



August 24, 2004

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 2004 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.

Due to the timing of several companies investor and analysts conference calls I was unable to listen in. This affected MetLife, Prudential, and Principal.

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

## Q2 2004 Earnings Releases & Conference Calls Summaries

### **UnumProvident (UP):**

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

Reported group disability (LTD & STD, both US and UK) profits of \$49.4 million in 2Q04 compared to \$47.7 million in 2Q03. Group Disability Benefit Ratio was 89.4% flat from 1Q04 and down from 90.7% in 2Q03. Improvement in incidence was attributed to shift in mix of business to more traditional white-collar business as well as shift away from large case.

Group Life and AD&D reported profits of \$58.6 million in 2Q04 compared to \$63.1 million reported for 2Q03. Life Benefit Ratio for 2Q04 was reported as 77.2%.

EP/Sales (Sales on submitted basis):

LTD premium was \$630.5 million for 2Q04 up from \$603.2 million for 2Q03.

STD premium was \$155.9 million for 2Q04 compared to \$159 million in 2Q03.

Group Life & AD&D premium was \$440.4 million for 2Q04 up from \$435.2 million in 2Q03. They are no longer breaking out AD&D premium.

LTD sales were \$73.3 million for 2Q04 compared to \$107.9 million in 2Q03. The decline was attributed to the competitive environment, negative publicity (ratings downgrades), and maintaining pricing discipline.

STD fully insured sales were \$16.9 million in 2Q04 compared to \$26.1 million for 2Q03.

Life sales were \$67.8 million in 2Q04 compared to \$74.9 million in 2Q03.

AD&D sales were \$3.6 million in 2Q04 compared to \$5.3 million in 2Q03.

Notable statements:

Rate increases on renewals have averaged just under 15%.

Persistency at 84.9% better than anticipated and in the under 2000 lives segment actually better than last year.

70% of sales coming from "target markets" where there was a 15% growth in sales. Target markets are a mix of industry and size and can expect prices to be lower in these segments due to better profitability.

Some indication that pricing in hardening in the market.

Not seeing any unusual rep turnover.

### **Hartford:**

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

Overall Group (Life, STD, & LTD) net income was \$48 million in 2Q04 compared to \$35 million in 2Q03. The CNA acquisition is the main reason.

Overall group loss ratio was 76.2% for 2Q04 down from a loss ratio of 78.7% in 2Q03.

EP/Sales:

Disability sales (LTD & STD) were \$35 million for 2Q04 compared to \$51 million in 2Q03.

Life sales were \$58 million in 2Q04, up from \$30 million in 2Q03.

Disability premiums were \$383 million for 2Q04 up from \$237 million in 2Q03.

Group Life premiums were \$412 million in 2Q04, up from \$240 million in 2Q03.

Premiums reflect the effect of the CNA acquisition.

## Q2 2004 Earnings Releases & Conference Calls Summaries

### Notable statements:

- ☞☞ Retention (persistence exceeding expectations in both CNA and Hartford blocks as cases are integrated into Hartford. distributions efforts.
- ☞☞ Strong underwriting and disciplined claims management were key drivers in performance along with earnings from CNA.
- ☞☞ The market is quite competitive, not unexpectedly. LTD is slightly more competitive than life.

### **CIGNA:**

Profit (Income from continuing operations, excluding realized investment gains/losses, after taxes):

- ☞☞ Group Disability and Life earnings were \$48 million for 2Q04 up from the \$39 million reported for 2Q03. CIGNA is now including Disability and Workers Compensation Case Management in this segment. This contributed approximately \$5 million to the segment reported results.

### EP/Sales:

- ☞☞ Disability premiums (presumably primarily LTD) for 2Q04 were \$151 million up over 2Q03 premiums of \$143 million. Good results (sales?) in the middle market are contributing to this growth.
- ☞☞ Life premiums increased to \$263 million for 2Q04 compared to \$216 million in 2Q03.
- ☞☞ Sales results were not disclosed

### Notable statements:

- ☞☞ Focused on improving membership, but will maintain price and underwriting discipline.
- ☞☞ Strong earnings growth in disability and life. Life results driven by improved mortality and lower expenses.

### **MetLife:**

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

- ☞☞ Non-medical profit (LTD, STD, Dental, and LTC) for 2Q04 was \$52 million compared to \$61 million for 2Q03. The decline was attributable to a decline in underwriting margins in dental and individual disability.
- ☞☞ Group disability loss ratio was 92.7% in 2Q04, compared to 96.5% for 2Q03.
- ☞☞ Group life earned \$130 million in 2Q04 compared to \$79 million in 2Q03. The loss ratio was 93.3% in 2Q04 compared to 93.2% in 2Q03. Life results included \$31 million after-tax benefit from a reduction of a previously established premium tax liability.

### EP/Sales:

- ☞☞ Group disability premiums for 2Q04 were \$250 million up from \$238 million in 2Q03.
- ☞☞ Group life grew to \$1,244 million in 2Q04 up from \$1,175 million in 2Q03.
- ☞☞ MetLife does not disclose sales numbers in these lines.

### Notable Statements:

- ☞☞ The conference call was missed as MetLife only retains listen-in ability for a limited period of time during which time I was on vacation.

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### **Standard:**

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

Employee Benefits profit was \$62.9 million for 2Q04 up from \$42.3 million in 2Q03.

Favorable large case experience was a big contributor to the increase in income.

Included in this quarter's results is a reserve release of \$3 million.

EP/Sales:

LTD sales for 2Q04 were \$12.1 million compared to 2Q03's \$13.6 million.

EP for LTD in 2Q04 was \$175.7 million up from \$173.2 in 2Q03.

STD sales were \$8.4 million for 2Q04 up from \$7.7 million in 2Q03.

STD EP grew to \$42.8 million in 2Q04 from \$40.3 million in 2Q03.

Life and AD&D sales were \$12.8 million in 2Q04 compared to \$20.6 million in 2Q03.

Life and AD&D premium was \$152.1 million in 2Q04, up from \$151.7 million in 2Q03.

Notable Statements:

Implemented pricing actions to add flexibility to the most profitable segments.

Seeing firmer pricing in the mid-to-large case market. Less variability among carriers.

Good loss ratio in quarter (77%) due to favorable experience in large case market.

### **Prudential:**

Profit (Adjusted operating income before taxes):

Group Insurance (life, LTD, STC and LTC) profit for Employee Benefits was \$46 million in 2Q04 compared to \$58 million in 2Q03. Less favorable disability claims experience was cited as the reason.

Disability loss ratio was 95.2% for 2Q04 compared to 87.0% in 2Q03.

Life loss ratio for was 88.2% compared to 89.9% in 2Q03.

EP/Sales:

Group disability (LTD, STD, & LTC) earned premium was \$165 million in 2Q04 compared to \$162 million in 2Q03.

Group disability sales were \$15 million in 2Q04 compared to \$29 million in 2Q03.

Group Life EP was \$634 million in 2Q04 compared to \$591 million in 2Q03.

Group Life sales were \$34 million for 2Q04 compared to \$35 million 2Q03.

Notable Statements:

The conference call was missed as Pru only retains listen-in ability for a limited period of time during which time I was on vacation.

## Q2 2004 Earnings Releases & Conference Calls Summaries

### **Assurant:**

Profit (Net operating income after tax, before net realized gains and losses and the after tax effect of one time events.):

Assurant Employee Benefits (group lines) had a profit of \$14 million in 2Q04 compared to \$18.4 million in 2Q03. Overall loss ratio was 74% this quarter compared to 73.7% a year ago.

#### EP/Sales:

Overall group EP was \$309.1 million for 2Q04 compared to \$320.7 million in 2Q03.

Group disability (STD & LTD) EP was \$115 million in 2Q04 compared to \$101 million in 1Q03.

Group life EP was \$64 million in 2Q04 compared to \$68 million in 2Q03.

Sales data was not released.

#### Notable Statements:

Seeing signs that several other companies in the industry are experiencing underwriting discipline, and several rate increases have been announced.

An increase in disability premiums offset by lower premiums in Dental and group Life.

Have increased the number of disability insurance distribution arrangements (DRMS).

### **Aetna:**

Profit (Operating earnings excluding 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 \$27.2 million in 2Q04 compared to \$35.4 million in 2Q03. The reason given was “unfavorable prior period mortality development of \$7 million, after tax, primarily related to the first quarter 2004, in term life insurance products. This mortality experience is consistent with first quarter national data and has subsequently returned to expected levels”.

#### EP/Sales:

2Q04 premiums for group were \$460 million compared to \$457.7 million in 2Q03. Aetna does not release sales numbers or premiums by line. However, Aetna does release member numbers. For 2Q04, Group Life membership was 10,158,000 up from 9,381,000 in 2Q03. LTD lives were 2,223,000 up from 2,118,000 at the same time last year.

#### Notable Statements:

None noted.

### **Liberty:**

Liberty has changed its organization to a Mutual Holding Company. However, it has not issued stock and thus is still privately held. As such, it has no obligation to produce quarterly earning statements or investor conference calls. However, it has begun both. They state the call is primarily for bondholders. Not much useful information (for LTD) was included. Liberty did report EP for group disability of \$64 million in 2Q04 compared to \$66 million in 2Q03.

**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 2Q04 was \$39.4 million up from \$33.5 million in 2Q03.

Group loss ratio was 70.3% for 2Q04 compared to 68.7% in 2Q03.

EP/Sales:

Disability premium, mostly LTD, was \$69.7 million for 2Q04 up from \$57.1 million in 2Q03.

Sales of disability in 2Q04 were \$19.1 million up from \$16.8 million in 2Q03.

Life EP was \$63.9 million in 2Q04 up from \$59.2 million in 2Q03.

Life sales were \$15.9 million up from \$12.7 million in 2Q03.

Notable Statements:

Seeing more rational competition as a result of UnumProvident trying to raise prices.

Quotes up 16% in quarter, targeting "virgin accounts" that are small case. This is why small case is more profitable (less price sensitive as first time buyers).

Higher IBNR in LTD as a result of change in reinsurance arrangement.

**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 for 2Q04 was \$19.7 million up from \$12.5 million in 2Q03.

Approximately \$5 million was due to Canada Life business. By line profits were:

Life - \$8.3 million compared to \$4.2 million in 2Q03.

Disability - \$10.4 million compared to \$7.1 million in 2Q03.

Overall loss ratio for all Benefit Partner lines was 73.2% for 2Q04 compared to 78.5% in 2Q03. By line loss ration was:

Life - 73% compared to 78.5% in 2Q03.

Disability - 71.5% compared to 69.7% in 2Q03.

EP/Sales:

Overall group sales were \$48.1 million for 2Q04 up from \$39.8 million in 2Q03.

Sales by line were not disclosed.

Overall group premium was \$307.7 million in 2Q04 compared to \$191.3 million in 2Q03. Excluding Canada Life, premium grew 19% 1Q04 compared to 2Q03.

Premium by line was not disclosed.

Notable Statements:

Rates were increased 6% in 2003 to offset lower discount rates.

LTD non-commission expenses are 22.4% lower than industry averages according to an industry study.

Total rep count is now 109 with 130 as the target.

Due to lower expenses, conservative plan designs and better risk management JP has much better returns than industry averages:

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	2001	2002	2003	2004 (6 mo)
JP's LTD	17.4%	12.9%	12.4%	8.7%
Industry LTD	3.9%	4.4%	3.6%	
JP's STD	2.2%	3.7%	6.2%	8.5%
Industry STD	-1.2%	-1%	.1%	

**Sun:** (All numbers were reported in Canadian dollars except where noted.)

Profit (Net income after tax):

☞☞US Group Life & Health (LTD, STD, Stop Loss and life) earned \$19 million in 2Q04 compared to \$12 million in 2Q03. Favorable claims experience caused the improvement in earnings.

EP/Sales:

☞☞GL&H premiums for 2Q04 were \$246 million compared to \$230 million in 2Q03.

☞☞Sales of health (disability and stop-loss) were \$43 million for 2Q04 compared to \$38 million in 2Q03.

☞☞Life sales were \$30 million for 2Q04 compared to \$18 million in 2Q03.

Notable Statements:

☞☞New sales offices were opened in Cincinnati, Ohio, Pittsburgh, Pennsylvania, Rochester, New York, and Portland, Maine.

### **AIG:**

AIG, being so large, does not provide information at the product level. The lump all group into Group Life/Health that includes stop loss, life, dental, vision, STD, LTD, voluntary and travel assist.

Profit (Pretax Operating Income)

☞☞Group Life/Health profits for 2Q04 were \$19.2 million down from \$29.5 million in 2Q03.

EP/Sales:

☞☞Group Life/Health premiums for 2Q04 were \$282.2 million up from \$271.1 million in 2Q03.

☞☞Sales are not listed nor commented on.

Notable Statements:

☞☞Group was weak in the quarter in part because we did not want to write several large risks where companies (competitors) were underpricing them.

☞☞See a big opportunity in group especially if tied to (other lines).

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### **Genworth (Formerly GE ESG):**

It was hoped that after the Genworth IPO more information would be available than GE had previously released. Genworth reports its group business under its Protection Segment. In the Protection Segment, Group is broken out as a whole. According to Genworth: "Our life and health insurance offering includes group non-medical insurance products, such as dental, vision, term life and disability insurance; group medical products, such as fully insured medical and stop loss insurance, together with claims administrative services and group and individual voluntary life and health insurance". Group insurance is about 15% of the Protection Segment's premium and about 5% of Genworth's total revenue as measured in 2Q04.

Profit (After tax net earnings from continuing operations, excluding after-tax net realized investment gains and losses):

Net earnings for 2Q04 were \$8 million compared to \$12 million in 2Q03. The reason for the decline was some non-recurring items in 2Q03 numbers. Taking them out, results were flat.

#### EP/Sales:

EP for 2Q04 was \$153 million flat from last year. Overall group sales for 2Q04 were \$43 million up from \$37 million in 2Q03.

#### Notable Statements:

Genworth stated its target market is small Group Life & Health customers, but did not further define.

Genworth is in a growth mode using targeted growth.

Earnings have been stabilized and now repositioning for "foundation building".

### **NWML:**

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

### **Principal:**

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

Principal changed reporting segments. Group life, disability (STD & LTD) dental, vision, and ID are reported as "Specialty Benefits".

Specialty Benefits reported net income of \$12.3 million for 2Q04 compared to \$11.9 million in 2Q03. Group disability (STD, and LTD) and group life represent 48% of premiums in this segment.

Loss ratio for group disability in 2Q04 was 87.6% compared to 79.8% in 2Q03. A single large case was cited as being responsible for the bulk of this increase.

Group Life loss ratio was 69.6% in 2Q04 compared to 72.3% in 2Q03.

#### EP/Sales:

Group disability (STD & LTD) premiums were \$41.3 million in 2Q04 up from \$34.8 million in 2Q03.

Group disability sales were \$8.8 million for 2Q04 compared to \$6.4 million in 2Q03.

Group life EP was \$57.8 million in 2Q04 up from \$53.4 million in 2Q03.

Group life sales were \$6.7 million for 2Q04 compared to \$5 million in 2Q03.

#### Notable Statements:

The conference call was missed as Principal only retains listen-in ability for a limited period of time during which time I was on vacation.

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### 2Q04 Results Summary Versus 2Q03

Company	Earnings (Segments)	Sales	EP
UP	Up 3% (STD & LTD – US&UK)	Down 32% (LTD)	Up 4% (LTD)
Hartford	Up 37% (All group)	Down 31% (LTD & STD)	Up 61% (Due to CNA) (LTD & STD)
CIGNA	Up 23% (Disability & Life)	NR*	Up 5% (LTD & STD)
MetLife	Down 15% (Non-Medical lines)	NR*	Up 5% (LTD & STD)
Standard	Up 49% (All group)	Down 11% (LTD)	Up 1% (LTD)
Prudential	Down 20% (All group)	Down 48% (LTD, STD, LTC)	Up 1% (LTD, STD, LTC)
Assurant	Down 24% (All group)	NR*	Up 14% (LTD & STD)
Aetna	Down 23% (Life, STD, LTD, LTC)	NR*	Flat (Life, STD, LTD, LTC)
Liberty	NR*	NR*	Down 3% (Disability)
RSL	Up 18% (LTD, STD, life, excess WC)	Up 14% (LTD & STD)	Up 22% (LTD & STD)
JP	Up 46% (STD & LTD)	Up 21% (All group)	Up 19% (All group) (without CL)
Sun	Up 58% (All group)	Up 13% (LTD, STD, Stop- loss)	Up 7% (All group)
AIG	Down 34% (All group)	NR*	Up 4% (All group)
Genworth	Down 33% (All Group)	Up 37% (All Group)	Flat (All Group)
Principal	Up 3% (group STD, LTD and life)	Up 37% (LTD & STD)	Up 8% (LTD & STD)

\* NR – Not Reported

In general companies who commented on the competitive pricing environment mentioned continued discipline in the market. Results were especially mixed this quarter, with several companies experiencing large drops in profits (MetLife, Prudential, Assurant, Aetna, Genworth, and AIG) and sales (UnumProvident, Hartford, Prudential, and Standard). Large increases in profits were reported as well (CIGNA, Standard, RSL, JP, and Sun) as well as sales (RSL, JP, Sun, Genworth, and Principal).