Spring Meeting

- “Ways to mitigate and monitor risks associated with Private Equity or Hedge Fund ownership.”
- “Develop regulatory guidance…” and “more risk-focused system of regulation.”
- “High Yield Returns after intermediate exit timelines of 3 to 5 years.”

- RBC, Stress scenarios or Capital Maintenance Agreement
- Increase Form A disclosure
- Approval of material changes
- Trust account backstop
- Additional reporting
- Engage investment banker or other specialists

- Stroock Special Bulletin and Review of Banking and Financial Law Vol. 33
Has the increased flow of private equity into the insurance industry had any impact on your company’s strategies; and if yes, where?

- Product features
- Product pricing
- Investment allocations
- Distribution
- No impact
Private Equity Working Group
Start-ups

Challenges
- Management Team
  - Lack of Track Record
- Capital Raise (Sponsors)
- Business Model
- Need for Scale
- License
  - US Legal Entity, Off Shore or Europe
- ALM and Cash Flow testing
- High Risk and Medium risk assets
  - BA, DA and Other?
- Risk Management
- Transparency
- Short vs. Long View
- Complex Structure

Rating New Company Formations
- Five (5) year business plan
- Policy statements on underwriting, investments and risk management
- Thorough description of products offered
- Risk-adjusted capital at levels well above what would typically be expected of more mature company.
  - Initial Financing in place
  - Stress tested capitalization
  - Capital Commitment - Access and Ease
  - Capital Structure
  - Investor/Sponsor(s) Expectations
- Management – Strong alignment of Insurance and Asset Expertise.
- Not all interest sensitive reserves.
- US Legal Entity vs. Offshore
- Lower disintermediation risk
- Strong Risk Management
## Private Equity Working Group
### Rated Groups

### Concerns
- Significant Growth
  - Organic vs. M&A
- High Minimum Guarantees
- Higher than average High / Medium Risk Assets
  - BA (Alternative Assets) and DA
  - Asset Allocation Strategy
- Disintermediation risk
- Change from Reinsurance to Direct
- Risk Management
- Fee based business
- Level playing field
  - Statutory Accounting
  - Permitted Practices (AG 33 vs. AG43, Options amortized cost vs. mark to market)
- Fees, Dividends and Leverage
- Unrated Reinsurers

### Offsets
- Risk based Capital
  - Limited number of adjustments.
- Strong Liquidity
  - Surrender Protection
  - ALM and Cash Flow Testing Results
- US based entities
- Management has both insurance and investment expertise.
- Mix of Mortality risk and Interest sensitive risk.
- Operating Performance meets expectations.
- Capital commitment is strong
  - Track Record
  - Approval with few hurdles
- Risk Management - Monitor Risk Profile and Risk Capabilities.
- Quarterly and Annual Updates
 Owners

- Experienced Asset management team.
- Management buy out specialists.
- Natural extension of business model.
- Funds – Performance meets or exceeds benchmarks.
- Manage existing portfolio.
- Integrated asset and liability team
- Capital and tax efficiency
- Expected 15% ROC
- Capital markets based pricing of all embedded options.

Legal Entity

- Fixed Annuities provide, stable, long term low cost funding.
- Fixed annuities are no longer core.
- Active market for annuity business.
- Limited competition.
- ALM and Stress testing
L/H Benchmarking - ROE

ROE (%)

- Private Equity owned
- Individual Annuity
- Fixed Deferred Composite excl. PEO
- Fixed Deferred Composite incl. PEO
- Equity Indexed excl. PEO
- Equity Indexed incl. PEO
- Industry

8/18/2014
L/H Benchmarking - BCAR

Private Equity owned Composite excl. PEO: 199.0
Individual Annuity Composite excl. PEO: 206.0
Fixed Deferred Composite excl. PEO: 169.0
Fixed Deferred Composite incl. PEO: 169.0
Equity Indexed excl. PEO: 221.0
Equity Indexed incl. PEO: 205.0
Industry: 245.0

8/18/2014
### L/H Benchmarking – C&S to Liabilities

<table>
<thead>
<tr>
<th>Category</th>
<th>C&amp;S/Liabilities (%)</th>
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</thead>
<tbody>
<tr>
<td>Private Equity owned</td>
<td>6.9</td>
</tr>
<tr>
<td>Individual Annuity</td>
<td>10.1</td>
</tr>
<tr>
<td>Fixed Deferred Composite excl. PEO</td>
<td>10.1</td>
</tr>
<tr>
<td>Fixed Deferred Composite incl. PEO</td>
<td>9.2</td>
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<tr>
<td>Equity Indexed excl. PEO</td>
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<tr>
<td>Equity Indexed incl. PEO</td>
<td>8.0</td>
</tr>
<tr>
<td>Industry</td>
<td>17.0</td>
</tr>
</tbody>
</table>

**Graph:**
- C&S/Liabilities (%)
- Bars for different categories with values:
  - Private Equity owned: 6.9
  - Individual Annuity: 10.1
  - Fixed Deferred Composite excl. PEO: 10.1
  - Fixed Deferred Composite incl. PEO: 9.2
  - Equity Indexed excl. PEO: 8.4
  - Equity Indexed incl. PEO: 8.0
  - Industry: 17.0
L/H Benchmarking – High Risk to Total Capital

High Risk Assets/Total Capital (%)

- Private Equity owned Composite excl. PEO: 81.4%
- Individual Annuity Composite excl. PEO: 19.7%
- Fixed Deferred Composite excl. PEO: 20.5%
- Fixed Deferred Composite incl. PEO: 20.9%
- Equity Indexed excl. PEO: 16.9%
- Equity Indexed incl. PEO: 33.9%
- Industry: 9.3%
L/H Benchmarking – BA to Invested Assets

BA/Invested Assets (%)

- Private Equity owned
- Individual Annuity Composite excl. PEO
- Fixed Deferred Composite excl. PEO
- Fixed Deferred Composite incl. PEO
- Equity Indexed excl. PEO
- Equity Indexed incl. PEO
- Industry

Values:
- Private Equity owned: 3.2
- Individual Annuity Composite excl. PEO: 0.6
- Fixed Deferred Composite excl. PEO: 0.8
- Fixed Deferred Composite incl. PEO: 0.9
- Equity Indexed excl. PEO: 0.4
- Equity Indexed incl. PEO: 1.0
- Industry: 0.3

Date: 8/18/2014
L/H Benchmarking – Net Yield

Net Investment Yield

- Private Equity owned
- Individual Annuity Composite excl. PEO
- Fixed Deferred Composite excl. PEO
- Fixed Deferred Composite incl. PEO
- Equity Indexed excl. PEO
- Equity Indexed incl. PEO
- Industry

Net Investment Yield

- 5.5
- 5.0
- 4.8
- 5.1
- 6.4
- 5.9
- 4.5