13-Feb-2014

ING U.S., Inc. (VOYA)

Bank of America Merrill Lynch Insurance Conference

CORPORATE PARTICIPANTS

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.

Ewout L. Steenbergen
Chief Financial Officer & Executive Vice President, ING U.S., Inc.

Alain M. Karaoglan
Chief Operating Officer, Director & Executive VP, ING U.S., Inc.

OTHER PARTICIPANTS

Seth M. Weiss
Analyst, Bank of America Merrill Lynch

MANAGEMENT DISCUSSION SECTION

Seth M. Weiss
Analyst, Bank of America Merrill Lynch

...introduce Rod Martin, Chairman and CEO of ING U.S. Prior to his role at ING U.S., Rod was CEO of American General and had various leadership positions at AIG. ING U.S. is the newest public company that we cover. It IPOed in May of last year and I believe this is going to be the last time I introduce Rod as part of ING U.S. as they're undergoing a rebranding initiative, rebranding as Voya Financial and will officially change its name in April.

With that, I'm going to turn it over to Rod for his presentation and then joining him for Q&A, will be Alain Karaoglan, Voya's COO and Ewout Steenbergen, Voya's Chief Financial Officer.

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.

Seth, thank you and good morning everyone. Particularly on a little bit snowy morning in the north, this is a very comfortable place to be.

I'm reminded to call to your attention the forward-looking statements and cautionary statements that you'll see on slide two. We will be talking about some non-GAAP measures and some forward-looking information in today's presentation. So with that as a backdrop, let's begin.

It's a pleasure to be with you to share ING U.S.' investment narrative. Let me highlight some of the key elements of our investment narrative and discuss our focus on execution to drive our ROE improvement.

First, we have a leading franchise in attractive markets. Second, we have a strong track record of execution with a 12% compound annual growth rate in operating earnings from 2010 through 2013. Third, we have an experienced management team executing a comprehensive ROE improvement program. In fact, we've targeted a 400 to 500 basis point increase in the ROE to 12% to 13% by 2016. And fourth, behind the strength of our retirement solutions, Investment Management, and Insurance Solutions business, we've cast our vision to be America's Retirement Company. ING U.S. is dedicated to helping Americans become both financially and emotionally ready for retirement. This vision guides our efforts to provide our customers and clients with quality asset accumulation, protection, and distribution products and services plus guidance and advice.

ING U.S. is one of the largest retirement-focused companies in the financial services industry. We have more than $511 billion in assets under management and administration. More than 13 million customers, more than 200,000 points of distribution and over 7,000 employees dedicated to helping Americans and our customers with their retirement readiness. Our ongoing business has a diverse earnings profile that generated $1.2 billion in operating income and operating earnings in 2013 and approximately 74% of those earnings came from retirement solutions and investment management, which are our least capital intensive businesses. The remaining 26% from insurance solutions.

2013 was a year of extraordinary transformation and value creation for ING U.S. First, we executed the initial public offering of Voya and the Voya stock in May and the secondary offering in October, which reduced ING group's ownership stake to approximately 57%. For U.S. IPOs larger than a $1 billion, ING U.S. had the second best performance in 2013, increasing by 80%. In fact, only Twitter's IPO outperformed ING U.S. last year.

Now, we're pleased with that performance, but we remain deeply committed to executing our plan and adhering to our financial discipline.

Second, we completed our recapitalization plan by accessing the capital markets on five separate occasions. And we did this, while maintaining an RBC ratio above our target of 425% throughout the year, including an estimated 504% RBC ratio as of year-end 2013.

And finally, as was just announced or discussed by Seth, we introduced Voya Financial, our new brand, which is a derivative of the word 'Voyage' and symbolizes the journey that all Americans are on to become retirement ready. And we recently announced that ING U.S. would officially change its name to Voya Financial on April 7. We are excited about the transition to Voya Financial and will move in a deliberate manner to ensure a seamless transition for our customers, our clients, and our distribution partners.

ING U.S. has identified three sources of value creation. Our first source is our ongoing business; the second is the potential value in our Closed Block Variable Annuity segment; and the third is the potential upside in our tax assets. I'm going to highlight the three components of our investment narrative. We've established a solid foundation. We have a premier franchise and we're focused on driving ROE improvement.

So let's talk about our solid foundation. Our management team is transforming the culture from a past that was focused on top line measured by league tables to a company focused on value creation. And today our value creation philosophy emphasizes efficient capital management, improving the profitability of the ongoing business, maximizing the synergies between the operating segments and increasing operating efficiencies. And our value creation philosophy is anchored in three key metrics, risk-adjusted returns, distributable earnings and sales at or above our targeted IRRs.

We've established a solid foundation to create long-term value for our shareholders. And at the center of our value creation philosophy is our plan to improve our ROE to 12% to 13% by 2016. And we're currently executing on over 30 ROE improvement initiatives. In 2013, we improved our ROE by 200 basis points to 10.3% from 8.3% in 2012.

In addition, we've strengthened our balance sheet, stabilized our ratings and ratings outlook, de-risked our investment portfolio and prudently managed our Closed Block Variable Annuity segment with a hedge program designed to protect regulatory and rating agency capital.

With respect to our Closed Block Variable Annuity segment, we've undertaken some very decisive actions over the past several years. For instance, ING ceased sales in early 2010 of variable annuities. We've increased reserves. We've developed a hedge program designed to protect capital from market movements and we're proactively managing this closed block to optimize value for our stakeholders.

With that as an overview, I want to turn to the growth of our premier franchise, which we manage from a one ING U.S. perspective.

While each of our businesses are strong on its own, it's the power of those businesses coming together that allows us to deliver a differentiated value proposition. Our Retirement, Investment, and Insurance businesses are the foundational building blocks of our franchise. With these three businesses, we are able to offer our customers and our clients quality asset accumulation, protection, and distribution products and services in addition to guidance and advice.

Our entire organization is committed to helping Americans become both financially and emotionally ready for their retirement years, as retirement readiness is one of the most daunting financial challenges facing Americans today.

Retirement Solutions is our largest earnings contributor. We are one of the largest defined contribution retirement plan providers in the U.S. and our business profile converges with some very powerful demographic trends to present us a solid growth prospects. Investment Management is our fastest growing business, the key to profitable growth with our Investment Management platform is to convert our strong investment track record into scale on our higher margin asset management categories. In fact, 93% of our fixed income assets and 84% of our equity assets outperformed their benchmark returns on a five year basis in 2013.

Insurance Solutions is our refocused business, and we're focused on product segments of the market that best match our lower capital, higher return approach to the market, such as our indexed Universal Life product portfolio. And while we've scaled back our presence in individual life, we see opportunities to expand our employee benefit business particularly in the stop loss, group life and voluntary benefit areas.

Retirement Solutions is a market-leading platform and franchise that will drive our long-term growth. We're well positioned in all segments of the defined contribution market, 401(k), 403(b) and 457. In fact there are very few retirement plan providers with a scale presence in each of these market segments. We offer a comprehensive suite of retirement income solutions to meet plan participant needs and we have access to these individuals through more than 50,000 plan sponsor relationships.

In fact the breadth of our expertise can be demonstrated by a case win that occurred in late 2013, it was a multi-employer plan arrangement that included $2 billion of assets, 2,800 plan sponsors and 57,000 participants. We also earned a $1 billion investment management mandate with that case win, which demonstrates to us the synergies between Retirement Solutions and Investment Management.

As I mentioned a moment ago, we have over 30 ROE initiatives underway. Specifically within Retirement Solutions, we're benefiting from initiatives such as improving the economies of our full service corporate markets book through repricing and lowering of crediting rates, we're running off less profitable business like our multiyear guarantee and our annual reset blocks and we're driving growth of our individual markets business through investments in people, products and technology.

Our Investment Management business has a scalable platform that leverages its strong investment performance. Our key growth initiatives include growing our third-party business, improving our sales force productivity, expanding our share in higher fee asset categories, as I mentioned just a moment ago, our strong investment performance 93% of our fixed income assets, 84% of our equity assets, outperformed their benchmark returns on a five-year basis in 2013.

In Insurance Solutions, we're focused on capital efficient products and aligning our costs with our new targeted level of sales. For example, with an individual life segment, we've shifted our sales focus to the index product portfolio and we've cut our administrative expenses by over 13% in 2013 from 2012. Our key initiatives in addition to that include improving our loss ratio for stop loss, expanding our voluntary benefit business and adjusting crediting rates where possible.

Now, let's turn to our ROE improvement program. We're making steady progress toward our ROE target of 12% to 13% by 2016. We have a comprehensive plan with clear goals to improve profitability, efficiently manage our capital and focus on ROE and ROC as the key measures of our success. We developed our plan in 2011 with our executive committee, McKinsey and Milliman.

We executed a series of business performance reviews and diagnostics to better understand the profitability and capital intensity of our products and our businesses. And during this assessment phase, more than 30 ROE initiatives were identified and a detailed roadmap was created for executing our plan. We have clearly defined projects, milestones, deadlines and reporting tools in each of these initiatives, so there would be an infra structure in place to track and measure the success.

We have established a robust governance structure that involves actively managing each one of those work streams. We identified a baseline ROE of 8.3% in 2012 and we established our goal to reach an ROE of 12% to 13% by 2016, which is a 400 basis points to 500 basis points of improvement. We focused on ROC for the businesses because we did not allocate debt to the business units. We established our goal, identified a baseline of ROC of 7.2% in 2012, and we established our goal to reach an ROC of 10% to 11% by 2016, which is a 300 basis points to 400 basis points of improvement. To achieve these goals, we need and expect tangible improvement each year, which equates to approximately 110 basis points of ROE improvement on average per year.

What I really like about our plan, it's really all about our execution. We're also making steady progress with our ROC. Our ROC improved 140 basis points to 8.6% in 2013, up from 7.2% in 2012 and we're making steady progress toward our 2016 ROC of 10% to 11%. Our margin, growth and capital initiatives each contributed to the ROC improvement. Our margin initiatives were the primary drivers contributing 112 basis points of improvement. They included repricing actions, the runoff of less profitable assets, aligning our costs with lower sales in certain capital intensive products and in 2013, we also achieved $30 million of cost savings as part of our long-term plan to reduce costs by $100 million by 2016.

Included in the margin initiatives were several notable items that contributed 42 basis points, these include limited partnership income, prepayment fee income and record keeping change orders in excess of our normalized run rate.

Second, our growth initiatives contributed 39 basis points, these partially reflect higher fee-based margins on assets under management and administration which were due in part to positive net flows from both the Retirement and our Investment Management business.

Third, our capital initiatives contributed 40 basis points, these include reinsurance actions and progress in shifting the composition of our product portfolio to less capital intensive products. And finally, low interest rates negatively affected our ROC by 44 basis points. While the effective low interest rates were factored into our plan, the increase in rates following the IPO has mitigated some of that expected impact through 2016.

Each of our businesses contributed to our ROE and ROC improvement. Reaching our 2016 ROE and ROC targets involves all of our businesses and functions, there is no silver bullet. If we achieve our targets, we would expect to generate $1.2 billion to $1.4 billion in excess capital by 2016 after funding new business strain and holding company expenses. And we expect to provide you an update on our capital position at the latest during our first quarter 2014 earnings call. Let me quickly recap our investment narrative for you.

We're pleased with our steady progress that we're making with our transformation. ING U.S. is a premier franchise with leading positions in attractive markets. The management team is committed to continuing executing on our ROE improvement program. We'll build on our solid foundation, which is based on a recapitalized and de-risked balance sheet. We have three solid businesses offering quality products and services to meet our customers' and clients' needs, for asset accumulation, protection and distribution. We've got an exciting new brand. We have a lot of confidence as we head into 2014 based on our track record and continued focus on execution.

And with that I will ask, Alain, our Chief Operating Officer, and Ewout, our Chief Financial Officer to join me on stage as we begin the Q&A segment of our session. Thank you.

QUESTION AND ANSWER SECTION

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.
A

Do you have question or are you raising your hand?

Seth M. Weiss
Analyst, Bank of America Merrill Lynch
Q

I have quite a few, but open, of course, for everyone else. Maybe we could start just to talk about the Closed Block VA and you laid out the ROE progression plan for the ongoing book of business. Of course the overall ROE is somewhat pressured by capital allocated to the Closed Block. What options are you considering for capital release going forward there? And how has the change in capital markets, that's higher equity markets or higher interest rates which have actually changed pretty sharply since the IPO, impacted those options?

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.
A

Ewout, you want to start?

Ewout L. Steenbergen
Chief Financial Officer & Executive Vice President, ING U.S., Inc.
A

Yeah. Let me start and give a few of the statistics around the block and then we can speak afterwards about some of the strategic options. So, if you look at the risk of the block, you can measure that in different ways, so one of the metrics we use very often is called the net amount of risk for living benefit. So this is basically what kind of exposure do we have above the account values in terms of potential payouts we have to do to the customers. If you look where the block was one and half years ago, there was a number somewhere between $5 billion to $6 billion, where we are today or at the end of 2013, the net amount of risk came down to $2.2 billion, so a very sharp drop of the net amount of risk.

If you look at the resources we have put aside for this block at the end of year and now I'm looking at that from a statutory basis or the statutory resources we have put aside. At the end of the year, we were at $4.1 billion, so $4.1 billion of resources and these are statutory reserves as we announced yesterday during our earnings call for the living benefits, for the death benefits and cash flow testing reserves of $3.3 billion, and then we have another $800 million of additional assets aside from a statutory basis for this block. So in other words, clearly very good improvement, the risk profile is coming down, we have a significant assets still a side to deal with the block, so all very positive.

We are focusing for this block in terms of the prime objective to protect regulatory and rating agency capital, because the most important is that this block doesn't create any capital surprise, and therefore we are very comfortable where we are today and the capital surprises on the statutory basis, so therefore we are still focused on a statutory basis.

If you look at the GAAP capital, what is allocated to this block, is very interesting if you would lo ok at where we were at the IPO of ING U.S., approximately 36% of the overall company's capital was allocated to the closed block variable annuity. In the meantime, our total capital has gone up, our book value has been growing since by over $1 billion and of that higher book value, now 21% is back into Closed Block Variable Annuity. So, in other words, more capital and a lesser, much lower percentage that is now needed for the Closed Bloc, and another very positive sign of how this book is developing.

Rod would you like to speak about the strategic options?

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.

A

Sure. So as we discussed during the road show, we put a significant amount of capital behind this book as you pointed out, in fact, with your question. And we're asked frequently and quite understandably what alternatives are you contemplating and kind of on what basis would that thought process be evaluated? And the piece that we've signaled to the market is, we'll give an update first no later than the end of the first quarter on the cash flow analysis that we did and we shared with the investment community and investors during the road show. So, we'll update that as of year-end numbers and give you that no later than the first quarter earnings call, that's step one.

Step two, given the amount of resources we've committed to this, we're going to do something that's economic for all stakeholders. This business and block has improved significantly, as Ewout has pointed out and so we a re open to and believe we're evaluating kind of all alternatives and ideas that you would expect us to be looking at in the course of anyone that has a block of business and looks at these alternatives. You all know we have a large book of business and there is not likely a singular silver bullet to this solution. So, we're going to doing something that makes sense and one of the points of value that I talked about was the amount of capital we've committed to this and we signaled during the IPO Road Show, do not expect a return of that capital on this book of business sooner than five years.

We did that to be conservative. We are highly motivated and aligned, I think, with all shareholders, if we can find a solution that makes sense, we would certainly consider that, but we've given and we've put a lot of resources behind this business. We're going to smart about it for all stakeholders as we go through this, and I think the first step is to update that cash flow analysis, give you a perspective on the first quarter call on where we are and the alternatives we're considering.

Seth M. Weiss
Analyst, Bank of America Merrill Lynch

Q

Maybe just one follow-up on that, given the size of the block and I think it's about $40 billion in terms of the EBITDA balances. Would it need to be one singular solution, is there anything about the block that makes it need to be one singular solution or are there solutions available for reinsuring or offloading portions of the block?

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.

A

I don't think it absolutely needs to be one single solution, it could be a combination of ideas and we're certainly looking at those. So we are – please don't look at Closed Block. I've said this during our road show, as passive management. We have a substantial amount of capital behind this book of business, we take this every bit as seriously in managing that capital as we do the ongoing business. And we're going to do – we're going to behave in a smart and predictable economic way with this book of business and we think, given the amount of resources we've committed to it, that makes sense.

Q

I just had a question on the brand name, Voya, should we expect the temporary slowdown in sales because of it? And will you be spending incrementally more on advertising to promote the new brand?

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.

A

So, let's take it in two steps. We've been very thoughtful about how we've gone about this process as you probably would expect, and by the way of example, we very intentfully at the listing wanted to pick a stock ticker symbol that wouldn't change when we moved to a new name and that was VOYA. We also wanted the stock ticker symbol to be not some interpretation of our name, so again, VOYA.

We also promised our distribution partners and our institutional clients that we would give them a long runway in terms of the process, and so at the time we announced the name, which was some period of time ago, in fact right before or right at the IPO, we've had very active communications with both stakeholder groups, our distribution partners and our institutional customers. And at this point, this is the kind of season that you have meetings with those stakeholders, and I've been to a number of them just recently, for example, it's really where at least I wanted it to be and that's, get on with it. I mean, we know it's coming, we're there, we're mentally prepared for this, get on with it. And so we've got a staged approach as we just announced: the holding company on April 7, Investment Management and Employee Benefits on May 1, the rest of the business on September 1.

And we're doing that in a staged way so we can just be deliberate and thoughtful, and not miss any deadline. So it's an awful lot of – and you've been all through this with other companies, what I call wiring and plumbing that's needed to just change all of those things.

So we signaled it, I think very comfortably well a year in advance. Alain and Ann Glover and our branding team have done a terrific job of, I think, the communication process with all stakeholders and people are excited about it. We're really ready to move on to this. So I don't think there will be and I'm not expecting any drop off in sales as we go through this.

The expense piece, there's two components of that. We talked about actually both of those on the earnings call yesterday. One is, the operational rebranding piece, think about that as the plumbing and wiring that you have to do to change all the legal entities and all of the stuff on websites to get that done. That cost, Alain, is $50 million. That is a 2014, 2015 expense?

Alain M. Karaoglan
Chief Operating Officer, Director & Executive VP, ING U.S., Inc.

A

Yeah.

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.

A

And that number hasn't changed. We've been discussing that number for some period of time. The amount of additional marketing we're going to do, we're still debating, and maybe Alain, you want to just talk a little bit about that?

Alain M. Karaoglan
Chief Operating Officer, Director & Executive VP, ING U.S., Inc.

A

Yeah. So, we haven't announced yet the number in terms of dollar amount on advertising that we're going to spend. It is costly to rebrand, but we will do so at the appropriate time. And one of things that we want to make sure is that every dollar we spend, we get tremendous value. In fact, Jay, what we'd like to do is not to see a slowdown in sales but a pickup in sales as we advertise. We have very well staged in terms of Investment Management Employee Benefits and, in September, the rest of the business. And a lot of our customers are also institutional customers where you get a chance to have a conversation. And so, the impact of the rebranding may not be as significant as a retail brand that has to rebrand. But we will announce at some point in time this year, what our expectation in terms of advertising. We will make sure that we get enough out of it and that our brand awareness scores are as high if not better as anyone else that has rebranded before.

Q

Yes. Concerning the Closed Block from a credit perspective, I understand what you're doing is to try to have the hedge program protect reg capital and rating agency capital. Could you maybe give us a broad brush view of what would cause a tail risk outcome? What would cause the hedging program to kind of go off the rails, what macro factors or external factors would you have to see? And I also have a follow-up.

Ewout L. Steenbergen
Chief Financial Officer & Executive Vice President, ING U.S., Inc.

A

So, let me explain a bit what is exactly the different components of our hedging program. So the hedging program is stated around the movements of the liability in case of a market shortfall for equity markets and interest rate risk. And the most important is that our equity hedges, which are more short future positions as well as our growth hedges which are more swap positions that they are able to offset the liability movements in case the market turns negative, that those hedges provide sufficient offset for the additional statutory reserves we have to post or the additional rating agency requirements we have to hold in such a situation. So it's more a shock kind of offset that we are able to cover.

If you look at the hedge effectiveness, it's very positive, it's very strong, and we are showing it every quarter. You see the difference between how the hedges have moved as well as how the reserves on a statutory basis have moved. And over the last few quarters the hedge program is having a very high hedge effectiveness. When you speak about what is really the tail risk, that is more a secondary order effect. So what is happening in case markets go down or markets go up, let me speak about the up scenario, it is more the secondary order effect that is then going to help.

So markets go up, we'll see higher fee income over our asset balances, so the gross fee income is going up. We see the hedge notionals that come down in such a scenario, because the policies get more out of the money, so the hedge costs are coming down. If the policies get more out of the money, we see a pickup in the lapse rates and so the lapses go up, because the lapses are dynamic and we expect higher lapses where there is lower in-the-money ness, so the book is running off faster and that is the overall positive development. So the hedge program is really focused on the short-term impact and to deal with it, but a long-term impact with respect to positive markets as we have seen over the last half year, three quarters, that is really helpful for the book and if for example, if you look at the lapse rates for the last quarter, the fourth quarter of 2013, that was for the first time over 10% on an annualized basis, so another very positive development.

Q

All right. That's what I'm trying to get to. It's been a positive development now. What would – has there been any sort of thinking about what would cause it to maybe delink or go the other way? What would we – I mean, you are saying it's hedged in all circumstances? What sort of extreme scenario would we have to see to go, "Oop, we're kind of in trouble here?"

Ewout L. Steenbergen
Chief Financial Officer & Executive Vice President, ING U.S., Inc.

A

So, the hedge, again, is to protect the downside. So if there is sudden shock of 10%, 15%, equity market drop today for whatever reason, then the hedge program is there. That's why we have the hedge program to deal with it and to offset the additional sudden capital requirements that we have to post. But, let's say the opposite of what I just said in the up market is happening in a down market. So if markets go down, we will see higher in the money -ness levels, lower lapses, lower fees, so that effect will come in gradually over time and that is still an exposure we have on the book.

Q

Okay. And the follow-up, you talked about the 500 plus RBC ratio, the target 425, but from what I understand the build in capital that's a blended rate, right, which includes closed block entities, or no?

Ewout L. Steenbergen
Chief Financial Officer & Executive Vice President, ING U.S., Inc.

A

No.

Q

So how should we think about then the repatriation with the give back, the progress to the targeted RBC over time from 500 to 425, or should we think about it that way, is that kind of the plan?

Ewout L. Steenbergen
Chief Financial Officer & Executive Vice President, ING U.S., Inc.

A

Yeah. Let me explain a bit the different components of our capital structure. So the RBC ratio relates to our regulated insurance entity, so our five prime insurance entities that are having their accounts on a statutory basis. So 504% RBC relates to approximately in dollar terms $1.1 billion excess over the 425% RBC target level that we're aiming at. And of the $1.1 billion, we expect that we can take out in terms of ordinary dividend capacity $800 million, so $800 million will be available in ordinary dividend from the $1.1 billion.

The RBC does not include our re-insurance entity, Security Life of Denver International where most of the VA book is reinsured. I just gave you those capital numbers so certainly on the statutory basis, we are very comfortable where we are today. It doesn't include our Investment Management entity, so that is an entity where all the profits are available for upstreaming to the holding, and it doesn't include the holding company itself. And the holding company itself at the end of the year had a liquidity position of $600 million. So, overall, if you look at the different components, we are very comfortable where we are from a capital perspective in each of the different areas.

We have now to determine which part of that capital position is excess capital. We'll go through the following process. We'll first close our statutory accounts at the end of this month, so the statutory financial statements will be ready at the end of February. Then, we look at our operating plan for the next few years. We'll make a determination of what is the best way to deal with excess capital, how much is available and what is the most value enhancing way to return it to shareholders, have a discussion with our board, and then we will come back to you at the latest when we announce our first quarter results, so that will be early May of this year.

Q

Thank you very much. Sorry to go back to the VA block again, but I wondered if you could speak to the effectiveness of the hedge program in the event that a bear flattener is the scenario that proves out over the next two to three quarters.

Ewout L. Steenbergen
Chief Financial Officer & Executive Vice President, ING U.S., Inc.

A

Can you repeat the question, what scenario?

Q

Well, what's the vulnerability of the hedge program now particularly the interest rate portion, if you get a bear flattener yield curve over the next two to three quarters?

Ewout L. Steenbergen
Chief Financial Officer & Executive Vice President, ING U.S., Inc.

A

So, our swap positions are very long positions and they really match the duration of the liabilities, so the average duration of the swaps is approximately 18 years. So, we think from an hedge program / a roll risk perspective, we are sufficiently covered. If rates do not move a lot, we also don't see a lot of movement in the statutory reserve, so in that case the hedge also is not contributing a lot neither in a gain because the reserve doesn't move or in a loss if the reserve doesn't move, or in a loss. In more or less a flat rate scenario, the hedge doesn't do a lot; the hedge is really helping if rates would fall back and the hedge is having some negative when rates will move up but again that's been offset by some reserve releases you see at the same time.

Q

And just a brief follow up, I don't know if this is disclosed in prior discussions, but if it's at all possible to know just on the interest rate portion, what is the gross notional value and what is the mark-to-market value of replacement cost relative to each other in the last quarterly close date?

Ewout L. Steenbergen
Chief Financial Officer & Executive Vice President, ING U.S., Inc.

A

We do disclose in our Qs and Ks some of our hedge notional positions. So you should be able to see the development of that. In terms of direction, what is very clear is that the hedge notionals have come down over the last 12 months in line with the market growth and the fact that we have to hold less hedge positions because the risk in terms of the book has also come down.

Seth M. Weiss
Analyst, Bank of America Merrill Lynch

I think we're going to have to stop there. Let's thank Rod, Alain, and Ewout for their time.

Rodney O. Martin
Chairman & Chief Executive Officer, ING U.S., Inc.

Thank you.