

LIFE OF JAMAICA LIMITED 1997

Review of Operations

INDIVIDUAL LIFE

The Individual Life Division faced another challenging year as our agency force continued to adjust to the restructured compensation implemented in 1996, and at the same time function in a market place and environment characterized by a disposable dollar under pressure and a flat economy.

We continued our focus on improved productivity and quality customer service. Lower producing members of our agency force were terminated and specialist training was conducted for the benefit of our career sales representatives.

In terms of new business 24,992 cases were issued for new annualised premium income of \$214.9 million with sums insured of \$3 billion. This performance fell short of our original forecast and represents 90% of our target for annual premiums. Notwithstanding this out-turn we feel that our producers performed creditably as evidenced by the fact that in 1997, LOJ for the 10th consecutive year emerged the market leader in new sales with a 29.4% market share. Our conservation rate stood at 71%. Conservation rate is an important barometer of renewal and persistency of our in-force business and continues to receive priority attention.

A new customer service call unit has been established as the centre-piece of our strategy to maximize retention of our inforce business as this area of operation is critical for future profitability.

Our new product, "The Cancer Plan" launched in April 1997 recorded over 1,000 new sales by year end and continues to be well received. Two other innovative plans are being designed and are scheduled for introduction in the second half of 1998.

The Individual Life Division's contribution to profit was \$344 million. Challenges within the market place have been clearly identified and appropriate strategies are being pursued to meet and overcome these. Cost containment and improved customer service are areas of keen attention. It is our aim to retain our No. 1 position in a local market that is fast having to compete at international standards.

Our new systems, continued cost containment measures and heightened market focus are the critical success factors which we will continue to pursue to achieve divisional and corporate objectives.

EMPLOYEE BENEFITS DIVISION

The Employee Benefits Division has continued on a growth path during 1997, notwithstanding the adverse economic conditions prevailing, both within the sector and nationally. We committed, in 1997 to exploring all avenues and opportunities as they arose, and we have realized our goals based on this premise. Profits of \$125 million were generated, some 25% greater than our target, demonstrating the consistency of our efforts, in both maintaining market share and profitability.

This dominant position - with market share of 67% of the Pension Funds managed by insurance companies, 50% of Group Life and 32% Health Insurance is clearly evident. The investment of Pension Funds provides us with ongoing challenges. The need to achieve real growth is a significant factor in the successful management of these funds and one to which our clients have become increasingly sensitive.

LOJ has taken the initiative to form a new company LOJ Pooled Investment Funds Limited (LOJPIF Ltd.) that aims to achieve:

- . Legal separation of the pension assets from shareholder assets.
- . Greater accountability of the Fund Manager through monitored compliance with stated guidelines.
- . Greater transparency in the management of the funds.

A heightened awareness of the needs of the customer, is the major focus of our divisional agenda

INFORMATION TECHNOLOGY

Implementation of the new computer systems for various functions of our operations including New Life, General Ledger and Accounts Payable were completed on schedule in May 1997. Implementation was also completed for the new data link for Cayman. This allows for additional users to be connected and improves the response time.

The ALICO Bahamas portfolio was converted to new Capsil in August 1997. A small Personal Accident Bahamas portfolio continues to operate on the old system and will be converted in 1998.

We completed the establishment, systems development work and testing of a new product for Scotia Jamaica Life Company. Also set up were detailed procedures, the third party agreement and service level standards. We also benchmarked the application under user loads which simulated a three year test period. Implementation is set for 1998.

Objectives for 1998 include, consolidation of technology management for ICWI and LOJ in the areas of technical support and computer operations and continuation of training programmes for staff, especially as they relate to the new technology being implemented. Also among our list of objectives for 1998 are the achievement of:

- . Group Health & Group Life system implementation by the fourth quarter.
- . Revised General Ledger interface in place by June.
- . Pensions system in Bahamas by June and fully in LOJ by the end of the fourth quarter.

By the end of the year we intend to achieve 98% "up time" consistently across all systems.

INVESTMENT DIVISION

Investments

In our 1996 review we stated that we were heartened by the reversal in the increasing inflationary trend that was emerging towards the second half of that year and were anticipating continued reduction in the inflation rate towards the single digit target. In actuality, the inflation rate at year's end was 9.17%, significantly down from the 15.84% experienced in 1996. This is the first time since 1988 that the inflation rate has fallen below the 10% mark, when the rate was reported at 8.5%. This reduction was achieved through continued tight fiscal and monetary restraint by the authorities, in particular, the Central Bank.

Throughout 1997, the control of inflation was continued by means of a strategy which included a reduction in money supply and relatively high interest rates (though reduced from the previous year). The effect of these policies was the continued reduction in demand on the US\$. Towards December however, with the seasonal increase in the demand for US\$ coupled with the uncertainties that tend to accompany our general elections there were speculations that the exchange rate would reach as high as J\$40.00 to US\$1.00. With the passing of relatively uneventful elections the rate quickly stabilized at between \$36.49 and \$36.59 ending the year at \$36.59.

The achievement of lower inflation allowed the Central Bank to review its strategy of high interest rates. This resulted in downward adjustments in the yields on government guaranteed debt during the first three quarters of the year with interest rates on Treasury Bills moving from 23.09% at the start of the year to a low of 16.27% in April. However, with increased demand for the US\$ during the end of the third quarter, coupled with reduced foreign exchange inflows from Tourism, this position was reversed as we saw an increase in rates which moved up to 28.08% (180 day tenor T-bills) by year end. The Equity market responded over the year with an increase in the index from 16,616 points to 19,847 points, again of 19.4%.

The economic programme pursued by the Bank of Jamaica and the Ministry of Finance had mixed effects on the portfolios managed by Life of Jamaica as highlighted below.

The Folio IV Fund

The net invested assets moved from \$2.255 billion at the end of 1996 to \$1.809 billion at December 1997. This decline is due specifically to falling rental rates and property values during 1997.

The real estate market mirrors the economy and the recent downturn in the financial services sector, the main user of commercial office space, has had a negative impact on the real estate markets. Property values, especially those in the commercial office space segment, are experiencing a decline, the first since 1980.

The fund's negative 9.58% performance in 1997 was in line with the wider real estate market and to a lesser extent the economy. This downward adjustment of real estate prices is expected to be completed by the end of 1998 and the fund's yield is expected to rebound to its positive mode by 1999 as the cash yield from real estate approaches rates earned on saving deposits.

The main features of the properties in the portfolio are that they are in prime, well developed areas and with a long list of blue chip tenancies. This will allow the portfolio to maintain low vacancy levels and good cash yields.

The Long Term Securities Fund

The Equity Market saw increased activity in spite of the competition still being experienced from the high yielding Fixed Income Market. In particular, the Long Term Securities Fund experienced an increase in asset value of \$43 million dollars, moving from an asset value of \$263.5m in December 1996 to \$306.5m in December 1997. The yield on the fund was 19.8% as at December 31, 1997. With inflation at 9.17% the real return on investments to clients during the year was in excess of 10%.

The investment strategy for this fund continues to focus on the long run to ensure appropriate matching of assets and liabilities, in this case equities and future policy benefits respectively. Risk is mitigated through diversification across economic sectors and by adapting a conservative trading strategy focusing on acquiring stocks with sound long-term fundamentals.

As an important institutional investor we view with encouragement strides taken to develop the domestic Stock Exchange. The commitment to creating a Central Securities Depository in 1998 is a step in the right direction towards modernizing the stock exchange. To encourage new listings we hold as one of the basic tenets of the Long Term Securities Fund, a commitment to purchase only listed equity securities.

As the economy transitions from stabilization to growth, we expect the domestic Capital Markets to continue to develop and expand and, with that, should come many new medium to-long term investment opportunities in which to participate.

The Short Term Deposit Fund

For the second year in succession, the Short Term Deposit Fund has outperformed the other Segregated Policyholder Funds. It experienced a yield of 22.56% for the year compared to inflation of 9.17% and average return on 12-month Treasury Bills of 20.61%.

At year end, invested assets stood at just over \$1.0 billion with approximately 96.3% in Government-backed securities, 2.2% in Debentures and Leases, and 1.5% in other fixed income securities.

During 1998, we expect a continuation of the stabilization programme with emphasis on controlling inflation, and maintaining a stable exchange rate in a market driven economy. It is anticipated that short term interest rates will trend downward at a measured pace in order to achieve an orderly adjustment from a high interest rate/high inflation economy to one of low inflation and stability.

REAL ESTATE SERVICES

LOJ Property Management Limited had a good year in 1997 despite the difficult economic environment which has negatively impacted on the real estate market. The Company recorded revenues of \$67.8 million for 1997, or 1% less than that recorded for 1996. Net profit, however, increased by 25% over the previous year. The average vacancy ratio slipped to 9% in 1997 from 6% in 1996, mainly due to the contraction of business.

The company will in 1998, continue on its path of making all the buildings in its portfolio energy efficient, thereby leading to lower maintenance costs and increased occupancy.

INTERNATIONAL INSURANCE OPERATIONS

The Bahamian life subsidiary, Global Bahamas Holdings Ltd., reported record profits of US\$2.1 million in 1997, which represents a return on equity of 16%, well above the average return on equity for North American life insurers. These results allowed the public company to declare a dividend to its shareholders for the first time and within the time frame contemplated in the offering prospectus. The strong financial reflects extremely good investment yields, particularly in the equity fund as well as solid sales performance. LOJ owns 53% of Global Bahamas.

The overseas life operations were, however, negatively impacted by the poor results of the Puerto Rican subsidiary, Atlantic Southern Insurance Company (ASICO). Profits from the individual life insurance were more than offset by losses in the health lines in the Virgin Islands and Guam, reflecting poor claims in 1997 as well as understated reserves for the 1996 period. 91 % of the resulting US\$1.5 million accrues to LOJ. The health businesses have since been sold (Panama, Guam, Puerto Rico) or in the case of the Virgin Islands reinsured out heavily and ASICO has refocused its operations on its core life, cancer and credit businesses.

Significant system developments were completed throughout Global with CAPSIL fully installed for individual insurance in both Cayman and The Bahamas and the USSI system implemented at ASICO. All operations received new general ledger systems and Cayman became the pilot for the new defined contribution pension administration system which is being extended to Jamaica and The Bahamas in 1998.
