



Enterprise Risk Management and the Chief Risk Officer

SEAC Meeting - June 2006

Agenda

- **Background, Goals & Objectives**

- **Enterprise Risk Management (ERM) Program**
 - Process
 - Roles and Responsibilities
 - Tools
 - Risk

- **Practical Examples**

Background, Goals & Objectives



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ERM Background

Catalysts

Business Environment

- The current business environment is characterized by rising expectations, a low tolerance for surprises, and a desire for increased transparency

Regulatory Environment

- Increasing regulatory attention has provided a catalyst for financial institutions to invest in upgrading their risk management capabilities
- COSO, Basel II, Solvency II, SOX, amended NYSE listing requirements, etc.

Governance Trends

- Boards extending corporate governance to risk governance, especially in the financial services industry where taking calculated risks is a fundamental part of the business model

Rating Agency

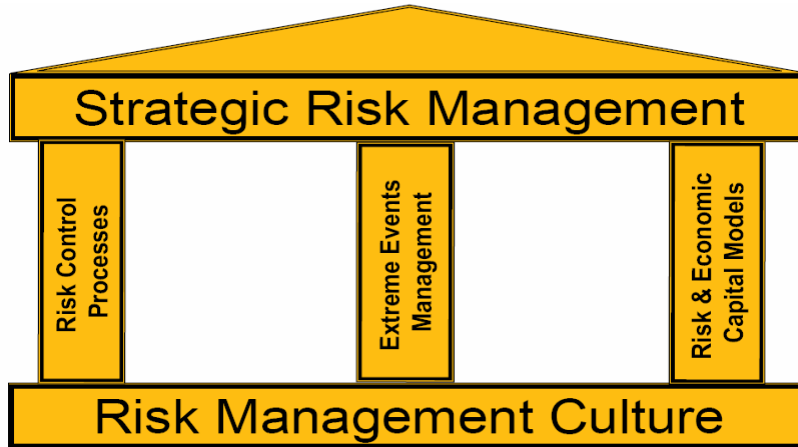
- Rating agencies formally and informally increasing their assessment of insurers' enterprise risk management capabilities



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ERM Evaluation Criteria

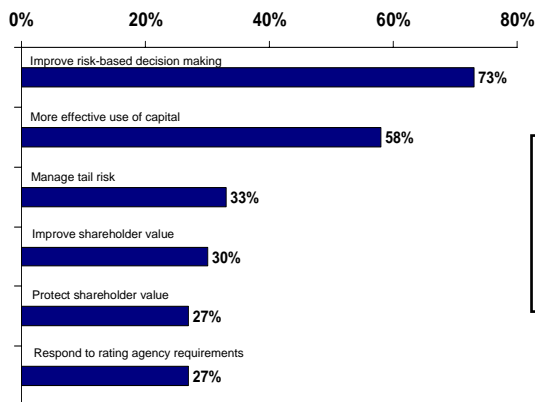
Standard & Poor's Model



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ERM Objectives

Key Objectives for ERM Programs



The keys to effective ERM are to:

1. Understand your exposures
2. Develop plans to mitigate unwanted risk levels, and
3. Identify and exploit risk opportunities

Source: 2006 Life Insurance CFO Survey, Tillinghast



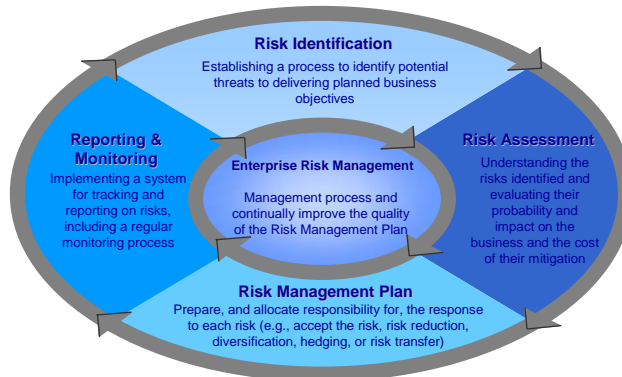
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ERM Program



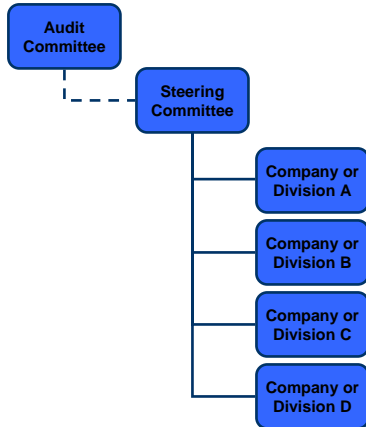
ERM Program – Process

Main Components



ERM Program - Roles and Responsibilities

Governance Structure



Primary Responsibilities

Steering Committee:

- Reviews quarterly ERM reports
- Provides direction and oversight on risk tolerance and risk management practices

Chief Risk Officer:

- Develop and manage the ERM framework and process
- Manage support tools, and provides subject matter expertise on ERM
- Produces management information on enterprise risks from a corporate perspective

Business Unit Risk Committees:

- Responsible for identifying, measuring, reporting, and managing risks within their respective areas
- Track and update risks on an on-going basis



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ERM Tools – Tracking Software



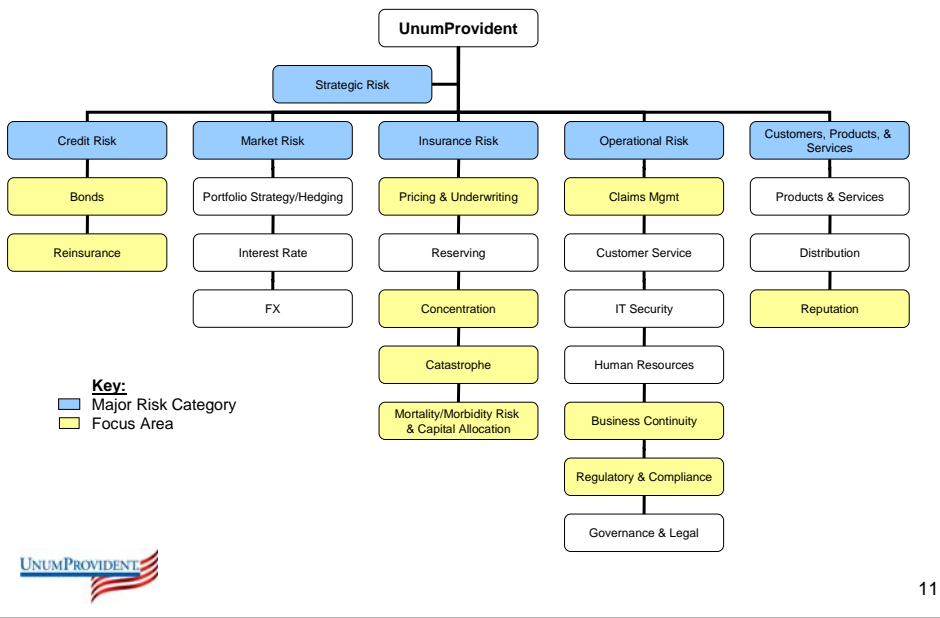
Risk data is captured within the risk management database, 'KnowRisk':

- Global system, tailored to meet our needs.
- Our enterprise risk management framework is embedded in the design of the data structure
- Holds details of risk assessment criteria and associated financial values, enabling the financial risk exposure of each risk to be quantified and aggregated.
- Generates risk management information, e.g. risk registers and risk matrices.



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ERM Program – Risk Map



Practical Examples

Company Business Mix

Increased Diversification

Business Mix – Total Sales		
	% of Total	
	2002	2005
U.S. Brokerage	74%	61%
Colonial	19%	27%
Unum Limited	7%	12%
Total	100%	100%

Improved Business Balance

Business Mix – Total Sales		
	% of Total	
	2002	2005
Case Size		
Core Market	45%	56%
Large Employers	55%	44%
Total	100%	100%
Product Mix		
Disability	57%	48%
Non-disability	43%	52%
Total	100%	100%



Geographic and Industry Diversification

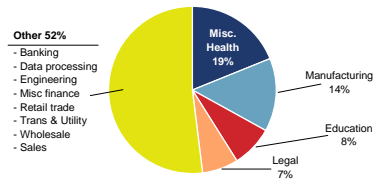
Asset and LTD Segmentation

Investment Portfolio Industry Sectors

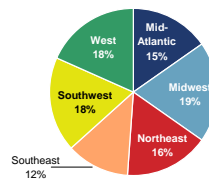
Sector Totals	Unum Allocation	Lehman Index Allocation	Over/(Under) Allocation
Basic Industry	8.57%	6.13%	2.44%
Capital Goods	9.19%	5.71%	3.48%
Communications	11.08%	14.51%	(3.43%)
Consumer Cyclical	4.45%	12.88%	(8.43%)
Consumer NonCyclical	14.81%	9.83%	4.98%
Energy	9.35%	4.37%	4.98%
Financial Institutions	13.50%	31.68%	(18.18%)
Technology	1.42%	2.55%	(1.13%)
Transportation	4.27%	2.24%	1.93%
Utilities	23.36%	10.09%	13.27%
Grand Total	100.00%	100.00%	

- The portfolios are well diversified across industry sectors and geographic regions
- We have reduced our exposure to cyclical industries
- Our negative credit outlook on the automotive and airline industries led to our underweight relative to the Lehman Index.

LTD Premium by Industry

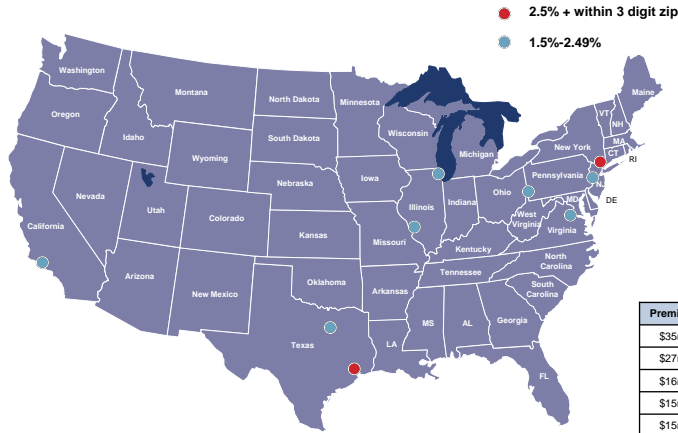


LTD Premium by Region



Metro & Company Exposure

LTD Concentration Analysis



Premium	Customer
\$35m	Northrup Grumman
\$27m	HCA
\$16m	AllHealth Group
\$15m	HSBC Holdings
\$15m	Costco
\$13m	Viacom

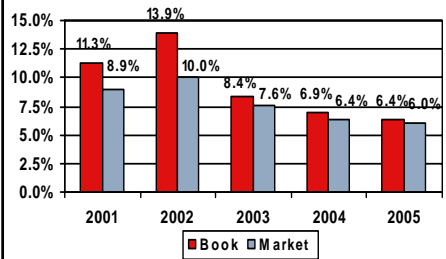


Asset Risk Profile

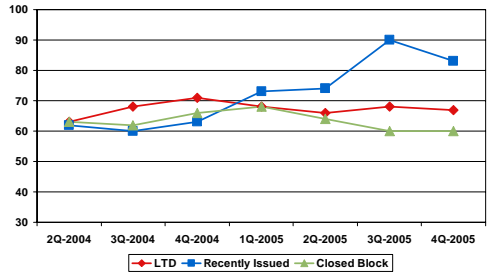
Credit Risk: BIG Exposure

Interest Rate Risk: Reserve Margins

High Yield as % of Bond Portfolio



Interest Margins (Basis Points)



2005 Event Post Mortems

London Subway Bombings

- Direct impact: London regional office, key staff attending events in London, and slight disruption with treasury function
- What worked: Emergency Response plan successfully activated, cascade contact mechanisms worked well (all staff contacted within 3 hours)
- Lessons learned:
 - Ensure key staff contact details are up to date, both mobile numbers and venue contact information, and provide contact protocol
 - Reappraise financial arrangements in the event of the closure of the London Stock Exchange and key banking systems

Hurricanes Katrina & Rita

- Direct impact: client companies and UNM sales offices were impacted
- What worked: Sales office business continuity plan successfully executed; locating and assisting office staff and maintaining customer support
- Lessons learned:
 - Need to monitor reinsurers' financial strength and credit ratings
 - Value of geographic diversification reinforced



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Scenario Analysis – Flu Pandemic Illustration

Scope: Influenza Pandemic

Categories of risk:

- 1) Operational
 - Assess our ability to provide service to our customers in the event of a pandemic, and develop plans for our people strategies
- 2) Insurance
 - Perform scenario analysis of the potential impact to our financial statements if a pandemic were to hit our inforce book of business
- 3) Credit/market
 - Assess our asset, bond and reinsurance exposures to credit, sector, and macroeconomic events associated with a pandemic

Scenarios & contingency planning:

- Use modeling to inform planning
- Guidance provided from the World Health Organization, CDC, and UK Department of Health
- General description:
 - 25% of workers taking 1-2 weeks off over a 3-4 month period
 - 25% of workforce affected, multiple waves, and incremental mortality rates similar to 1957/58 ('Asian flu') pandemic



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Risk Models – EIS Systems

CHAMPS Executive Information System

You Are Here: Home > FS ROE Sum Prod > LTD ROE Sum By Detail Prod > LTD FS > LTD Premium

Total U.S. Brokerage
10% LTD Fully Insured Premium Metrics - QTD

View By Time Period: **YTD** | **QTD**

Actuals Excluding Special Items

Sum	Qtr4			FY05			Qtr3			Qtr2			Qtr1			FY04		
	Actual (1)	Plan	Var	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	
BTDE	33.8	(37.4)		37.2	7.5	(3.6)	31.5											
Earned Premium	487.0	485.9	3.8	483.0	487.0	488.7	501.5											
BTDE % Premium	7.0%	(7.8%)		7.8%	1.5%	(0.7%)	2.3%											

Earned Premium Components

Sum	Qtr4			FY05			Qtr3			Qtr2			Qtr1			FY04		
	Actual (1)	Plan	Var	Impact	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	
YTD Effective Terminations	302.3	359.9	(57.8)	2.3	295.6	248.7	196.9	386.9										
YTD Effective Renewals	183.8	92.7	92.2	3.2	61.1	57.2	54.7	11.4										
YTD Effective Sales	192.0	195.1	(2.6)	(0.6)	157.7	136.0	168.3	188.9										

Leading Indicators

Sum	Qtr4			FY05			Qtr3			Qtr2			Qtr1			FY04		
	Actual (1)	Plan	Var	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	Actual (1)	
YTD Persistency	81.9%	81.9%	2.9%	84.4%	83.2%	82.4%	84.8%											
Future Terms % of Inforce	81.9%	81.9%	2.9%	84.4%	83.2%	82.4%	84.8%											
Renewal Profit Improvement	97.0	84.9	12.1	96.8	92.3	87.5	121.6											
Reported Sales Premium	183.8	185.1	(2.7)	27.6	47.6	37.1	79.8											
Group New Sales Premium	183.8	179.0	4.8	22.4	29.2	16.8	32.2											
Group NBOC Sales Premium	26.1	26.1	(2.7)	10.2	24.5	20.3	26.6											
Sales Quota and LNU	11.1	12.872	(1.761)	13,460	10,595	10,044	10,878											
Close Ratio	11.1%	11.0%	0.2%	7.5%	8.4%	7.0%	9.4%											
Reported Sales Cases	1,174	(358)	864	937	708	1,042												

Note: dummy numbers displayed for illustration purposes

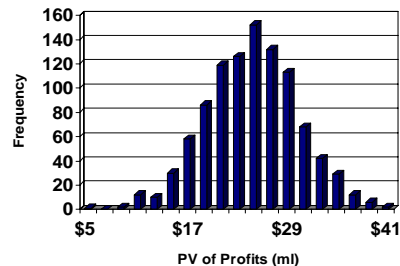
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Economic Capital – Quantifying Risk and Capital Allocation

Identifying the Risk Drivers

Year of Disability	Recovery Rate	Mortality Rate
Year 5	1.63	3.07
Year 6 & 7	1.04	2.64
Year 8-10	.47	2.61
Year 11-14	.23	2.31
Year 15+	.23	2.31

1,000 Mortality Scenarios



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Reinsurance as a Risk Management Tool

Overview of Major Agreements

- **Excess reinsurance coverage with General Re Life for each coverage for group life and group accidental death and dismemberment (including special risk)**
- **Group Life quota share reinsurance arrangements**
 - US Brokerage - annual stop loss quota share reinsurance with SCOR Re & Hannover Life Re
 - Colonial and UK life reinsurance arrangements with Swiss Re and Munich Re respectively
- **Catastrophic coverage for group and individual life, group and individual income protection, long-term care, and accidental death and dismemberment (including special risk)**
 - Layered coverage under 3 treaties
- **Stop loss reinsurance protection with National Indemnity Company for the closed block of individual income protection business**

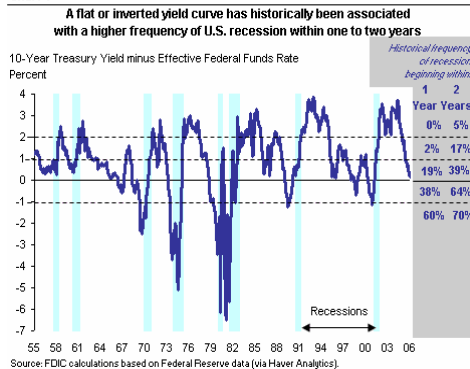


UnumProvident Focus Areas for 2006

Highlights

- **Build on ERM foundation established during 2005**
 - Support for key operational risk management activities
- **Continue work on capital adequacy and efficiency models, including capital allocation process**
- **Extend EIS from prototype to product portfolio**
- **Strengthen strategic planning and modeling capabilities in relation to macroeconomic environmental changes**

Chart 1



ERM & the Chief Risk Officer

Questions?

