

November 18, 2002

Dear Smith Group Client:

We continue our service of providing competitive information by releasing the following information. This report is based upon insurers' 3<sup>rd</sup> quarter 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@smithgroupe.com](mailto:tkirner@smithgroupe.com)) to discuss the material further.

## 3Q02 Earnings Releases & Conference Calls Summaries

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

#### Profit:

Reported an increase in group disability (LTD & STD) profit from \$79.1 million 3Q01 to \$85.4 million 3Q02. However, 3Q01 included \$7.3 million of 9/11 losses, so excluding effects of 9/11, earnings were down \$1 million. This was due to a decline in STD earnings and partially offset by improved results in LTD.

Life profits were up.

#### EP/Sales:

Premium income (\$731.7 million) for disability grew 7% (STD and LTD both increased 7%), while Group Life premium (\$364.6 million) grew 4%.

LTD sales were \$70.4 million vs. \$68.9million a year ago for the 3Q.

STD fully insured sales were down – \$14.8 million 2Q02 vs. \$32.9 3Q01 – continuing the move from fully insured to ASO. ASO premium equivalents were \$21.4 up from \$13.6 in 3Q01.

Life sales were down as planned with \$47.7 million in 3Q02 versus 102.2 in 3Q01.

#### Notable statements:

- ?? Media attention noted, nevertheless brokers and client s remain unperturbed.
- ?? Renewal pricing helping to offset a difficult environment.
- ?? Managing growth selectively until better opportunities emerge.
- ?? Expect 4Q profits to be flat as well as for 2003 until the economy recovers.
- ?? Capital not a constraint on growth.

### **Hartford:**

#### Profit:

Overall Group net income grew to \$34 million from \$26 million in the year ago quarter.

#### EP/Sales:

Group sales were down to \$88 million in the quarter compared to \$110 million in group for 3Q01. Disability sales (LTD & STD) were flat at \$36 million 3Q02/3Q01. Life sales were \$33 million vs. \$62 million a year ago. Overall fully insured group premiums grew 12% to \$570 million (\$237 disability and \$240 life).

#### Notable statements:

- ?? Challenging sales environment, especially in large case for both disability and life.
- ?? Loss ratio improved due to underwriting actions and claims management.

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### **CIGNA:**

#### **Profit:**

After tax operating income for Employee Health, Life and Disability operations declined to \$163 million vs. \$209 million a year ago. The Indemnity segment that includes indemnity medical, disability and life declined to \$33 million from \$100 million. The primary reasons given are higher spending to improve service, technology investment, and poor claim experience in indemnity medical. Group life experience improved.

#### **EP/Sales:**

LTD premiums were down 14% to \$107 million from \$125 million last year. Life premiums declined 8% to \$358 million from 3Q01 of \$388 million. This is the result of rate and underwriting actions.

#### **Notable statements:**

- ?? Execution problems caused an over \$1 billion net after tax non-recurring charge.
- ?? No earnings growth is forecast for 2003, but expect growth in 2004.
- ?? Other employee benefits (disability and life) continue to achieve earnings in line with expectations.

### **MetLife:**

#### **Profit:**

Non-medical was \$47 million compared to \$47 million loss a year ago. Group disability loss ratio was 97.5%, down from 114.8% a year ago. Group life earned \$84 million compared to an operating loss in 3Q01 of \$16 million.

#### **EP/Sales:**

Group disability premiums were \$210 million, up from \$180 a year ago. Group life grew to \$1,145 million up from \$1,105 million in the year ago quarter.

#### **Notable Statements:**

- ?? The Institutional Segment (which includes disability and life) achieved good results through good expense, interest, and underwriting results.
- ?? Group insurance premiums increased as a result of higher sales in life, dental, disability and long term care.

## 3Q02 Earnings Releases & Conference Calls Summaries

### **Standard:**

#### Profit:

Employee Benefits pre-tax operating income was \$36.4 million for 3Q02 up from \$30.5 a year ago.

#### EP/Sales:

LTD sales for the quarter were \$18.1 million flat from last year. EP for LTD was \$140.2 million up from \$129.8 a year ago. STD sales were \$8.6 million flat year over year. STD EP grew to \$36.8 million from \$30.9 in 3Q01. Life sales were \$24.7 million up from \$23.2 in 3Q01. Life premium was \$122.9 from \$108.3.

#### Notable Statements:

- ?? The LTD reserve discount rate was reduced 25 basis points to 5.75% for new claims.
- ?? LTD benefit ratio was 81.1% better than target of 82-84%.
- ?? Smaller cases getting more price competitive.
- ?? Medical inflation and employer profitability hold down new sales.

### **Prudential:**

#### Profit:

Group Insurance operating income before taxes for Employee Benefits was \$30 million up from a \$7 million loss a year ago (9/11 related). A \$19 million disability reserve release was partially offset by poor disability claim activity. Disability loss ratio was up to 99.2% from 91.8% in 3Q01. Life loss ratio was down to 93.3% from 96.6% in the year ago quarter.

#### EP/Sales:

Premiums for Employee Benefits were \$679 million up from \$658 a year ago. Group disability sales in the quarter were \$25 million down from \$33 million a year ago. Group Life sales were \$36 million down from \$64 million 3Q01. Persistency for life was 95%.

#### Notable statements:

- ?? Adverse claims in disability were an aberration.
- ?? Larger life cases are more profitable for Prudential than smaller cases.
- ?? Being more selective on life rate increases with smaller cases getting the largest increases.

## 3Q02 Earnings Releases & Conference Calls Summaries

### **CNA:**

#### **Profit:**

Net operating income for Group was \$25 million, up from a loss of \$19 million in 3Q01 that was due to 9/11 related losses. Adjusted 3Q01 would have been a gain of \$16 million. YTD loss ratio was 87.7% down from 91.9% for the same period last year.

#### **EP/Sales:**

EP was \$292 million vs. \$906 last year in 3Q. The loss of the National Postal Mail Handlers contract is the reason for the decline. EP without this contract would have been \$294 million in 3Q01.

#### **Notable statements:**

- ?? Strong group disability and life results helped.
- ?? Incidence in disability was up, but terminations helped.
- ?? Small case reps in the field contributing to strong group sales.
- ?? CNA is a disciplined participant in the market.

### **Fortis:**

Reports 22 November.

### **Aetna:**

#### **Profit:**

Group Insurance (life, Disability and LTC) operating earnings were \$38.2 million compared to \$41 last year in 3Q due to increased expenses.

#### **EP/Sales:**

LTD Premiums were \$74.3 million versus \$62.5 a year ago. Life EP grew to \$270.6 million from \$266.8 a year ago, a 1.4% increase.

#### **Notable Statements:**

- ?? Aetna expects further layoffs.

### **Liberty**

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

## 3Q02 Earnings Releases & Conference Calls Summaries

### **Reliance Standard Life (RSL):**

#### Profit:

Operating income on Group improved to \$31.4 million for the quarter up from \$27.2 million a year ago.

#### EP/Sales:

Disability premium, mostly LTD, premium was \$49.6 million compared to \$40.9 million a year ago. Sales of disability were \$14 million up from \$12.3 million last year. Life EP was \$53.3 million from \$43.4 in 3Q01. Life sales were \$14.5 million up from \$9 million in 3Q01.

#### Notable Statements:

- ?? No up tick in claims on the third quarter.
- ?? Will look at reserve discount rate at the end of the year, but have margin in the rates.
- ?? Seeing 4 and 5 year rate guarantees from larger carriers in large case.
- ?? Still adding reps to the sales force.

### **Guardian**

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

### **Jefferson Pilot (JP):**

#### Profit:

Benefit Partners (old Guarantee Life group, includes life, disability and dental) reported results of \$9.2 million down from \$12 million the year ago quarter. Higher loss ratios in life and disability offset somewhat by improved STD are the cause. Overall loss ratio increased to 76.1% from 71.3% in the year ago quarter.

#### EP/Sales:

EP was \$165 million up from \$142.6. Sales were \$38.3 million compared to \$40 million in 3Q01.

#### Notable Statements:

- ?? JP is “all over these issues” (adverse results at Benefit Partners).
- ?? Increased incidence plus seeing “lots” of reopened LTD claims.
- ?? Adhering to pricing, careful risk selection and good claims management.

## 3Q02 Earnings Releases & Conference Calls Summaries

### **Sun:**

#### **Profit:**

Group Life & Health earned \$7 million in 3Q02 compared to \$11 million in 2Q01 primarily due to adverse mortality.

#### **EP/Sales:**

GL&H premiums were \$247 million up from \$221 million in the year ago quarter. Sales of health (disability and stop-loss) were \$31 million down from \$44 in 3Q01. Life sales were \$24 million compared to sales the same period last year of \$21 million.

#### **Notable Statements:**

- ?? Competitive circumstances in the US are to blame for lower sales.
- ?? Adding new reps and offices to group distribution.

### **AIG:**

No detail is reported.

### **GE ESG:**

No detail is reported.

### **NWML:**

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

### **Principal:**

#### **Profit:**

Group Life and Health after tax operating earnings were \$30.5 million compared to \$41.7 million a year ago. Loss ratio for disability improved to 82.1% from 97.7% and life loss ratio improved to 71.9% from 73.4% in 3Q01

#### **EP/Sales:**

Disability premiums were \$30 million as compared to \$23.4 million in 3Q01. New disability sales were \$9.1 million up from \$3.1 in 3Q01. Life premiums were \$55.3 million compared to \$54.5 million in the year ago quarter. Life sales were \$6.9 million up from \$3.2 million in 3Q01.

#### **Notable Statements:**

- ?? Group disability premiums up due to strong 2001 sales.

### **ING:**

Reports 21 November.

## 3Q02 Earnings Releases & Conference Calls Summaries

### Canada Life:

#### Profit:

Group Life and Health lost \$4 compared to a loss of \$5 in 3Q01. Increases in new disability claims were the cause.

#### Sales/EP:

Group Life and Health premiums were \$140 million vs. \$114 a year ago.

#### Notable Statements:

- ?? Group Protection (group life and health) is one of Canada Life's priority lines.
- ?? Poorer LTD results are also partially as a result of lower recoveries.
- ?? No change in reserve basis (discount rate?) at this time.
- ?? Canada Life taking rate and underwriting actions (to improve results).

### Overall Observations :

The current environment continues to be commented on with same observations as 2Q:

- ?? Difficult investment markets
- ?? Difficult economy
- ?? Competitive pricing environment

Good results, as in 2Q, come from:

- ?? Disciplined underwriting
- ?? Disciplined pricing
- ?? Claims Management activities

Better Loss Ratio	Worse Loss Ratio	Better Incidence	Worse Incidence	Better Recoveries	Worse Recoveries
UnumProvident Hartford MetLife Standard Principal Aetna	Prudential JP		CNA Prudential JP Prudential	CNA	Canada Life

Companies were mixed in sales/growth expectations:

Signaling or stating growth	Signaling or stating little growth
UnumProvident MetLife CNA RSL Principal Canada Life	Hartford CIGNA Prudential JP Sun

