ago.

☞☞Group life grew to \$1.342 billion in 2Q03 up from \$1.273 billion in 2Q02.

Notable Statements:

☞☞Saw good mortality in life based on good underwriting and pricing.

☞☞Regarding irrational pricing in employee benefits...it doesn't take much to get noise in the market.

Standard:

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

☞☞Employee Benefits profit was \$43.3 million for 2Q03 up from \$30.1 a year ago. The biggest difference was some capital gains this year versus a capital loss last year.

EP/Sales:

☞☞LTD sales for the quarter were \$13.6 million down from last year's \$15.8 million.

The reason given was the price sensitivity of buyers due to medical inflation and the weak economy.

☞☞EP for LTD was \$173.2 million up from \$140.5 a year ago. This was primarily due to the completion of the TIAA acquisition.

☞☞STD sales were \$7.7 million this quarter up from \$6.9 million in the quarter a year ago.

☞☞STD EP grew to \$40.3 million from \$36.6 million in 2Q02.

☞☞Life sales were \$20.6 million up from \$18.3 in 2Q02.

☞☞Life premium was \$151.7 for 2Q03, up from \$121 in the quarter a year ago.

Notable Statements:

☞☞Some decline in persistency due to increased price sensitivity among clients and renewal actions on less profitable cases.

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- Benefits ratio for the quarter was 83.2% and included approximately \$4 million of charges for the lower discount rate on new claims.
- LTD new claim discount rate was reduced 50 basis points to 4.75%.
- The TIAA integration is complete.

Prudential:

Profit (Adjusted operating income before taxes):

- Group Insurance (LTD, STC and LTC) profit for Employee Benefits in 2Q03 was \$58 million compared to \$36 million for 2Q02.
- The increase was due to very favorable mortality in life.
- Disability loss ratio was 87% for 2Q03 compared to 87.7% in 2Q02.
- Life loss ratio for 2Q03 was 89.9% compared to 92.8% in 2Q02.

EP/Sales:

- Group disability (LTD, STD, & LTC) premiums for 2Q03 were \$162 million up from \$146 million in the quarter a year ago.
- Group disability sales for this quarter were \$29 million compared to \$33 million in the quarter a year ago.
- Group Life EP was \$591 million compared to \$600 in 2Q02. Group Life sales were \$35 million compared to \$27 million 2Q02. The drop in sales was attributed to a “lumpy market for large case” presumably meaning a highly competitive environment.

Notable statements:

- Implementing rate increases on a selective basis.
- Group disability loss ratio was favorable.
- Life incidence was less than expected.

CNA:

Profit (Net income after tax including net realized gains.):

- 2Q03 net income for Group was \$39 million compared to net income for 2Q02 of \$7 million.

EP/Sales:

- EP decreased due to the loss of the National Postal Mail Handlers contract. This also makes comparisons to 2002 not useful.
- Net EP was \$329 million for 2Q03, compared to 1Q03 of \$315 million.

Notable statements:

- Seeing growth in group disability.
- Group operations achieved rate increases during 2Q03 of approximately 7%.

Fortis:

Will not report until 8/28. However, it is expected they will not report anything of significance at the group line level.

Aetna:

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

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Group Insurance (life, Disability and LTC) operating earnings were \$35.4 million in 2Q03 compared to \$36.3 in 2Q02.

EP/Sales:

For 2Q03, premiums for group were \$380.3 million compared to \$360.8 in 2Q02.

Notable Statements:

Lower earnings were the result of higher expense levels offset by a lower benefits cost ratio.

Liberty

As a mutual company, Liberty does not have quarterly earnings releases.

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 2Q03 was \$33.5 million up from \$30.7 million a year ago.

EP/Sales:

Disability premium, mostly LTD, was \$57.1 million for 2Q03 compared to \$48 million a year ago first quarter.

Sales of disability in 2Q03 were \$16.8 million down from 2Q02 of \$17.9 million.

Life EP was \$59.2 million in 2Q03 from \$53 in 2Q02.

Life sales this quarter were \$12.7 million compared to \$15.3 million in 2Q02

Notable Statements:

Excess workers compensation produced 41% of the earnings in 2Q03 (on 21% of the premium).

Quote activity is up due to expanded sales force (97 reps up from 89 at the beginning of the year) and under 100 lives first time buyers who are less price sensitive.

Steps to improve profit margins in LTD include:

- o Manual rate increases (1Q)
- o Review of underwriting standards
- o Ensuring the sales force is properly directed
- o Reviewing claims management

Hopefully Unum [sic] will show leadership – results indicate a need – if they had the courage to raise rates, others would follow.

Guardian

As a mutual company, Guardian does not have quarterly earnings releases.

Jefferson Pilot (JP):

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

Benefit Partners' profit 2Q03 was \$12.5 million flat from 2Q02. Worse than expected life experience was the reason.

Overall loss ratio for all Benefit Partner lines was 74.7% for this quarter compared to 73.1% a year ago.

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EP/Sales:

Overall group sales were \$39.8 million for 2Q03 compared to 2Q02 sales of \$36.5 million.

Sales by line were not disclosed.

Overall group premium for 2Q03 came in at \$191.3 million compared to 2Q02 of \$162.1 million.

Premium by line was not disclosed.

Notable Statements:

Disability and dental results were excellent.

An industry expense and profit study has confirmed JP's expense advantage that results in better returns for JP than for the industry. This advantage makes size irrelevant. Based on that study the following results are noted:

LTD ROE

| Year | Jefferson Pilot | Industry |
|----------|-----------------|----------|
| 2001 | 23.8% | 6.1% |
| 2002 | 16.9% | 7.8% |
| YTD 2003 | 20.4% | na |

STD ROE

| Year | Jefferson Pilot | Industry |
|----------|-----------------|----------|
| 2001 | 5.7% | -4.5% |
| 2002 | 9.7% | -4.6% |
| YTD 2003 | 17.1% | na |

Sun: (All numbers were reported in Canadian dollars)

Profit (Net income after tax):

US Group Life & Health (LTD, STD, Stop Loss and life) earned \$12 million in 2Q03 flat from a year ago.

While results improved, currency conversion rates with the Canadian dollar's improvement vis-à-vis the US dollar dampened the reported Canadian dollar figures.

EP/Sales:

GL&H premiums for 2Q03 were \$248 million up from \$243 million a year ago.

Sales of health (disability and stop-loss) were \$38 million, down from \$45 million in 2Q02.

Life sales were \$18 million for this quarter, up from \$15 million in the year ago quarter.

Notable Statements:

Improved profitability in 2Q compared to 1Q due to lower disability claims and continued premium revenue growth.

Looking at acquisitions of group lines in the US. Objectives are to be larger and have more scale, perhaps even one of the top 10 carriers in the US.

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AIG:

AIG has modified their reporting segments and as a result some information is available about their group business (mostly American General and US Life business). This segment is called Group Life/Health and includes stop loss, life, dental, vision, STD, LTD, voluntary and travel assist. Results are not available by line.

Profit (Pretax Operating Income)

Group Life/Health profits for 2Q03 were \$29.5 million up from \$24.3 million in 2Q02.

EP/Sales:

Group Life/Health premiums for 2Q03 were \$279.6 million up from \$240.2 million in 2Q02.

Sales are not listed nor commented on.

Notable Statements:

In the Payroll Deduction market, AIG has been successful in foreign markets and is bringing that intellectual capital to the US to American General. We will target the small to medium size business with an AFLAC-like model. A full suite of products will be available by year end for both individual and group voluntary including Cancer, CI, AD&D and life. In '04 expect to see a lot more of AIG/American General.

GE ESG:

No detail is reported.

NWML:

As a mutual company, NWML does not have quarterly earnings releases.

Principal:

Profit (Net Income after tax after capital gains/losses):

Principal reports earnings by life (individual and group), health (individual and group), and disability (individual and group) as segments for earnings. This is a different basis than past report. Because these provide a better comparison for disability these are the earnings segments that will be used in this report and for the future.

Disability (ID, STD, and LTD) for 2Q03 was \$4 million compared to \$3.7 million for 2Q02. (Group disability STD and LTD represents about 57% of all disability premiums.)

Loss ratio for group disability in 2Q03 improved to 79.8% from 82.3% in the quarter a year ago.

ROE for all disability (ID, STD, & LTD) was reported at 6.2% up from 3.4% for the quarter a year ago.

Group Life loss ratio was 72.3% in 2Q03 compared to 71.9% in 2Q02.

EP/Sales:

Group disability (STD & LTD) premiums for 2Q03 were \$34.8 million up from \$26.7 million in 2Q02.

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Group disability sales were \$6.4 million for this quarter compared to \$6.2 million in the 2Q02.

Group life EP for 2Q03 was \$53.4 million compared to \$53.2 million in the quarter a year ago.

Group life sales were \$5 million for this quarter, down from \$7.6 million in 2Q02.

Notable Statements:

Principal will be making a push in growth markets (including group) through an enhanced distribution system and improved product offerings.

LTD was repriced in November of 2002 and this will take 18 months to 2 years to flow through the book.

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2Q03 Results Summary Versus 2Q02

| Company | Earnings (Segments) | Sales | EP |
|------------|--|---------------------------------------|-----------------------------------|
| UP | Down 43% (STD & LTD) | Up 44% (LTD) | Up 10% (LTD) |
| Hartford | Up 16% (All group) | Up 24% (LTD & STD) | Down 5% (LTD & STD) |
| CIGNA | Down 61% (All group, including medical, life - with disability “in line with expectations”) | NR* | Up 5% (LTD) |
| MetLife | Up 41% (Non-Medical lines – “disability loss ratio continued downward trend”) | NR* | Up 12% (LTD & SRD) |
| Standard | Up 44% (All group) | Down 14% (LTD) | Up 23% (LTD) |
| Prudential | Up 61% (All group – “group disability loss ratio was favorable”) | Down 12% (LTD, STD, LTC) | Up 11% (LTD, STD, LTC) |
| CNA | Up 500% (All group) | NR* | NA |
| Fortis | Up 19% (Fortis Benefits) | NR* | NR* |
| Aetna | Down 2% (Life, STD, LTD, LTC) | NR* | Up 5% (Life, STD, LTD, LTC) |
| RSL | Up 9% (LTD, STD, life, excess WC – LTD “steps to improve profit”) | Down 6% (LTD & STD) | Up 19% (LTD & STD) |
| JP | Flat (All group – disability results “excellent”) | Up 9% (All group) | Up 18% (All group) |
| Sun | Flat (All group - “results improved...conversion rates dampened reported numbers”) | Down 15% (LTD, STD, Stop- loss) | Up 2% (All group) |
| AIG | Up 21% (All group) | NR* | Up 16% (All group) |
| Principal | Up 8% (ID, STD, LTD – group loss ratio improved) | Up 3% (LTD & STD) | Up 30% (LTD & STD) |

* NR – Not Reported