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Capital Markets and Insurance

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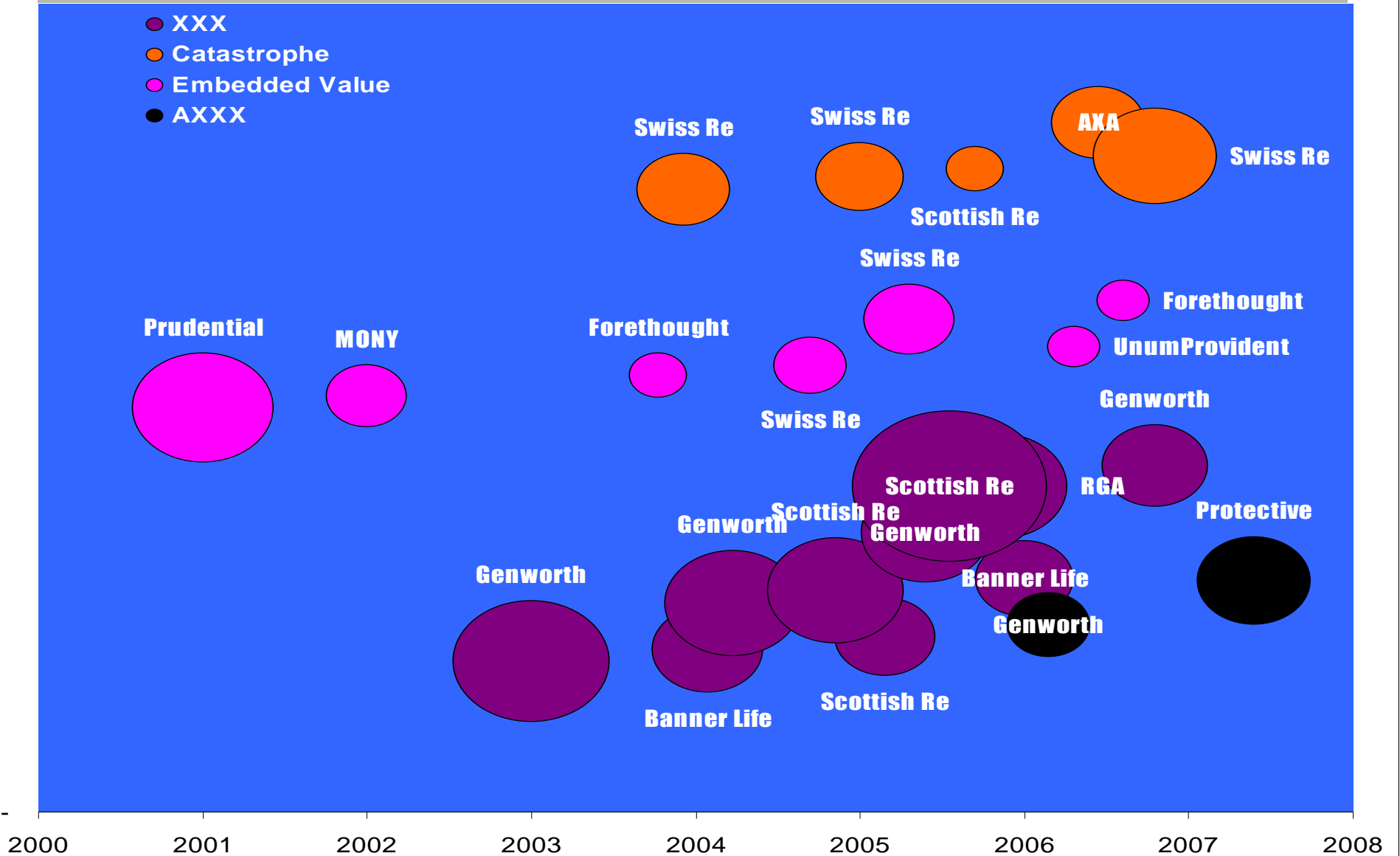
Overview

- **Market Activity**
- **Issuer Options**
- **Capital Management**
- **Arbitrage**
- **Impact of a Secondary Market**



Brief History of Insurance Securitizations

- XXX
- Catastrophe
- Embedded Value
- AXXX



Market Activity

- ➔ **\$22 billion pipeline (A)XXX and EV**
 - ➔ **Most now expected to push into 2009**

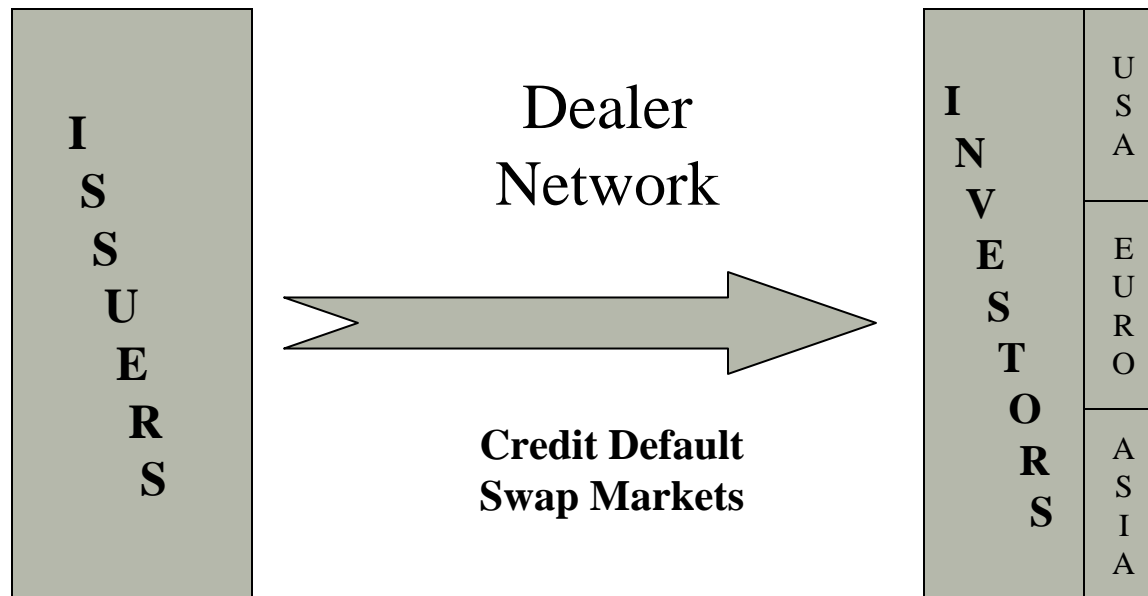
- ➔ **“True” securitizations in the form of longevity bonds**
 - ➔ **UBS referencing 250 SPIA contracts**
 - ➔ **DB referencing 500 individual lives**
 - ➔ **VIF or EV bonds in Europe**

- ➔ **Cat bonds**
 - ➔ **Munich Re \$100 million 5yr**

- ➔ **Moody’s updating their models**



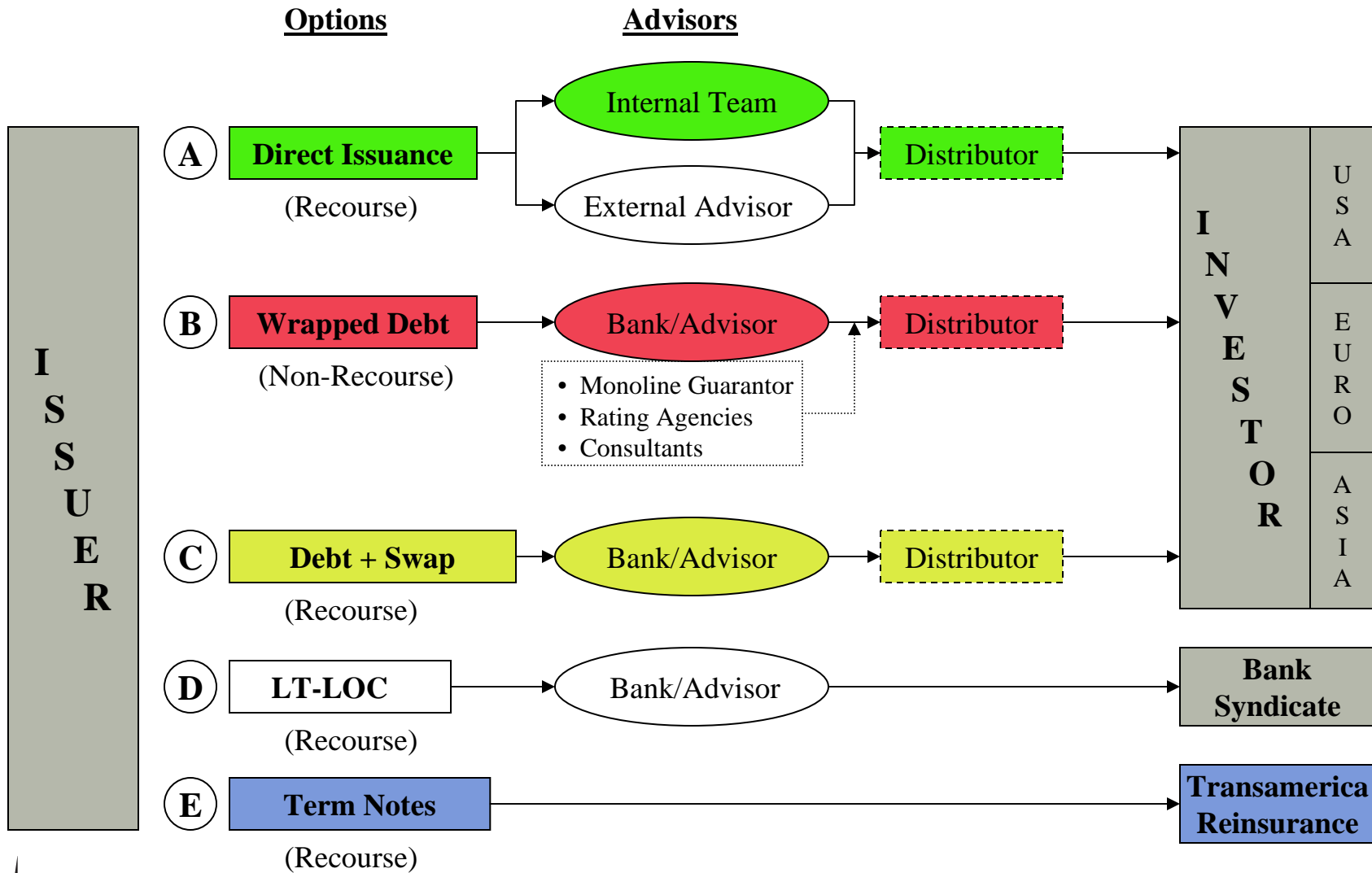
Issuer Options



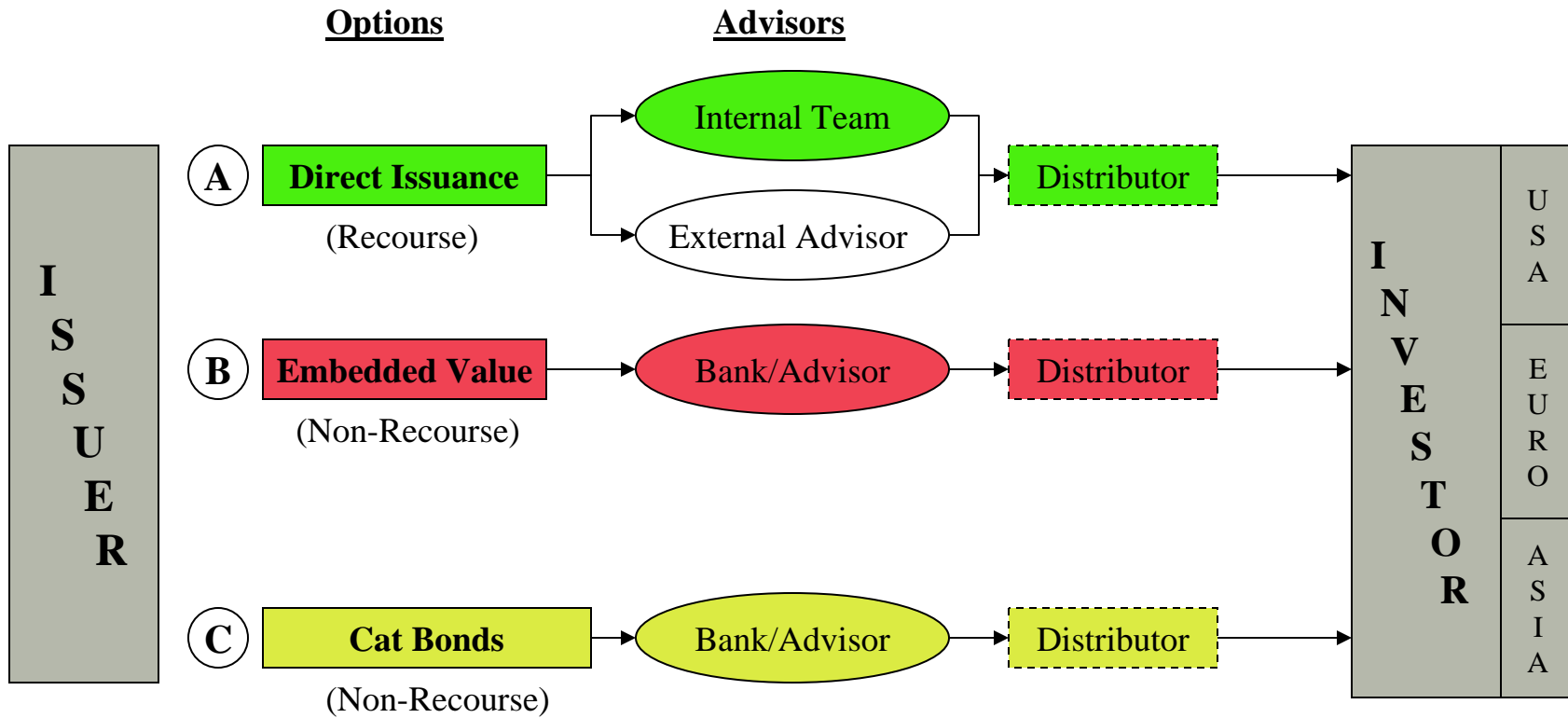
- Banks
- Insurances Co's
- Pension Funds / Annuities
- Tender Option Bond trusts
- CDO's
- etc.



Redundant Reserve Issuer Options



Capital Relief Issuer Options



Accessibility - Small and Medium LifeCo's

■ Scale

- Block Size
 - Declining Deal Size
 - A/XXX Combo's
- Credit Rating
- Earnings Diversification

■ Fixed Costs

- Reduce Fixed Costs
- Standardization

■ Variable Costs

- Increased Competition
- Investor Familiarity/Understanding
- Investable Assets – Reduce Negative Spreads



Accessibility - Small and Medium LifeCo's

■ Standardization

- Deal Structures
- Monoline Due Diligence/Consultants
- Legal Documentation
- Captive Domiciles
- Rating Agency modeling
- Actuarial Review standards

■ Reduce Third Parties

- Consultants
- Advisors
- Monolines

↑ Standardization

↓ Costs

↓ 3rd Parties

↓ Friction

↓ Costs



Transamerica Reinsurance Term Note Structure

■ Transamerica Reinsurance to:

- Set up LifeCo's LLC/Reinsurance Captive and Plan of Operation
- Purchase LifeCo's Redundant Reserve "Term Notes" issued by LLC

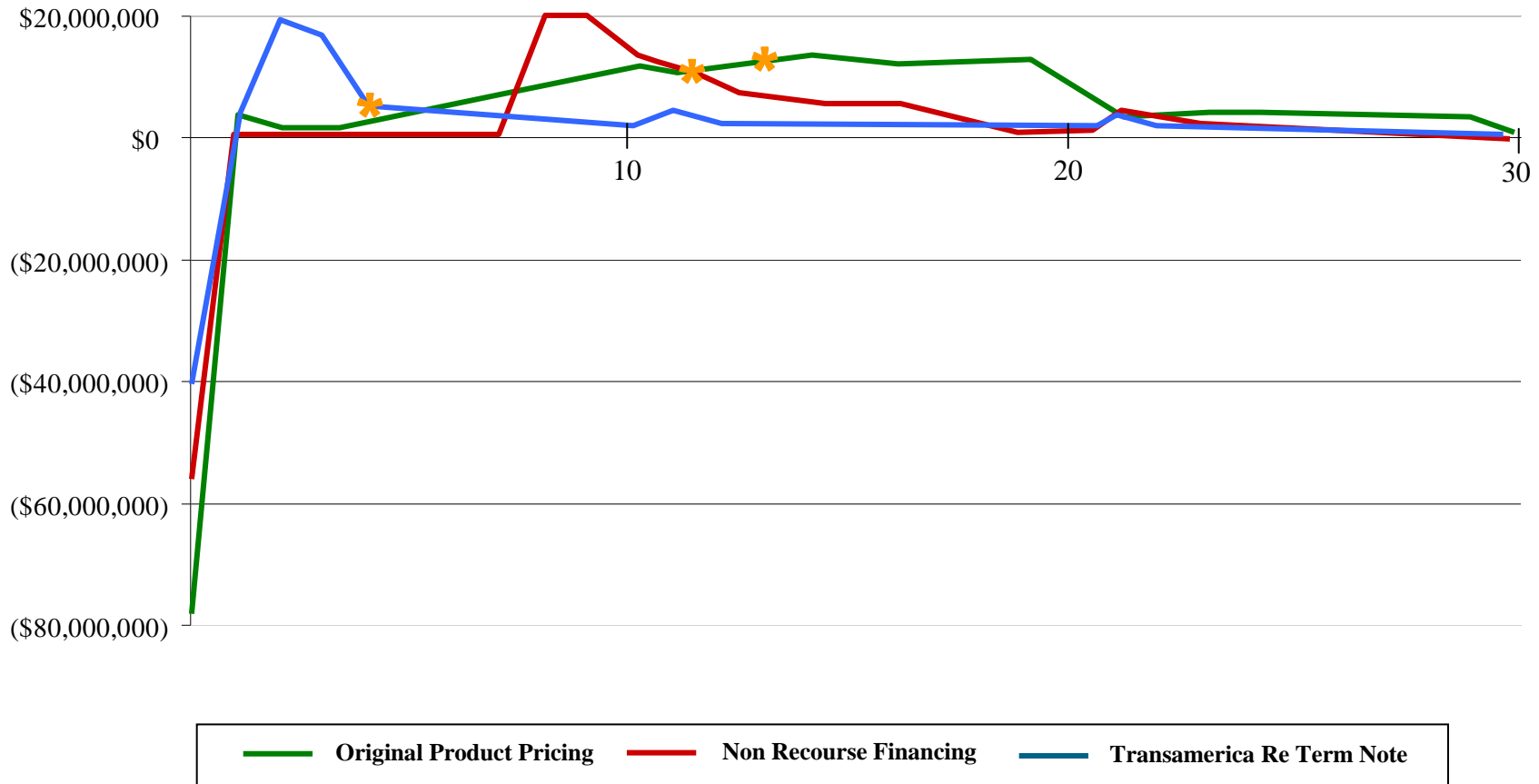
■ LifeCo Benefits:

- Block vs. LifeCo Credit Rating-dependent
- Transamerica Reinsurance Mortality Expertise and Diligence of Block allows for:
 - Lower Risk-Based Capital investment
 - Increased Borrowing
 - Earlier Release of Dividends
 - Higher Internal Rate of Return and smoothed GAAP earnings
- Tax consolidation benefits: Fully utilized
- Operating Leverage treatment with Rating Agencies
- Low Structuring Fees
- Template Documentation: Reduced Legal cost



Economics: Distributable Earnings Comparative View

(10/15/20/30 Yr Term Block, \$15 bn Vol., \$130m Peak Redundancy)



* Return of invested capital



Key Trends: Capital Management

■ Current credit environment

- Indirect impact of subprime
- Increased risk aversion
- No public securitizations since July 2007
- Few private placements since end of 2007



Key Trends: Capital Management

- Increased utilization
- PBR
 - Capital relief for Cat Bonds issued
 - Debt for redundant reserves
- Necessary for competitive products
- EV bonds force rational pricing



Arbitrage

- Opportunities in inefficient markets
- Mortality indices
- Distributions incentives
 - Agents, Investment Banks
- Who's winning and who's losing?
- Does it happen in cells?
 - UL older age?



Impact of a Secondary Market

- Theoretically good for policyholders
- Lapse rates go to zero
 - Actually drives up prices which will not be intuitively obvious to policyholders
- Market momentum is to unlock value
 - Reverse mortgages, Structured Settlements
 - Hard to argue against property
- Who's winning and who's losing?
- Does it happen in cells?
 - UL older age?



Questions & Answers

