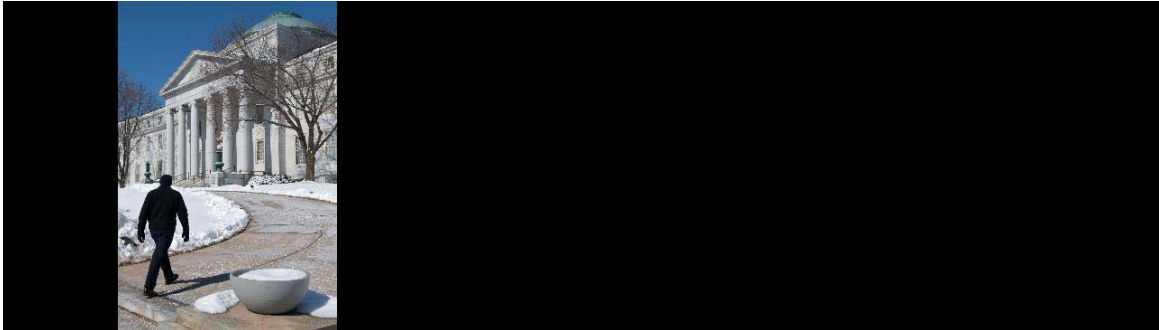


Hartford, Protective Left Hanging as Treasury Stalls (Update2)

By Andrew Frye



April 2 (Bloomberg) -- **Hartford Financial Services Group Inc.**, **Protective Life Corp.** and **Principal Financial Group Inc.** are among a dozen insurers whose recovery plans are in limbo four months after the industry asked for U.S. bailout funds.

Protective's effort to get access to the Troubled Asset Relief Program by purchasing a bank fell apart yesterday when the Alabama-based insurer said The Bank of Bonifay's parent company backed out of an acquisition, citing Treasury's inaction. Protective said Treasury hasn't acted on any pending applications by insurers or specified a timetable.

"I thought we would have heard by now," said **Robert Haines**, an analyst with CreditSights Inc. "It's become kind of a back-burner issue with everything else that's been going on."

Life insurers including **Prudential Financial Inc.** sought access to the \$700 billion U.S. program after the swoon in financial markets squeezed profit and sliced the value of their holdings that back policies. Some applications were filed in November, and while waiting, Prudential posted a record quarterly loss, Standard & Poor's said Hartford's brand may be damaged and Principal raised doubt in a filing about meeting its obligations to clients.

The industry's odds of getting TARP access may have dropped after the expanded \$182.5 billion rescue of **American International Group Inc.** -- and public outrage about employee bonuses -- soured Congress on bailouts. Private investors may be reluctant to fill the void after this year's 44 percent drop in the S&P Supercomposite Life & Health Insurance **Index** through yesterday.

Paulson's Request

Frank Keating, head of the Washington-based American Council of Life Insurers, said March 3 that Treasury would probably take action within weeks. An official in the Obama administration said yesterday the agency hasn't made any decisions about giving insurers TARP.

Life insurers were instructed last year by **Henry Paulson**, then secretary of the Treasury, to buy banking or savings and loan companies to become eligible, Keating said. That led to proposed takeovers by insurers including Hartford, **Genworth Financial Inc.** and **Lincoln National Corp.** Protective's Nov. 18 deal involved Bonifay Holding Co., owner of Florida's 143rd- largest depository, with six branches.

The slump has dented the reputation of an industry whose sales are based on the idea that insurers will outlive their customers. **AIG undermined the premise when it appealed for more bailout money in March by saying a rumored or real failure of life or retirement companies could trigger customer withdrawals that would topple competitors and overwhelm state-run guarantee funds.** State regulators have said they're confident they can still protect policyholders if **an** insurer fails.

'The Long Haul'

"My clients are asking to make sure: 'Is this company going to be here for the long haul?'" said **Sharon Emek**, director and partner at New York-based insurance brokerage CBS Coverage Group Inc., which has about \$80 million in annual premiums.

"Policyholders are scared," said **Therese Vaughan**, the newly appointed chief executive officer of the National Association of Insurance Commissioners. "We are in historic times."

Prudential, the second-biggest U.S. life insurer, applied last year, while No. 1 **MetLife Inc.** said on March 2 that it may get a U.S. capital injection; both already had banking units.

Lincoln, whose TARP request dates back at least four months, said March 27 it dropped plans to participate in the Federal Deposit Insurance Corp.'s program to guarantee bank debt because it didn't qualify. Philadelphia-based Lincoln agreed in November to buy a Goodland, Indiana savings and loan with three employees and \$7.3 million of assets.

'A Strong Partner'

Lincoln was downgraded to "sell" today by **Colin Devine**, a Citigroup Inc. equity analyst, on concern the company won't get the capital it needs from the U.S. or private investors. The insurer, previously rated "buy" by Devine, led the decliners in the S&P 500 Index.

"We believe Treasury's experience with AIG has essentially 'poisoned the well' with respect to the likelihood of any other insurer receiving TARP assistance in the near term," Devine said in a research note.

Lincoln said in a statement March 31 it has "adequate internal cash resources and a \$1 billion line of credit." While Morgan Stanley analyst **Nigel Dally** told investors yesterday that Lincoln is among the more vulnerable to a run by policyholders, fixed-annuity sales in the fourth quarter exceeded redemptions, he wrote in a note to clients.

'Rain, Shine'

Principal, the carrier that bills itself as “a strong partner, rain or shine,” told investors in its February annual report it may not have the funds to satisfy all clients wishing to redeem their policies if financial market disruptions continue, and Dally included the Des Moines, Iowa-based company on his list of insurers vulnerable to a run. **Susan Houser**, a spokeswoman for Principal, declined to comment.

Hartford, based in the Connecticut city of the same name, reported a \$2.7 billion net loss for 2008 and had its **credit rating** cut on March 30 by Moody’s Investors Service to its lowest investment grade of Baa3. The company said yesterday that regulators extended to April 27 the deadline for acquiring Federal Trust Corp., a Florida-based lender.

“Hartford remains well-capitalized to meet our policyholder obligations,” **Ramani Ayer**, the insurer’s chief executive officer, said in an e-mailed statement following the Moody’s downgrade.

Insurer Downgrades

MetLife has come under pressure amid concerns that declines in its portfolio, including \$14 billion of unrealized losses on corporate debt, will deplete the insurer’s about \$5 billion in excess capital. S&P, which expects losses to build as the recession deepens, downgraded New York-based MetLife, Prudential, Principal and others in February. **Christopher Breslin**, a spokesman for MetLife, declined to comment.

Prudential’s **\$1.57 billion** fourth-quarter loss was the Newark, New Jersey-based company’s biggest since its 2001 initial public offering. Prudential has the capital to absorb more investment losses, **Kevin Ahern**, an analyst for S&P, said in February.

“Prudential and its insurance subsidiaries have ample capital and liquidity,” **Bob DeFillippo**, a spokesman for the insurer, said in a statement yesterday. “We’re comfortable with our risk profile and believe we are in a strong position to manage through the current environment.” DeFillippo declined to comment about TARP.

Still In Queue

“We’re still in the queue, but no update,” **Al Orendorff**, a spokesman for Richmond, Virginia-based Genworth, said of the TARP application. Genworth, which declined about 91 percent in 12 months of New York trading, has reported three straight quarterly **net losses**.

The insurer intends to maintain “appropriate capital and liquidity levels,” he said.

About 75 insurers selling policies in more than one state have been declared insolvent since 1991. Every state, Puerto Rico and the District of Columbia has had a guaranty association in place since the last major industry crisis led to the failures of Executive Life Insurance Co. in 1991 and Mutual Benefit Life Insurance Co. in 1993.

All states offer guarantees that customers will get at least the first \$100,000 they’re entitled to when withdrawing life policies or annuities, according to

the National Organization of Life and Health Insurance Guaranty Associations. Guarantees for death benefits are at least \$250,000 in all states.

“It’s a difficult time, and some companies are going under and that’s part of capitalism,” Mississippi Insurance Commissioner **Mike Chaney** said in an interview. “The guarantee funds aren’t going to be able to do a thing if everybody goes under.”

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