Transcript of the Public Hearing on

MANHATTAN LIFE INSURANCE COMPANY

PROPOSED CONVERSION

held on Friday, February 22, 2002

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Hearing convened at 10:00 a.m.

P R E S E N T

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Superintendent

KEVIN R. RAMPE,
First Deputy Superintendent

AUDREY SAMERS,
Deputy Superintendent and General Counsel

SUSAN A. DONNELLAN,
Deputy General Counsel

JEFFREY ANGELO,
Chief Insurance Examiner

LORRAINE GASH,
Supervising Insurance Examiner

P R O C E E D I N G S

MR. SERIO: Good morning. My name is Greg Serio. I am the Superintendent of Insurance, State of New York, and I will be presiding over today's public hearing regarding the plan of the Manhattan Life Insurance Company.

Before I get started with my opening comments, which I will read for the purposes of getting it on the record, I would like to introduce from my left to right, First Deputy General Counsel Susan Donnellan; Deputy Superintendent General Counsel Audrey Samers; Chief of our Life Bureau, Jeff Angelo, and our Supervising Examiner, Lorraine Gash.

This public hearing is being held today to receive testimony from interested parties regarding the plan of the Manhattan Life Insurance Company, which I will refer to as Manhattan Life, to convert from a guaranteed capital life insurer to a stock life insurer.

Section 7310 of the Insurance Law specifically authorizes a domestic guaranteed capital life insurance company to reorganize into a domestic stock life insurer.

The statute provides that if a company

wishes to reorganize, a majority of its board of directors must first adopt a plan of reorganization.

However, before such a plan can become effective, two-thirds of the guaranteed capital shareholders and two-thirds of the policyholders of the company will vote on the plan as well as the superintendent are required to approve the plan of conversion.

Testimony given today should focus on the fairness of the terms and conditions of the proposed plan of reorganization, the reasons and purposes for the guaranteed life insurer to reorganize, and whether the reorganization is in the interest of the life insurer, its policyholders and shareholders and in the public interest.

On November 15, 2001, the board of directors of Manhattan Life adopted a plan of conversion in accordance with Section 7310 of the Insurance Law.

The plan was submitted to the Insurance Department on November 16, 2001.

I have asked the reporter to mark the plan submitted to the Department as Exhibit 1 for the purposes of this public hearing. It has been done already.

I have also asked the reporter to mark the policyholder information booklet and the balance of the information packet mailed to policyholders as Exhibit 2 for this public hearing.

Prior to today's hearing, the Department has received written testimony.

Accordingly, I have asked the reporter to mark as Exhibit 3 the written documents, the written public comments on the plan.

At this time, I would like to explain the procedure which we will follow in receiving testimony today.

I will call upon representatives of Manhattan Life to make a presentation of their plan.

At the conclusion of their presentation, I will call on those other parties who I requested to speak.

As I previously mentioned, the purpose of this hearing is to obtain testimony relevant to the plan.

However, if anyone has a question they believe should be addressed by this hearing, they may raise it in their presentation.

The hearing record will remain open until March 8, 2002, for receipt of additional comments

and responses.

After the comment period expires, the statute provides up to 60 days for the superintendent to render a decision.

If I find that the proposed reorganization in whole or in part does not violate the Insurance Law, is fair and equitable to policyholders the shareholders and the public, and that after the reorganization, Manhattan Life will have an amount of capital and surplus deemed reasonably necessary for future solvency, I will approve the plan.

If I cannot make these findings and I disapprove the plan, Manhattan Life will have the right to an administrative hearing on the denial.

I would now like to call upon David Harris, Chairman and Chief Executive Officer of Manhattan Life for his presentation.

MR. HARRIS: Thank you.

Good morning, Superintendent Serio and

members of the staff of the New York Insurance Department. I am pleased to be here this morning on this important moment in the history of The Manhattan Life Insurance Company, one of New York's oldest life insurance companies.

My name is David Harris, and I am Chairman of the Board and Chief Executive Officer of Manhattan Life. I am responsible for directing the management of the business and affairs of the company, and for guiding its efforts in the development of a plan for the conversion of the company from a guarantee capital insurer to a stock life insurer. I am happy to be here this morning in support of the company's proposal that you approve the plan of conversion that has been adopted by our board of directors.

With me this morning are other individuals who have been directly and deeply involved in working on this plan. Before I begin my remarks, I would like to introduce them to you.

First is Dan George, who serves as president and treasurer of Manhattan Life, and who has been a close personal colleague of mine and an important member of our management team for the past 17 years.

Next is Jim Ramenda, who is a managing director of Northington Partners, Inc. and a member of the board of directors of the company. Mr. Ramenda and his firm served as financial advisors to the company in connection with the conversion.

Also with me is Allen Bailey, who is a fellow in the Society of Actuaries, an MAAA and the owner and president of Allen Bailey & Associates, Inc. of Austin, Texas. Mr. Bailey has worked as a consulting actuary for our companies for many years, and did the actuarial work and the plan of operations in connection with the plan of conversion.

Finally David Knoll, of Winstead Sechrest & Minick, P.C., who has been our principal outside legal counsel for the past 15 years, and who advised the company in connection with legal issues related the conversion, and actually drafted the plan of conversion and related materials distributed to the policyholders of the company.

Each of these individuals will address various aspects of the company's business and the plan of conversion in greater detail. My remarks will be limited to presenting an overview of the company and the plan of conversion, briefly describing the process that led us to conclude that the best interests of the company and the policyholders would be served by converting it into a stock life insurer, and talking about how the company's policyholders will benefit from our plan.

My written testimony has been filed for inclusion in the record of this public hearing. I adopt my written testimony, in its entirety, as part of my testimony today.

First, I think it is important to remember the long and proud history of Manhattan Life, which was originally organized and commenced business over a century and a half ago, in 1850. Although it was organized under laws governing mutual insurers, it was unique in that its initial capital was raised by issuing guarantee capital shares, which gave the holders thereof the right to vote in the election of directors and the right to participate in the profits of the company.

The guarantee capital contributed by these shareholders also earned interest at a rate prescribed by the company's charter.

Eventually, the guarantee capital shares wound up in the hands of Union Central Life Insurance Company, a mutual life insurer in Cincinnati, Ohio. Over the years, as the company grew and prospered, the guarantee capital shareholders left their dividends and stock splits in the company, increasing the reserve held for their benefit. Eventually, that amount represented

nearly all of the surplus of Manhattan Life.

The company's small size and lack of capital had caused A.M. Best & Co. to downgrade the company in 994 from an A to an A-. In March 1998, Manhattan Life stopped writing new business. At the time, it had a distribution network of approximately 100 general agencies and 6,000 brokers.

However, it was essentially in a run-off situation, with a shrinking surplus base. It was apparent to us en we were evaluating the acquisition of the guarantee capital shares that if the company were going to have a long-range future, it had to be able to resume writing new business, and the only way to do so was to convert it into a stock insurer, where it would have greater flexibility to raise capital and explore business opportunities not available to it as a guarantee capital insurer.

We made our intentions clear in our filings with the New York Insurance Department prior to the change of control. We presented the idea to the company's new board of directors following our acquisition, who completely supported the idea.

Our partners, Northington Partners, Inc., helped us analyze our options for restructuring the company, and prepared a report of the valuation of

the policyholders' equity interest in Manhattan Life.

Meanwhile, our lawyers and actuaries were hard at work on preparing a plan of conversion to present to the board.

Over the course of the development of the plan of conversion, we circulated drafts to the Department of Insurance, and had numerous conferences with the staff of the department and the superintendent's advisors, and many revisions were made to the plan in response to the department's concerns and suggestions.

We believe that we have come up with a plan of conversion that meets the requirements of the New York Insurance Law, and is in the best interests of the company's guarantee capital shareholder, its policyholders and the general public.

Let me summarize briefly what the plan provides.

First, the plan provides for the distribution of a total of $5.6 million in consideration to the policyholders' equity interest. This amount represents significantly more than 100 percent of the surplus of the company that is

attributable to policyholders.

In other words, Manhattan Insurance Group, Inc., the guarantee capital shareholder, is providing additional funds out of the guarantee capital reserve to enhance the consideration that will be paid to policyholders in the conversion.

Second, the policyholder consideration is in addition to the coverage and benefits provided to the policyholders under the terms of their Manhattan Life insurance policies. All policy benefits, guarantees and dividend eligibility will be protected by the plan, and policy premiums will not be increased, in any way.

Third, the plan provides for a mechanism to protect the dividend expectations of the company's participating policyholders. If future experience is more favorable than current experience, dividends to policyholders could be increased; if it is less favorable, dividends may e lowered.

However, the plan requires the company to make periodic reports to the superintendent each year, setting forth its compliance with the Dividend Protection Mechanism set forth in the plan.

The plan has been adopted the board of

directors of the company, which has encouraged the company's policyholders to vote in favor of the plan and the conversion of the company to a stock insurer. I am pleased that the board has adopted and endorsed the plan, and share their belief that the conversion of the company to a stock insurer is in the best interests of Manhattan Life, its policyholders, its guarantee capital shareholder, and the general public.

For the reasons I have described today and in my written statement, as well as the reasons set forth in the written statements of the other witnesses who will testify this morning on behalf of Manhattan Life, we ask that the plan be approved.

I would now like to turn over the floor to Mr. George, our president and treasurer.

MR. GEORGE: Thank you, David.

Thank you, Mr. Harris. My name is Dan George. I am president and treasurer of The Manhattan Life Insurance Company and hold similar positions in The Manhattan Life Insurance Group, Inc. and in other companies affiliated with The Manhattan Insurance Group.

My written testimony has been filed for inclusion in the record of this public hearing. I adopt my written testimony, in its entirety, as part of my testimony today.

I am going to comment briefly this morning on the recent financial history of Manhattan Life, and its current financial condition, as well as its future prospects as a stock insurer after the conversion.

As you have heard Mr. Harris testify this morning, when we acquired the guarantee capital shares of the company, we found a company that had already had its rating downgraded by A.M. Best & Co., and which had experienced a steady decline in new business issued and insurance in force.

Some specific data is set forth in my written testimony. In general, we found a company that was in deteriorating financial condition, with expenses out of control, that had stopped writing new business, and that was clearly a candidate for a turnaround.

While its recent financial performance was poor, we saw some real potential in Manhattan Life, in its network of agents and in its long tradition of service to the insurance buying public of the State of New York and other jurisdictions in which it was doing business.

Since we acquired the guarantee capital shares, we have undertaken measures to reduce expenses and stabilize the company. During the year 2000, we had an operating profit of $1.7 million on an audited basis, and for 2001 we expect a profit in the range of $1.1 million. While this represents a return on surplus still in the 5 to 7 percent range, we think it is a positive step forward.

However, as I pointed out in my written testimony, we believe that the future of the company will depend on its ability to resume writing new business, and that the only way of financing that growth is to free the company from any structural flaws that hinder its ability to raise new capital.

We have already begun the process of filing new policies for approval with the New York Insurance Department and have been in contact with about 300 of the company's former agents who, we believe, are anxious to begin writing business with the company again.

The new policies that we offer in Manhattan Life will be non-participating, the first non-par products the company has ever offered in its history. We expect that the company will write $2.0 million of new premium in the first year in which the four-product portfolio we have developed is available. Within the first five years, we estimate that new business premium will be over $5.0 per year.

In conclusion, we believe that Manhattan Life is a company that can be turned around, and we are eager to implement the plan of conversion. We encourage the superintendent to approve the plan, which we believe is in the best interest of the company's guarantee capital shareholder, its policyholders and in the public interest of the citizens of the State of New York.

Thank you. I will now turn the podium over to Jim Ramenda, from Northington Partners, Inc., our financial advisors for the conversion.

MR. SERIO: Before you pass it to Jim, there is a quick question on the business plan. I don't know if you are the best person to answer this or not.

When you talk about the agents and the new policy forms that you have on file or for our approval, can you give us a geographic sense on where you anticipate marketing your policies, the same jurisdictional base that you had previously or are you looking for other markets?

MR. GEORGE: We have two products that we filed with the department that have been approved and one that is in development will be filed soon and another product that has not yet been developed and to be filed.

Those products can be distributed through the existing agency force of Manhattan Life which will be primarily the same geographical concentration that the Manhattan Life had written before.

MR. SERIO: That part of that group of 800 -- I think you said.

MR. GEORGE: There are 300 actively receiving commissions from the company that we are in monthly communication with. And that we will talk to first about distributing new product.

MR. SERIO: Then in terms of the expansion you're looking to a larger agent base.

MR. GEORGE: Exactly.

MR. SERIO: Thank you.

MR. RAMENDA: Thank you, Superintendent Serio, members of the staff. My name is Jim Ramenda. I am a managing director of Northington Partners, Inc. a Connecticut-based investment banking and fund management firm specializing in the

insurance industry.

I am also a member of the Board of Directors of The Manhattan Life Insurance Company and its guarantee capital shareholder, The Manhattan Insurance Group, Inc.

My written testimony has been filed for inclusion in the record of this public hearing. I adopt my written testimony in its entirety as part of my testimony today.

Northington has acted as financial advisor to The Manhattan Insurance Group and the Manhattan Life Insurance Company in connection with evaluating its options and structuring the plan for converting the company into a stock life insurance company. Our firm is a shareholder in the Manhattan Insurance Group, a holding company that was formed in 1998 as part of a joint venture with Harris

Insurance Holdings and Central United Life Insurance Company, entities controlled by David W. Harris.

We were actively involved in evaluating the possible acquisition by Manhattan Insurance Group, Inc., then Connecticut Reassurance Corporation of the guarantee capital shares from Union Central Life Insurance Company in 1999. We were aware that Manhattan Life had a unique

corporate structure involving guarantee capital represented by shares, while operating on the mutual plan of insurance.

As such, it was a company that was not well understood by the financial community. We saw an opportunity for a turnaround situation, but only if the company were able to transform itself into an organization with a more conventional corporate structure.

As a guarantee capital insurer, the holders of the guarantee capital shares were entitled to vote in the election of directors, along with policyholders, and shared in the allocation of profits of the company with policyholders, based on a formula set forth in the charter.

Guarantee capital shareholders also were paid interest on the reserve representing their investment in the company. By the time the Manhattan Insurance Group acquired the guarantee capital shares, the interest of the guarantee capital shareholders accounted for most of the surplus of the company.

The Manhattan Life is a relatively small insurer, and because of its capital structure, with the inherent uncertainty between the interests of

guarantee capital shareholders and policyholders, raising new capital through the issuance of additional guarantee capital shares did not appear to have a great chance for success in the current financial markets.

We felt that, based upon its risk profile and size, it would be impossible for the company to achieve the kinds of returns that potential buyers of guarantee capital shares would expect.

Consequently, we believed that the only way the company could attract capital to finance its future growth was to convert itself into a stock insurer.

Fortunately, there was a specific procedure set forth in the New York Insurance Law for converting a guarantee capital insurer into a stock life insurer. It was quickly agreed that this opportunity deserved further study, and our role was, among other things, to evaluate the policyholders' equity interest in Manhattan Life.

During the course of this project, we participated in numerous meetings with management of the company, its actuaries, its legal counsel and its board of directors, and with members of the staff of the New York Insurance Department and the

superintendent's advisors. We have familiarized ourselves with the company's business and financial information supplied by prior owners and current management of the company.

Under Section 7310 of the New York Insurance Law, the policyholders' equity interest of a guarantee capital insurer includes all rights of policyholders under the charter of the insurer.

In Manhattan Life's case, this included the right to vote in the election of directors and the right to share in the distribution of profits. Although the Manhattan Life charter did not specify any liquidation rights of policyholders, we assumed that policyholders would have those rights as a matter of law, and took that into account in valuing the policyholders' equity interest of the company.

In our valuation studies, we were cognizant of the fact that in the five-year period preceding our acquisition of the guarantee capital shares, the company's financial condition had been deteriorating.

Its assets had declined at a compound annual rate of minus 3 percent, net premiums dropped by minus 10 percent and insurance in force by minus 8 percent.

The company had experienced operating losses in four out of those five years, and surplus had declined at a minus 5 percent compound annual rate.

Operating earnings and surplus were also adversely impacted by poor mortality, high interest obligations for annuity products, and asset quality problems, all of which were aggravated by declining economies of scale.

Consequently, we concluded that he policyholders' equity interest in the company had a relatively low value, and in fact, that that guarantee capital shareholders had been subsidizing distributions to policyholders in the form of policy dividends that, we believe, did not allow for even minimal growth in the surplus of the company.

Even in a liquidation scenario, we felt that substantially all of the value would be attributable to the guarantee capital shareholder, and very little residual value left for distributions to policyholders.

However, after further meetings with management and the staff of the department and its advisors, we concluded that, to effect a successful conversion of the company, a portion of the

guarantee capital reserve would have to be committed to provide a level of compensation to policyholders for their policyholders' equity interest that would be perceived as fair and equitable to the policyholders, and to the interests of the guarantee capital shareholder as well.

We believe that the value arrived at, $5.6 million, represents a successful balance to those interests, and we recommended that the company's board of directors approve that number as part of their approval of the plan of conversion.

In determining an appropriate level of policyholder consideration, we also assisted management and the board of directors in determining the form of compensation that would be payable to policyholders. We evaluated several different options, including cash, stock and policy credits.

Cash obviously offered the greatest liquidity to policyholders, but we believed that this option was inappropriate for a company in a turnaround situation, which was worried about further downgrades in its ratings by A.M. Best & Co.

We also evaluated the possible use of stock. However, the prospect of policyholders owning a relatively illiquid minority position in a

relatively small life insurer was not at all appealing.

In fact, just doing the math makes you realize that, with a $10 per share value, we would issue some $60,000 shares of common stock to 35,000 policyholders, or an average holding of about 16 shares each.

Of course, a large number of policyholders will receive only a minimum distribution of $50 for their policyholders' equity interest. If this were distributed in stock, they would have only five shares of stock.

This, of course, in a company that is controlled by a majority shareholder, The Manhattan Insurance Group.

There would have been no public market for these shares, and since they could be issued without registration under various exemptions found in federal securities laws, there would not likely be a public market for the shares in the foreseeable future, making them nearly completely illiquid.

While some might say that policyholders were giving up a relatively illiquid interest that might never have any economic value outside their policy interest, and which would be unrealizable if their policy lapsed, for an illiquid, but possibly ultimately realizable stock interest, we felt that there had to be a better solution.

Policy credits in the form of paid-up additions to life policies, increases in account values for annuity holders, and increases in annual payment amounts for policies in a payout status seemed an acceptable solution, because it would be of more utility than a share of common stock, and would reduce immediate cash demands on the company.

We believe that this method of compensation for the policyholders' equity interest is fair and equitable to the policyholders of the company.

Finally, I would like to just touch on the subject of our plans for raising additional capital. As we described in the policyholder information booklet distributed with the plan of conversion to our policyholders, A.M. Best has indicated that at least $15.0 millin of additional capital will be needed to maintain the company's A-rating.

We all understand that the capital markets were already approaching a period of weakness prior to the events of September 11, 2001, and since that time we have seen some headline-grabbing bankruptcies that have rocked the financial markets.

We are exploring several alternatives for raising the capital that will be required to meet Best's expectations, including the possible contribution of another Manhattan Insurance Group subsidiary to Manhattan Life, external borrowings, contributions from affiliates, and private sources of equity capital.

One thing that we can say for certain is that our task will be much less difficult if we don't have to try to explain how a loan to or an investment in a guarantee capital insurer differs from a similar transaction with a stock insurer.

We hope that, as the capital markets begin to regain their balance and sources of private capital become more active, the full range of options will be available to Manhattan Life as a stock life insurer.

Consequently, we join in support of the other voices raised at this hearing asking your approval of the plan of conversion.

Thank you.

MR. SERIO: Can you just give us a

two-minute explanation of the difference between a guaranteed capital insurer and a stock insurer, and why that is so difficult to explain?

MR. RAMENDA: I will give you an explanation. I will try to keep it to two minutes.

A guaranteed capital insurer owns the stock of the company, but the policyholders have certain ownership rights as well, voting rights, and what I would say unspecified rights to participate in earnings and surplus of the company.

And so an investor who buys these shares, they would buy them, say we offered new shares to someone, would naturally be concerned at what the definition of those rights of the policyholders are, and until -- up to such time as the company is converted it's not specified what they are.

And an investor looking at this situation is simply going to tell us come back when you're a stock company, because a stock company, shareholders have complete voting control, there is no question of who owns the stock of the company and what that means in a liquidation, for example.

So all the incidents of ownership are much more clear in a traditional stock situation than in a guaranteed capital situation.

MR. SERIO: Did the nature of the company as a guaranteed capital insurer play into the determination of how you were going to provide for a policyholder compensation, or is that more strictly a question of the financials?

MR. RAMENDA: That was more a question of the financials.

I guess indirectly it bore on the decision, because historically I think the complicated structure prevented the company from its history having the ability to access capital markets when needed or to manage the company with a clear set of vision, if you will, and so I think indirectly it may have contributed to the company's condition.

But the ultimate decision was based on the unfortunate reality of the company's decline over the last several years.

MR. SERIO: Thank you.

MR. RAMENDA: I'm turning it now to Al Bailey.

MR. BAILEY: Good morning. I am Allen Bailey, and I am president of Allen Bailey & Associates, Inc. of Austin, Texas. We are consulting actuaries, and I am appearing today on

behalf of The Manhattan Life Insurance Company, which is seeking the superintendent's approval of a plan of conversion adopted by its board of directors on November 15, 2001.

My written testimony has been filed for inclusion in the record of this public hearing. I adopt my written testimony in its entirety as part of my testimony today.

We were retained by the company as consulting actuaries in connection with its conversion from a guarantee capital company to a stock life insurance company. We advised the company on various actuarial matters, including 1) preparation of the plan of operation and actuarial projections for the plan of conversion, 2) development of formulas to be used in determining the allocation of policyholder consideration to eligible policyholders of the company under the plan, 3) assistance in drafting a dividend protection mechanism established by the plan and 4) preparation of various opinions we have provided the company relating to the plan, including our opinion as to the fairness of the plan to eligible policyholders of Manhattan Life.

Today, I would like to highlight some of

the work we performed on behalf of the company, and lend our support to the company's requires that the plan of conversion be approved by the superintendent of insurance as fair and equitable to the policyholders of the company.

First, a word about our firm. As I said a moment ago, we are consulting actuaries, with broad experience in the life and health insurance industry. Five of our professional staff are fellows in the Society of Actuaries, and one is an ASA. All are members of the American Academy of Actuaries.

We perform a broad range of actuarial work for our clients, from product design and development, to mergers and acquisitions to examinations of New York domiciled insurers on behalf of the New York Insurance Department.

During the course of our engagement, we received extensive information from the company and developed expected future cash flows from assets held by the company. We also developed liability cash flows from experience underlying the company's insurance business.

We participated in numerous meetings and conference calls with management of the company, its

financial and legal advisors, and with the staff of the New York Insurance Department and its advisors.

We spent a good deal of time researching the actuarial literature regarding the fair and equitable treatment of policyholders in demutualizations, which were analogous to the conversion of a guarantee capital insurer to a stock insurer.

We found a report from the Society of Actuaries that set forth some basic principles to use in determining the relative contributions of policyholders to the surplus of the mutual insurer, and it concluded that it was the excess of the amount of assets accumulated in the insurer attributable to a particular policy or group of policies over the amounts required with future premiums to mature the policy or group of polices and to pay dividends.

In effect, what one would calculate would be the accumulated value of past contributions to surplus for each policy or group of policies, plus the present value of future contributions to surplus, and use the resulting ratios to determine a proper allocation of the policyholder consideration by policy and policy group.

We felt that the principles enunciated by the Society of Actuaries had validity for what we were trying to do in allocating the policyholder consideration in the conversion of Manhattan Life to a stock insurer.

We also took into account the fact that the eligible policyholders of the company had certain intangible rights described as their policyholders' equity interest, which included their right to vote in the election of directors and the right to share in the distribution of profits.

We determined that a minimum allocation of $50 per policy recognized the value of those intangible rights and would assure that every eligible policyholder would receive some distribution. We thought this was both consistent with the allocation methodologies described in the actuarial literature, as well as being fundamentally fair and equitable to the policyholders of the company.

We have rendered an opinion to the company that the proposed methods for allocation of policyholder consideration to eligible policyholders in exchange for their policyholders' equity interest is based on actuarially sound methodologies,

assumptions and procedures, and produces an allocation of consideration that is fair and equitable to the eligible policyholders of Manhattan Life, and we stand by that opinion.

During the course of our engagement as consulting actuaries to the company, we also participated in the preparation of a dividend protection mechanism that was incorporated into the plan of conversion.

The company will not issue any participating policies following its conversion to a stock insurer. Therefore, the only participating policies that will be outstanding and which are eligible to receive consideration under the plan, are those that were in force on the date the plan of conversion was adopted by the board of directors of the company.

The dividend protection mechanism provides a means for protecting the policy dividend expectations of those policyholders. It provides that the dividend scales for those policies that were issued prior to the conversion and which were in effect for the dividend year beginning on May 1, 2001 would be continued by the company if the experience underlying such scales continues, but

would be subject to appropriate adjustments in those scales if the experience changes.

To implement the dividend protection mechanism, the company has established for various classes of policies; 1) guidelines for mortality, investment, and expenses to serve as benchmarks as they relate to future experiences; 2) a methodology for measuring deviations from the base year assumptions described above and 3) a mechanism by which any deviations from base year assumptions can be reflected in the calculations of policy dividends in future years.

We have provided documentation to the New York Insurance Department, as required by the plan of conversion, setting forth the specifics of this methodology and resulting mechanism in a memorandum to Dominick Cavallo dated February 1, 2002.

We believe that this memorandum, which we discussed extensively with the department and its advisors, will be satisfactory to the department. The company cannot change the bases and methods se forth in the memorandum without the prior approval of the superintendent.

I would like also to take a moment to comment on the proposed form of policyholder

consideration to be distributed under the plan.

As you know, the plan of conversion

provides that eligible policyholders will receive consideration in the form of policy credits in exchange for the extinguishment of their policyholders' equity interest.

In case of holders of life insurance policies, these policy credits will be in the form of non-forfeitable paid-up additions to their policies, without cash value.

During the course of our engagement, we were asked to examine whether the non-forfeitable paid-up additions without cash values produces a benefit to eligible policyholders at least as favorable as would be derived by compliance with Section 4221(a)(4) of the New York Insurance Law.

In effect, that would allow the superintendent to conclude that the policy credits that will be distributed to life insurance policyholders complied with the Standard Nonforfeiture Law found in Section 4221 of the New York State Insurance Law.

We have concluded that the paid-up additions were calculated on a current assumption basis, interest and mortality, which also ignores any loading for expenses, commissions and profits. This results in values higher than those which could otherwise be obtained in the current marketplace.

On this basis, we concluded that the paid-up additions to be issued to eligible life insurance policyholders produce a benefit at least as favorable as that which would be derived by compliance with Section 4221(a)(4) of the New York Insurance Law.

Finally, I would also like to add that we have offered the opinion, in reliance on certain data provided to us by Kent Lamb, the chief financial officer of the company, that the consolidation of policyholder records and the processing relating to each policyholder's form of policyholder consideration were consistent with the rules documented in the plan of conversion.

In conclusion, we support the proposed plan of conversion and believe that the terms and conditions of the exchange of the policyholders' equity interest for the policyholder consideration as provided for in the plan of conversion is fair to the eligible policyholders of Manhattan Life.

We urge the superintendent to approve the plan of conversion.

Next, the company's legal adviser, David Knoll.

MR. KNOLL: Thank you, Allen.

Good morning. My name is David Knoll. I am a shareholder in the Texas law firm, Winstead Sechrest & Minick, P.C. I am pleased to appear this morning to testify in support of The Manhattan Life Insurance Company's request that the superintendent of insurance of the State of New York approve the company's plan to convert itself from a guarantee capital insurer into a stock life insurer in accordance with the provisions of Section 7310 of the New York Insurance Law.

The main purpose of my testimony this morning is to review how Manhattan Life's plan of conversion and the actions taken by the company in connection with the plan will have satisfied each and every requirement of the New York Insurance law, and fully warrant an order by the superintendent approving the plan of conversion.

My written testimony, which contains complete details about the steps the company has taken and will take to implement its conversion, has been filed for inclusion in the record of this public hearing, and I adopt my written testimony in

its entirety as part of my testimony today.

My firm, and firms in which I have previously been associated, have acted as legal counsel for Mr. Harris and his insurance interests for close to 20 years. We represented the Manhattan Insurance Group in the acquisition of the guarantee capital shares from Union Central Life Insurance Company in February 2000 and have been actively involved with the management of Manhattan Insurance Group and the Manhattan Life Insurance Company in drafting the plan of conversion and related materials filed with the New York Insurance Department in connection with the plan.

In that connection, we have participated in several meetings and conference calls with the staff of the New York Insurance Department and its advisors, and have rendered legal and tax opinions to the superintendent and board of directors of the company that are on file with the department and which we incorporate by reference into the record of the hearing this morning.

Under the plan of conversion adopted by the board of directors of Manhattan Life at a meeting held on November 15, 2001, the company has elected to reorganize itself by converting into a

domestic stock life insurer; will issue shares of common stock to its guarantee capital shareholder, Manhattan Insurance Group, Inc., in exchange for all of the outstanding guarantee capital shares of the company, with the result that it will become a wholly-owned subsidiary of Manhattan Insurance Group, Inc. and will distribute policy credits to its eligible policyholders in exchange for the extinguishment of their policyholders' equity interest, as defined in Section 7310 of the New York Insurance law.

During the course of my testimony this morning, I will simply refer to the statute authorizing the reorganization of domestic guarantee capital insurers as Section 7310.

While reorganizations under Section 7310 are, in many respects, similar to a demutualization of mutual insurers under Section 7312 of the New York Insurance Law, there are important distinctions between the two statutes.

In particular, Section 7310 provides for a balancing of the interests of the guarantee capital shareholders with the policyholders of the guarantee capital insurer, and requires that the superintendent in approving the plan of conversion,

make findings that the proposed reorganization does not violate the insurance laws of the State of New York, and is fair and equitable to the shareholders and the policyholders of the guarantee capital insurer and the public.

We believe that the plan before you this morning satisfies those requirements and should be approved.

Upon adoption of the plan of conversion, it was filed with the Superintendent of Insurance in accordance with Section 7310. We are at the next step in the process, which involved the review and approval of the plan by the superintendent, and this hearing is a part of that step.

Two weeks from now, a special meeting of the guarantee capital shareholders and policyholders of the company to consider and act on a proposal to approve the plan of conversion, will be held.

Timely notices of the hearing and special meeting, as required by law, were sent to the eligible policyholders and guarantee capital shareholder of the company, accompanied by a complete copy of the plan and summaries of exhibits in a form that was previously filed with and approved by the New York Insurance Department.

Mailing of the notices and accompanying materials were completed by January 15, 2002, within the time frame set by Section 7310. Required newspaper notices of the hearing were also published as required by Section 7310.

If the plan of conversion is approved by the superintendent and the eligible policyholders and guarantee capital shareholder of the company, on the effective date of the plan, Manhattan Life will convert itself into a stock life insurance company organized under the law of the State of New York, and will succeed to all of the rights, franchises, and interests of the company as a guarantee capital insurer, and all properties and choices of action in the company as a guarantee capital insurer will automatically vest in the company as a stock insurer.

The reorganized insurer will also assume all of the debts, obligations and liabilities of the company as a guarantee capital insurer, except for those constituting the policyholders' equity interest eliminated in the conversion.

I want to emphasize for the record that none of the officers, directors or employees of the company, Manhattan Insurance Group, Inc. or and of

their affiliates will receive stock or cash compensation in connection with the conversion of the company to a stock insurer.

However, certain members of the board of directors of the company may receive an indirect benefit as shareholders of entities controlling the company. The company will not implement any employee stock purchase plan following the conversion and will seek the approval of the superintendent if it desires to do so within three years of the effective date.

I also want to stress that, while the policyholders' equity interest will be extinguished by virtue of the conversion, nothing at all will happen to the insurance coverage provided policyholders under their existing Manhattan Life policies.

Any compensation provided to policyholders under the plan of conversion will be in addition to the benefits provided under their policies. The conversion will not diminish policy values, benefits, guarantees or dividend eligibility, or increase premiums under the policies in any way.

I, and my colleagues who have also

testified with me today have provided written statements that are on file as part of the record of this hearing, and which provide further details concerning the plan, the materials filed with the New York Insurance Department and the procedures followed by the company in seeking the approval of the plan, and the manner in which the amount and form of compensation payable to policyholders have been determined, as well as certain tax information.

With respect to tax matters, we have provided our firm's opinion to the board of directors of the company that the receipt of the policy credits by eligible policyholders of the company in consideration of the extinguishment of their policyholders' equity interest will not result in the recognition of any taxable gain or cause their policies to be regarded as newly issued policies resulting in the loss of certain grandfathered tax treatment under federal income tax laws solely by reason of the conversion and the receipt of policyholder consideration in exchange for their policyholders' equity interest.

Further, the company has agreed to indemnify any policyholders of the company in the event the IRS rules that the distribution of

policyholder consideration will result in current federal income tax or loss of grandfathered status by the company's policyholders.

We have also provided to the superintendent our opinion that the plan of conversion complies with the requirements of Section

7310 and does not violate the New York Insurance Law, and that the issuance of policy credits to the holders of life insurance policies in the form of nonforfeitable paid-up additions without cash value can be done consistently with the provisions of Section 4421(a) of the New York Insurance Law.

This morning, you have heard testimony from David Harris, chairman of the board of the company; Dan George, president and treasurer; Jim Ramenda, of Northington Partners and financial advisor to the company; and Allen Bailey, the company's consulting actuary.

I believe that the testimony of these individuals, the written statements filed on their behalf and the materials filed with the New York Insurance Department in connection with the plan of conversion demonstrate in a compelling fashion that the plan meets the requirements of New York law, and that the superintendent should approve it under the

provisions of Section 7310, and I respectfully request that you do so.

Thank you very much for the opportunity to be here.

MR. SERIO: Thank you.

I want to follow up with a question. I'm not sure who is best to address this, several people have spoken about the policyholder credit as the exclusive distribution channel for a policyholder compensation.

That's not happening immediately, but over a period of time.

Who is best to take that one on, just explain what the process is in terms of policyholder credits, and how the policies will be credited for that value.

MR. GEORGE: Administratively within 45 days after approval, the policyholders will receive a statement of policyholder consideration which is printed on 8.5-by-11 paper that outlines how their policy credits become effective.

The policy credits become effective in three steps; 40 percent upon approval of the plan, an additional 30 percent at the one-year anniversary, and the final 30 percent at the

second-year anniversary, and that will be detailed on that statement of policyholder consideration.

At the first anniversary and at the second anniversary they will also receive that same statement showing the progression of their benefit.

MR. SERIO: Can you give us a sense of the purpose of that, as opposed to an immediate distribution?

MR. RAMENDA: I think the concerns went to liquidity over giving, in the case of annuity holders in particular, a lump sum of cash immediately available that there might be initial temptation to just take the money out of the company, and that would defeat the purpose of trying to conserve the cash for which we opted to pursue the policyholder credits as a means of compensation.

So the idea was to stave off or spread out any liquidity impact that might arise.

MR. SERIO: Any further these gentlemen would like to add to the record?

I appreciate that.

I'll keep you here and we don't have anybody registered to speak, any other parties registered to speak.

If there is anybody from the audience who wishes to speak at this hearing, I would be happy to have you come to the microphone and the aisle, state your name, your affiliation and provide us with your comment.

MR. BAKER: Thank you. My name is Paul Baker. I'm from Atlanta, Georgia. I have been a general agent for Manhattan Life since 1972.

During that time, we have hundreds of policyholders who have been counting on this company to provide security for their family. I have had numerous phone calls concerning the conversion. I have listened with some interest today, I came up here purely and simply without the idea of saying anything, but after hearing the report of all of these people, I am thoroughly convinced this is the right answer, and certainly I will recommend as a general agent the approval of this plan, purely to protect my personal reputation as well as the reputation of the company.

Thank you.

MR. SERIO: Thank you, Mr. Baker.

Other interested parties? Any comments?

Mr. Baker, thank you for coming up from Atlanta for that.

The record will remain open, the

testimony will be available on our website.

MS. SAMERS: I can't give you an exact date, as soon as reasonably practical the transcript of this hearing will be on our website, and copies of the written testimony of any of the speakers will be available by calling our press office at the department.

MR. SERIO: You can get that at www.ins.state.ny.us. That is our website address, and our number is 212-480-5265, is our press office, and they will have that testimony.

Hearing no further interest or comments, we will leave this record open as I said and we will adjourn this hearing.

Thank you.

(Time Noted: 10:50 a.m.)

C E R T I F I C A T I O N

I, ROBERT BLOOM, a Shorthand Reporter and a Notary Public, do hereby certify that the foregoing is a true and accurate transcription of my stenographic notes.

I further certify that I am not employed by nor related to any party to this action.

ROBERT BLOOM,
Shorthand Reporter