

Seven lessons the financial crisis taught us

By Robert L. Senkler, *Chairman and Chief Executive Officer*

2008 proved to be the most difficult year in memory for our industry. The financial crisis put every company to the test and many well-known firms failed, needed government rescue or merged out of existence.

The year ahead is likely to be equally challenging. It will be some time before the federal economic stimulus has a positive impact. The investment markets are likely to remain volatile. The financial services industry will continue to be under stress. We are also likely to face a whole new level of regulation.

But if our industry doesn't come out of this period a lot wiser, we'll have wasted a tremendous opportunity. While every company felt the effects of the environment, the pain has been greater for some than others. Companies that have taken a prudent, long-term approach to investing and financial management are generally faring much better in these turbulent times.

We can learn a great deal from the practices that positioned those companies to withstand these conditions. There are seven in particular that are worth noting.

1.

Transparency. Companies that presented clear, accurate balance sheets and stayed away from special purpose vehicles or off-balance-sheet risk kept their financial reputations intact. In troubled financial times, questions about a company's financial condition or balance sheet create a level of uncertainty that can destroy confidence in any financial firm.

2.

A long-term perspective. Serving the long-term interests of customers and policyholders has been the best defense against short-term economic disruption. Firms that didn't yield to the pressure of Wall Street – or the pressure to grow at any price – typically didn't expose themselves to more significant levels of risk and performed much better.

3.

Liquidity. Many companies that relied on the credit markets for short-term funding ran into major difficulties. When the credit markets froze and capital became unavailable, rating agencies became concerned, often resulting in a downgrade, and these companies became even weaker. Companies that maintained liquidity didn't have to put themselves at the mercy of the credit markets.

4.

Limited use of derivatives. Companies that tried to use derivatives to generate profits or bet on economic outcomes paid a heavy price in 2008. Those that used derivatives as a tool to manage risk effectively protected their balance sheets.

5.

Absence of ratings triggers. Ratings triggers can cause significant repayment obligations when a company is downgraded, creating further financial stress at the worst possible time. Companies that do not include ratings triggers in agreements avoid having a capital call which magnifies their financial problems.

6.

Minimal counter-party exposure. The financial crisis showed us that even the biggest, best-known firms can fail. Companies with well-managed counter party exposure avoided the risk of being dragged into the failure or financial difficulties of a business partner.

7.

Diversification. Companies without concentrated investment exposure to a particular asset class or type of security were better positioned when the market dropped.

At Securian, we have followed these basic principles and practices regardless of economic and market conditions. As a result, we believe we were more prepared for this environment, and we are well positioned for the time when conditions improve.

For now, as we hope for and work toward a better 2009, we can take some valuable lessons away from the crisis of 2008.



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