DEMUTUALIZATION OF LIFE INSURERS

COMMENTS ON THE PERFORMANCE OF DEMUTUALIZED LIFE INSURERS AND DISCUSSION OF THE FACTORS THAT HAVE AFFECTED THEIR FINANCIAL RESULTS

Presentation to the Institute of Actuaries of Japan
by
Daniel J. McCarthy, FSA, MAAA
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METHOD OF ANALYSIS

- Review of 20 companies in 5 countries that have fairly mature insurance markets
- Basis of Review:
  - Financial performance, from an investor’s point of view
  - My observations, and those of my colleagues, on actions and strategies of the companies, before and after their demutualization

THE COMPANIES AND THE COUNTRIES

<table>
<thead>
<tr>
<th>UNITED STATES</th>
<th>Allmerica, AmerUs, Equitable, John Hancock, MetLife, MONY, Phoenix, Principal, Provident, Prudential, StanCorp, UNUM</th>
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</thead>
<tbody>
<tr>
<td>CANADA</td>
<td>Manulife, Sun Life</td>
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<td>U.K.</td>
<td>AVIVA, Friends Provident, Standard Life</td>
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<tr>
<td>AUSTRALIA</td>
<td>AMP, National Mutual</td>
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<tr>
<td>SOUTH AFRICA</td>
<td>Old Mutual</td>
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COMPOUND ANNUAL INVESTOR RETURN
(through 12/31/07 or earlier acquisition)

- STRONG POSITIVE (15% or more): 11 companies
- WEAK POSITIVE (9% or less): Allmerica, MONY, UNUM
- NEGATIVE: AMP, AVIVA*, Friends Provident, Phoenix
- Not included: Standard Life (too new), Provident (no IPO)
  * Measured from CGNU merger in 2000
TIMING OF DEMUTUALIZATION

- Very few were "distress" situations, although several did need more capital.
- Sometimes, fast is best (example: MetLife).
- Sometimes, slow is best (example: Prudential).
- Timing can affect both policyholders and investors.
  (examples: Provident and Equitable).

STRATEGIC THEMES

- Often, best results occurred when strategic moves had been made before demutualization.
- Getting out of small or non-core lines of business is quite common.
- Having too much money to spend is not always a good thing.
- Very few companies have continued to sell traditional dividend-paying policies.
- Most (but not all) successful companies have become diversified financial services companies.

STRATEGIC THEMES (continued)

- Management of the ratings position (Moodys, S&P) is very important, but top ratings are NOT usually important.
- The top publicly held insurance companies in the U.S. tend to have ratings that are one to two steps below the top mutual companies.
- Management of the balance sheet (e.g., securitizing cash flows, reducing capital requirements) is much more important for public companies than for the top mutual companies.

DIFFERENCES BY COMPANY SIZE

- For the large companies, it seems essential to be international in order to achieve strong growth.
- For smaller companies, international is not as important – increasing market share in core lines of business can achieve growth.
- Some of the poorest performers have been medium-sized companies with no distinct niche. Demutualization did not improve their situation.
COMPANY ANALYSIS: MetLife

- DATE OF DEMUTUALIZATION: April 2000
- COMPANY CHARACTERISTICS:
  - LARGE LIFE INSURER WITH BOTH INDIVIDUAL AND INSTITUTIONAL BUSINESSES
  - HISTORICALLY, THE INDIVIDUAL BUSINESS WAS LOW TO MID MARKET
  - MAJOR REAL ESTATE INVESTOR
- ANNUAL INVESTOR RETURN SINCE IPO: 30%

COMPANY ANALYSIS: MetLife (continued)

- STRATEGIC ACTIONS PRIOR TO DEMUTUALIZATION:
  - ACQUIRED NEW ENGLAND LIFE (entry into upscale market)
  - ACQUIRED GENERAL AMERICAN LIFE (entry into reinsurance market)
  - DIVESTED GROUP MEDICAL BUSINESS
  - GREW GROUP DENTAL BUSINESS
- STRATEGIC ACTIONS SINCE DEMUTUALIZATION:
  - ESTABLISHED A BANK
  - BUILT INTERNATIONAL OPERATIONS
  - BECAME A MAJOR ADVERTIZER (Snoopy)

COMPANY ANALYSIS: MetLife (continued)

- STRATEGIC ACTIONS SINCE DEMUTUALIZATION:
  - EXPANDED INSURANCE BROKERAGE OPERATIONS
- FINANCIAL AND OPERATIONAL ACTIONS:
  - MAJOR COST-CUTTING (including sale of Home Office building)
  - REINSURED THE MORTALITY RISK IN THE "CLOSED BLOCK" (to reduce capital requirements)
- OTHER COMMENTS:
  - CONSISTENT GROWTH IN SALES AND EARNINGS
  - GROWTH IS CONTINUING UNDER NEW CEO

COMPANY ANALYSIS: UNUM

- DATE OF DEMUTUALIZATION: November 1986
- COMPANY CHARACTERISTICS:
  - MEDIUM-SIZED SPECIALTY INSURER (Disability Insurance)
  - SMALL PRESENCE IN MANY LINES OF BUSINESS
  - EXCELLENT FINANCIAL RESULTS PRIOR TO DEMUTUALIZATION
- ANNUAL INVESTOR RETURN SINCE IPO: 9%
COMPANY ANALYSIS: UNUM (continued)

- **STRATEGIC ACTIONS PRIOR TO DEMUTUALIZATION:**
  - STOPPED SELLING INDIVIDUAL LIFE INSURANCE
- **STRATEGIC ACTIONS SINCE DEMUTUALIZATION:**
  - SOLD OFF THE ANNUITY BUSINESS
  - EXITED THE REINSURANCE BUSINESS
  - PURCHASED A U.K. COMPANY (later sold it at a loss)
  - REDUCED (later stopped) SELLING INDIVIDUAL DISABILITY INSURANCE
  - MERGED WITH ANOTHER STOCK INSURER
  - EXPANDED THE SALE OF GROUP LIFE AND DISABILITY INSURANCE

FINANCIAL AND OPERATIONAL ACTIONS:

- INITIALLY, EXPANDED CORPORATE STAFF AND HEADQUARTERS, EXPECTING GROWTH
- LATER, REDUCED CORPORATE OPERATIONS

OTHER COMMENTS:

- BECAME INVOLVED IN MAJOR LITIGATION CONCERNING SETTLEMENT OF DISABILITY CLAIMS
- ALSO BECAME INVOLVED IN SECURITIES LITIGATION
- FINANCIAL RESULTS HAVE BEEN UP-AND-DOWN

COMPANY ANALYSIS: Old Mutual

- **DATE OF DEMUTUALIZATION:** July 1999
- **COMPANY CHARACTERISTICS:**
  - LARGEST MUTUAL LIFE INSURER IN AFRICA
  - OPERATIONS IN MANY AFRICAN COUNTRIES, OFTEN WITH SMALL POLICIES
- **ANNUAL INVESTOR RETURN SINCE IPO:** 15%
- **STRATEGIC ACTIONS PRIOR TO DEMUTUALIZATION:**
  - SOME CONSOLIDATION OF OPERATIONS BECAUSE OF FINANCIAL DIFFicultIES IN SOME COUNTRIES

COMPANY ANALYSIS: Old Mutual (continued)

- **STRATEGIC ACTIONS SINCE DEMUTUALIZATION:**
  - RETAINED THE NAME "OLD MUTUAL" AS ITS BRAND NAME
  - EXPANDED OUTSIDE AFRICA (especially U.K. and U.S.)
  - EXPANDED BEYOND INSURANCE
- **FINANCIAL AND OPERATIONAL ACTIONS:**
  - TRADING OF ITS STOCK ON THE LONDON EXCHANGE (as well as Johannesburg) AIDS ITS INTERNATIONAL FOCUS
- **OTHER COMMENTS:**
  - BASED ON ITS ORIGINS, A REMARKABLE SUCCESS STORY
COMPANY ANALYSIS: Manulife

- DATE OF DEMUTUALIZATION: September 1999
- COMPANY CHARACTERISTICS:
  - LARGEST MUTUAL LIFE INSURER IN CANADA
  - ALSO HAD MAJOR OPERATIONS IN THE U.S.
  - PRIMARY FOCUS WAS THE UPSCALE INDIVIDUAL MARKET
- ANNUAL INVESTOR RETURN SINCE IPO: 22%

COMPANY ANALYSIS: Manulife (continued)

- STRATEGIC ACTIONS PRIOR TO DEMUTUALIZATION:
  - CEASED OPERATIONS IN MANY COUNTRIES (U.K. and Caribbean countries)
  - ACQUIRED NORTH AMERICAN LIFE BY MERGER
  - CONVERTED NON-CANADA BRANCHES TO SUBSIDIARIES (to increase flexibility)
- STRATEGIC ACTIONS SINCE DEMUTUALIZATION:
  - ACQUIRED JOHN HANCOCK (largest acquisition made by a demutualized company)
  - EXPANDED INTERNATIONALLY BEYOND U.S.

COMPANY ANALYSIS: Manulife (continued)

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COMPANY ANALYSIS: Prudential

- DATE OF DEMUTUALIZATION: December 2001
- COMPANY CHARACTERISTICS:
  - LARGE LIFE INSURER WITH BOTH INDIVIDUAL AND INSTITUTIONAL BUSINESSES
  - HISTORICALLY, THE INDIVIDUAL BUSINESS WAS LOW TO MID MARKET
  - MAJOR REAL ESTATE INVESTOR
- ANNUAL INVESTOR RETURN SINCE IPO: 23%
COMPANY ANALYSIS: Prudential (continued)

- STRATEGIC ACTIONS PRIOR TO DEMUTUALIZATION:
  - ESTABLISHED OPERATIONS IN JAPAN
  - EXITED FROM THE GROUP MEDICAL BUSINESS
  - REDUCED SECURITIES BROKERAGE OPERATIONS

- STRATEGIC ACTIONS SINCE DEMUTUALIZATION:
  - ACQUIRED AN ANNUITY INSURER (Skandia)
  - ACQUIRED A LARGE BLOCK OF INSTITUTIONAL PENSION BUSINESS (from CIGNA)
  - EXPANDED OPERATIONS IN JAPAN
  - EXITED THE PROPERTY/CASUALTY BUSINESS

FINANCIAL AND OPERATIONAL ACTIONS:
- SECURITIZED CASH FLOWS FROM “CLOSED BLOCK”
- MAJOR COST-CUTTING

OTHER COMMENTS:
- PRUDENTIAL DELAYED ITS DEMUTUALIZATION UNTIL MAJOR ‘MARKET CONDUCT’ LITIGATION WAS CONCLUDED
- DESPITE THREE MAJOR PRE-DEMUTUALIZATION LOSSES (PruSecurities, Hurricane Andrew, market conduct) the company was solid financially at the time of demutualization

BRIEF ANALYSIS: Friends Provident

- Demutualized July 2001
- Medium-sized life insurer
- Annual investor return: -6%
- After negative stock performance in 2002, the company had reasonably successful operations and stock price movement through 2006. Management felt that the company needed to become larger. Efforts to acquire another company failed, and during this time – in 2007 – the stock price fell 25%.

BRIEF ANALYSIS: AVIVA

- Norwich Union merged (after demutualization) with CGNU in 2000, acquired AmerUs (United States) in 2006.
- Annual investor performance: -3%
- The company has, since the CGNU merger, struggled to expand operations. Until the acquisition of AmerUs, its US operations were quite small. It is unclear whether this acquisition and other recent actions will improve performance.
A SPECIAL CASE: AXA

- AXA has acquired an interest in three of the demutualized companies – Equitable, National Mutual, and Mony.
- In two cases – Equitable and National Mutual – AXA made an investment at the time of demutualization.
- Annual investor returns:

BRIEF ANALYSIS: Phoenix

- Demutualized in June 2000.
- Medium-sized life insurer with largely traditional business.
- Annual investor return: - 4%.
- Like many medium-sized companies with traditional businesses, the company has relatively high expenses and is weighed down by its pre-demutualization business. Companies of this type that cannot grow seem unable to obtain an acceptable ROE.

BRIEF ANALYSIS: AMP

- The largest life insurer in Australia.
- Annual investor return: - 3%.
- Investment difficulties after demutualization caused major losses.

BRIEF ANALYSIS: Standard Life

- Demutualized July 2006.
- For many years, Standard Life remained mutual and did not intend to convert. It then concluded that it did not have enough capital to continue to grow as a mutual life insurer.
- Annual investor return: 3%.
- Note that the period since demutualization is quite brief, and Standard has had positive performance during that period while competitors have been negative.
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<td>Demutualized March 2000</td>
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<td>Major Canadian insurer with very substantial operations in the U.S. and a major mutual fund operation (Massachusetts Financial).</td>
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<td>Annual investor return: 35%</td>
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<td>Has expanded operations beyond US-Canada, while building distribution of insurance and financial products in US-Canada as well.</td>
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<td>Future success will depend in part on operations beyond US and Canada.</td>
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<th>BRIEF ANALYSIS: Principal Financial</th>
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<td>30</td>
<td>Demutualized October 2001 (formed Mutual Holding Company two years before)</td>
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<td>A fast-growing company dominated by institutional pension business</td>
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<td>Annual investor return: 23%</td>
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<td>A post-demutualization effort to expand in Australia failed; Principal is now again expanding internationally.</td>
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<td>Unlike MetLife and Prudential, Principal has grown organically, with no major domestic acquisitions</td>
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<td>31</td>
<td>Demutualized January 2000</td>
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<td>Historically, like MetLife and Pru, a company with both individual and institutional businesses; in the years prior to demutualization, it had converted its individual business to a more up-market business</td>
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<td>The acquisition by Manulife in 2003 provided economies of scale and strengthened U.S. distribution</td>
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<td>Annual investor return (until acquisition): 24%</td>
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<tr>
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<th>BRIEF ANALYSIS: Stancorp</th>
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<tr>
<td>32</td>
<td>Demutualized April 1999</td>
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<td></td>
<td>Stancorp was a medium-sized company specializing in institutional life and disability business for small to mid-sized employers. Since demutualization, it has expanded this business while exiting from individual life insurance. Recently, it has expanded its corporate pension business.</td>
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<td>Annual investor return: 20%</td>
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<td>It illustrates that a medium-sized company with a special strength can build on it successfully.</td>
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BRIEF ANALYSIS: Allmerica

- Demutualized October 1995.
- Historically a medium-sized life insurer that also owned a controlling interest in a property-casualty company (Hanover). After demutualization, it expanded its annuity business but did not succeed financially. It has since exited that business. However, the property-casualty business has been moderately successful. It is now re-named Hanover.
- Annual investor return: 6%

BRIEF ANALYSIS: AmerUs

- Demutualized January 1997 (four years prior, it formed a mutual holding company and had an IPO in that form).
- AmerUs was a rather small company that had been formed by the merger of 3 mutual companies. It operated in the individual life insurance and annuity markets. After demutualization, it demutualized and acquired Indianapolis Life. A well-run company, it faced larger competitors, and was rumored to be for sale for some time until AVIVA acquired it in October 2006.
- Annual investor return (until acquired): 15%

BRIEF ANALYSIS: Provident Mutual

- Demutualized October 2002; sponsored (acquired) by Nationwide, so there was no IPO.
- Provident, having exited from its group insurance business, had a traditional individual life business, with strong variable life products.
- The Nationwide acquisition was keyed to the price of Nationwide stock. The transaction took place during a time of poor stock performance. Had it taken place 3 months earlier, Provident policyholders would have received 26% more value.

Thank you