



DISABILITY INCOME UPDATE

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June 22, 2012



Agenda



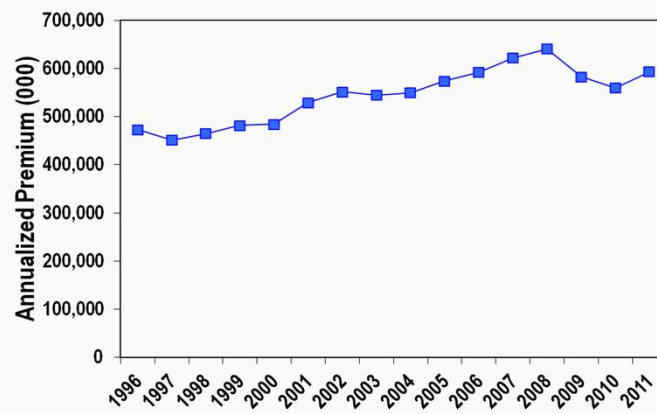
- Sales
- Claims
- Interest rates
- Profitability

SALES



Individual DI sales

Total Industry



Source: LIMRA Individual Disability Income Sales and Inforce surveys, LIMRA estimates

LIMRA US Individual Disability Income Insurance Sales
Fourth Quarter 2011



	Annualized Premium	Growth Rate 2011/2010	Policies	Growth Rate 2011/2010
GR	\$218M	3%	348K	1%
NC	\$301M	8%	149K	6%
Total	\$518M	6%	497K	3%
Multilife	\$156M	15%		

	Annualized Premium	Growth Rate 2011/2010	Policies	Growth Rate 2011/2010
Personal	\$499M	6%	489K	3%
BOE	\$14M	-8%	6K	-5%
Buy-Sell	\$5M	-9%	2K	-6%

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Expected Individual DI Premium Trend
Based on Munich Re Survey Results



- 83% of carriers expected premium growth over the next year
- 90% anticipated growth over the next five years
 - 50% expected growth of at least 20% during that time period
- No companies anticipated a decrease in overall premium at any duration
- Multi-life/GSI expecting larger growth
- Carriers are promoting this growth via specific initiatives

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	Annualized Premium	Growth Rate 2011/2010	Contracts/ Certs	Growth Rate 2011/2010
Fully Insured	\$1,330M	1%	42K/4.7M	3%/-1%
ASO/MPP	\$24M	-32%	25/78K	-29%/-47%
Total LTD	\$1,354M	0%	42K/4.7M	3%/-3%

	Annualized Premium	Growth Rate 2011/2010	Contracts/ Certs	Growth Rate 2011/2010
Fully Insured	\$688M	-3%	39K/2.8M	2%/-3%
ASO/MPP	\$345M	8%	1K/1.4M	2%/3%
Total STD	\$1,032M	1%	40K/4.2M	2%/-1%

CLAIMS



Morbidity: IDEC study

Munich RE 



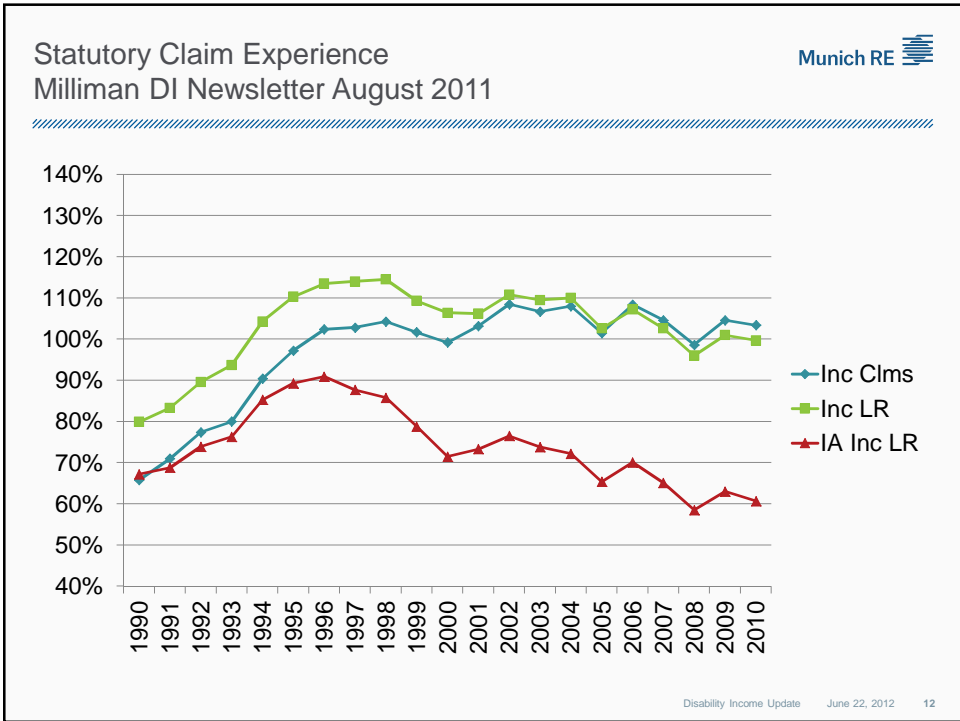
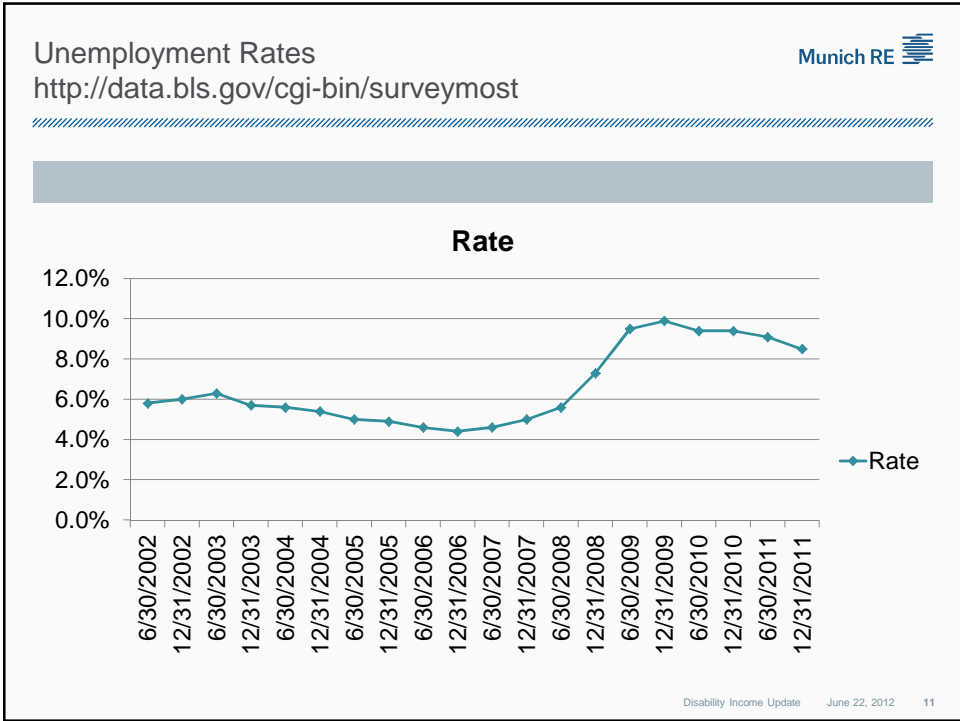
- Incidence A/E has improved with time for all CIDA occupation classes
- Incidence A/E has improved for each market segment
 - Individual
 - Multilife
 - Association
- Issue year tranche and duration experience
 - Duration 1 slightly higher for newer issues
 - Duration 3-4 slightly lower for newer issues

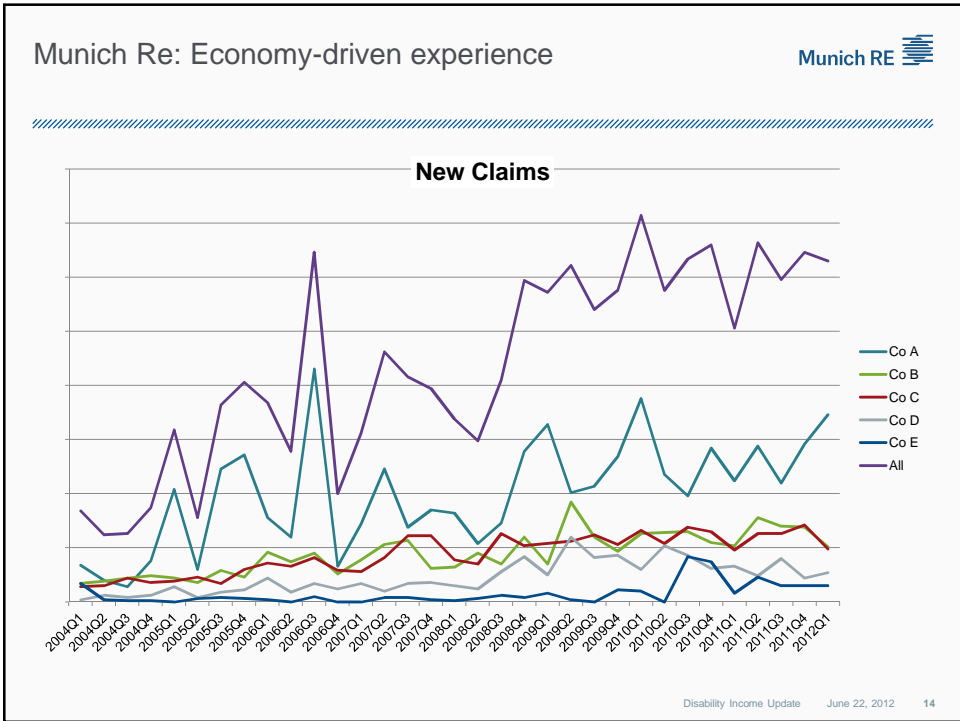
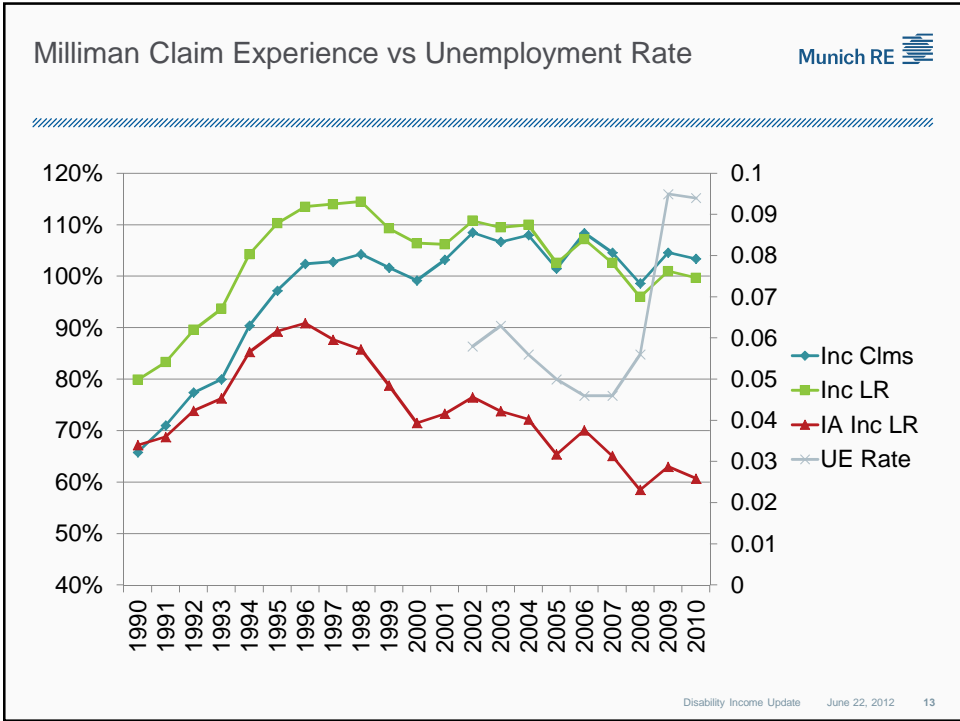
Morbidity: IDEC study

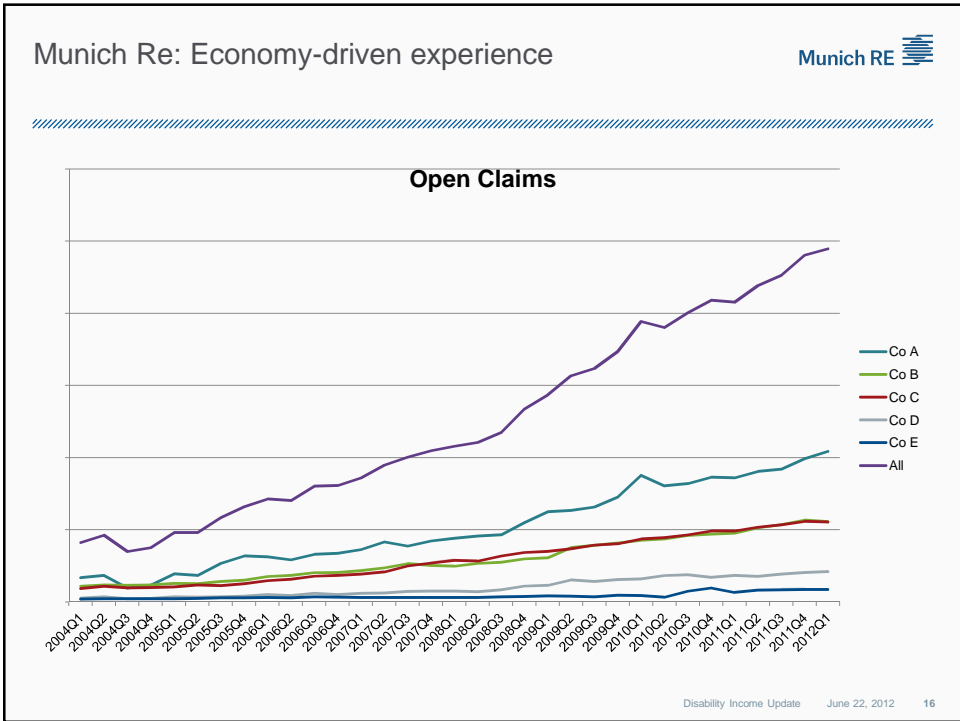
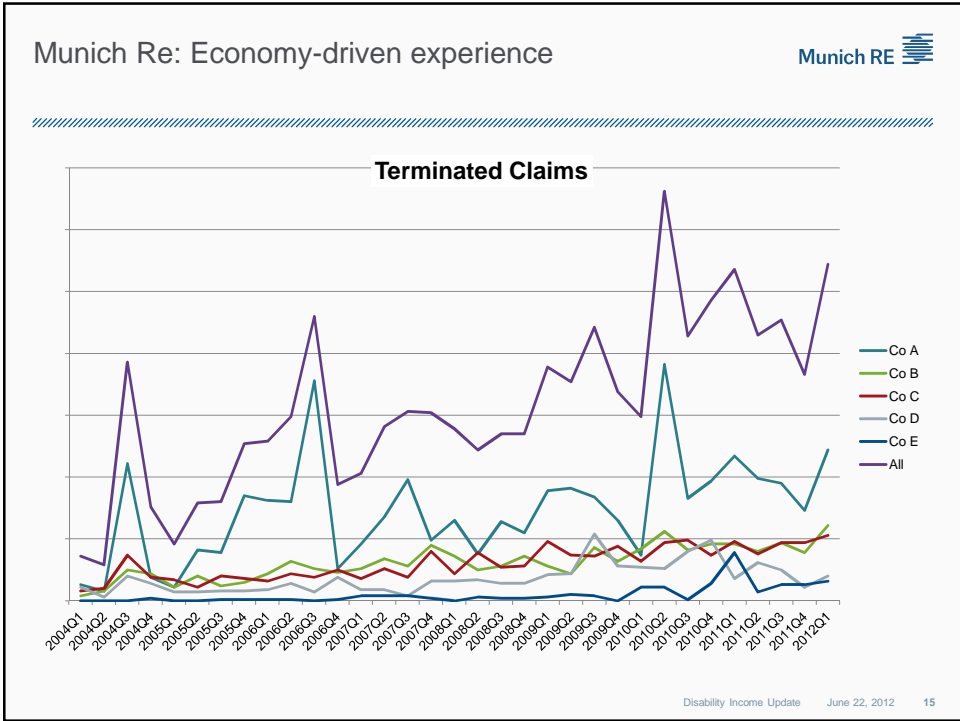
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- Termination rates during 2000-07 for the select durations (the first 10 years of disablement) are lower than during 1990-99 period because of lower incidence rates, over-insurance and possibly changing claim management techniques.
- Termination rates in the ultimate durations are lower than in the 1990-99 period due to improving mortality and more exposure (i.e., more credible data).








Recent Morbidity Experience
Munich Re Survey

Munich RE 

- 75% reported virtually no change in incidence or termination experience
- 25% reported slight increase in incidence
- 25% reported slight decrease in termination
- 70% reported conducting a morbidity study

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Impact on Premiums

Munich RE 

Premiums	
Base	100%
105% Incidence	104.8%
95% Terminations	104.7%

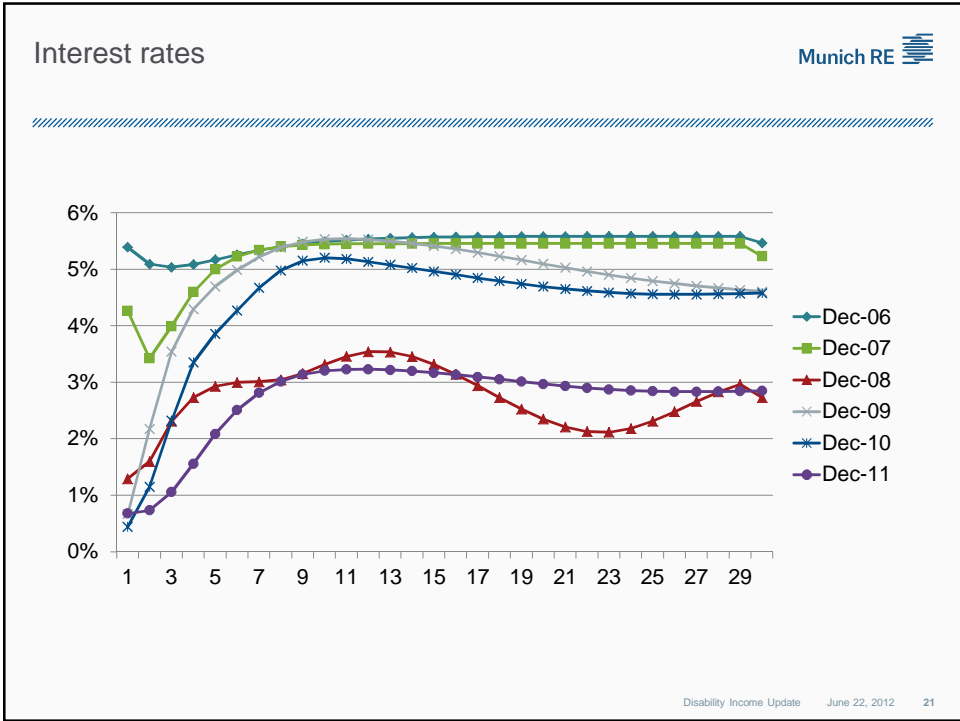
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INTEREST RATES



Impact of Interest Rates on DI

-
- Profits
 - Reserves




Impact on Interest Rates for Hypothetical IDI Block

Munich RE

Impact of Risk Free Rates on Profit Measures


	VNB	Stat IRR	ProfMarg
12/31/2006	1,000	10.0%	10.0%
12/31/2007	1,009	9.5%	9.8%
12/31/2008	329	6.5%	4.9%
12/31/2009	1,015	9.2%	9.5%
12/31/2010	933	8.4%	8.7%
12/31/2011	341	5.8%	4.9%

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Impact on Premiums Munich RE 

Premiums	
Base	100%
-50 bps	102.6%
-100 bps	105.4%

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Impact on Interest Rates on Hypothetical IFRS Reserves Munich RE 

	Active Life	Disabled Life
4.5%	2.03M	1.77M
4.0%	2.09M	1.82M
3.5%	2.16M	1.88M

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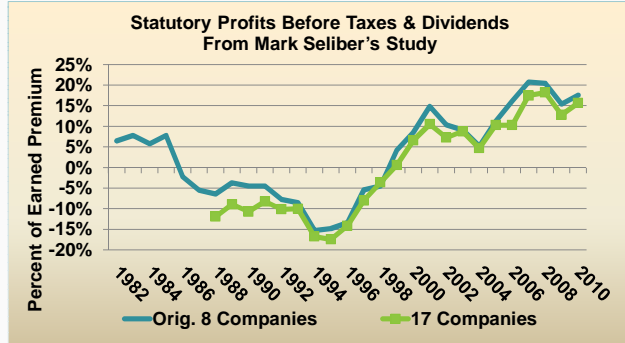
PROFITS



Restored & sustained profitability

The Return to Profitability:
1995 - present

- 1990's exit of insurers and consolidation
- Increased premiums
- Greater risk management discipline
 - Tighter underwriting
 - Investment in claims management
 - Better risk diversification
 - Restructure of product features and benefits to reduce risk
- Improved claim incidence



- Non-can profit margins have steadily increased since 1995 and are at historically high levels today for active insurers

- Upside remains since NII yield on mean reserves is still at historical lows
- Guaranteed Renewable business has shown less volatility

Impact on Profits

Munich RE 

	Stat IRR	Profit Margin	Premiums
Base	11.0%	5.7%	100%
-50 bps	9.3%	4.6%	102.6%
105% Incidence	7.7%	3.6%	104.8%
95% Terminations	7.8%	3.6%	104.7%
All of the above	#DIV/0!	-43.5%	112.6%
-100 bps	7.4%	3.5%	105.4%