



Contact:
Jim Loughman
Director, Media Relations &
Public Affairs
Milliman, Inc.
Tel: 203-698-0008
Jim.Loughman@Milliman.com

FOR IMMEDIATE RELEASE

Press Release

Milliman Chairman Advocates Reasonable Valuation and Capital Standards for Insurers

Bradley M. Smith Testifies before National Association of Insurance Commissioners Working Group

Seattle, WA – January 28, 2009 – Milliman, Inc., a leading provider of actuarial consulting services to the life insurance industry, this week provided testimony in support of reserve & asset valuations as well as capital standards that more fairly and accurately reflect the underlying economics of the life insurance business. On Tuesday, Milliman chairman Bradley M. Smith appeared before the Capital and Surplus Relief Working Group of the National Association of Insurance Commissioners (NAIC) meeting in Washington, DC and delivered the following statement:

“Thank you for the opportunity to speak today. I am Brad Smith, Chairman of Milliman. Our firm has served the life insurance industry and its policyholders for over 60 years. Over 200 of our professionals are focused on the analysis of life insurance companies and have developed hundreds, if not thousands, of the products they offer. As you may know, Milliman is a private company and it is highly unusual for us to comment publicly on regulatory matters. However, we believe the current challenges facing the insurance industry are extraordinary and we feel compelled to share both our concerns and our perspective.

Fortunately, we believe we all share the same objective: to protect the interests of policyholders of life insurance companies by assuring the solvency of companies that operate in the United States. The current debate revolves around which tactics best accomplish that outcome.

Our basic premise is simple. Companies that operate profitably rarely become insolvent. Consequently, the best way to assure the solvency of the industry is for companies to issue products that are profitable.

There is no question that companies need to establish reserves and maintain capital and surplus sufficient to pay the claims they have promised to pay. This assurance is particularly important during times of economic stress.

It is also indisputable that holding capital represents a cost to the policyholder. That cost is reflected in the premiums he or she pays to the company. Consequently, regulators must balance the need for sufficient policyholder reserves and capital and surplus to assure the payment of claims under adverse economic circumstances, while recognizing that the establishment of excessive reserves and capital requirements is a cost that companies pass directly on to the policyholder.

Life insurance companies compete, not only with other life insurance companies, but with other firms offering similar products in the financial services industry. Requiring excessive reserves and capital and surplus seriously threatens the industry’s ability to compete in the marketplace. Likewise, requiring excessive amounts to be held in reserve is a disservice to the policyholders and prospective policyholders



of the industry. It causes greater premiums to be charged, thereby making insurance products less appealing and marketable to the consumer. We have seen current examples of cases where the cost associated with financing excessive reserve and capital standards has caused some otherwise profitable companies to withdraw products from the marketplace or to increase the price at which they sell products to consumers.

Additionally, requiring excessive amounts to be held in reserve impairs the industry's ability to access its ultimate safety net, the capital markets. The requirement to hold excessive amounts of reserves and capital and surplus reduces the return on capital produced by the industry. This makes investment in the industry less appealing to investors.

You may argue that the industry should not be dependent upon external capital infusions. We agree. However, as has been demonstrated over the past year, there will be times where access to external capital enhances the long term viability and solvency of the industry, which all can agree is in the public's best interest. Historically, many insolvencies have been caused by the temporary illiquidity of a particular asset class. Access to the capital markets can help a company weather such a storm. Precluding such external investment by requiring excessive amounts of reserves and capital increases the chance that an individual, profitable company will drown in the proverbial "deep part of a stream with an average depth of nine inches." This can be in no one's best interest.

Some have stated that the proposals by the American Council of Life Insurers (ACLI) reflect a weakening of the standards that will increase the likelihood of life insurance company insolvencies. We believe the exact opposite is true for the reasons stated here.

Consequently, Milliman supports the ACLI-proposed changes. Milliman encourages immediate adoption of the recommendations of the NAIC's Capital and Surplus Relief Working Group consistent with the ACLI proposal and reconsideration of those changes not recommended by the working group in the coming months.

Again, thank you for the opportunity to express our opinion. I am happy to entertain any questions you may have."

When asked about the motivation for Milliman's statement, Mr. Smith replied:

"Milliman's endorsement of the proposed changes is not a reaction to the financial stress caused by today's volatile and depressed capital markets. Rather, Milliman believes that current statutory standards concerning reserves and the amount of capital and surplus necessary to support insurers is, *and has been*, overly conservative. Today's economic environment merely illuminates the negative consequences of this excessive historic conservatism. Consequently, we do not endorse these proposed changes as something to be adopted on an 'interim' basis until the economic environment returns to a state of 'normalcy.' Rather, we support these changes because we believe that doing so helps to establish reserves and capital and surplus at levels that best protect and reflect the interests of policyholders, now and in the future."



About Milliman

Milliman is among the world's largest independent actuarial and consulting firms. Founded in Seattle in 1947 as Milliman & Robertson, the company currently has 49 offices in key locations worldwide. Milliman employs over two thousand people, with a professional staff of more than a thousand qualified consultants and actuaries, including specialists ranging from clinicians to economists. The firm has consulting practices in healthcare, employee benefits, property & casualty insurance, life insurance and financial services. Milliman serves the full spectrum of business, financial, government, union, education and nonprofit organizations. For further information, visit www.milliman.com