

DELPHI FINANCIAL GROUP INC/DE  
Form DEFA14A  
December 21, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A  
Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under Rule 14a-12

Delphi Financial Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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(1) Title of each class of securities to which transaction applies:

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### Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this communication may constitute “forward-looking statements.” Actual results could differ materially from those projected or forecast in the forward-looking statements. The factors that could cause actual results to differ materially include those referred to in filings of Delphi Financial Group, Inc. (“Delphi”) with the U.S. Securities and Exchange Commission (the “SEC”), as well as the following: operating costs, customer loss and business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers or suppliers) may be greater than expected following the announcement of the transaction; the retention of certain key employees at Delphi; the conditions to the completion of the transaction may not be satisfied, or the regulatory approvals required for the transaction may not be obtained on the terms expected or on the anticipated schedule; the parties may not be able to meet expectations regarding the timing, completion and accounting and tax treatments of the merger. Tokio Marine Holdings, Inc. (“Tokio Marine”) and Delphi assume no obligation, and expressly disclaim any obligation, to update the information in this communication, except as otherwise required by law. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof.

### Important Information

This communication may be deemed to be solicitation material in respect of the proposed acquisition of Delphi by Tokio Marine. In connection with the proposed acquisition, Delphi intends to file relevant materials with the SEC, including a proxy statement on Schedule 14A. SECURITY HOLDERS OF DELPHI ARE URGED TO READ ALL RELEVANT DOCUMENTS FILED WITH THE SEC, INCLUDING DELPHI’S PROXY STATEMENT, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION. Investors and security holders will be able to obtain the documents free of charge at the SEC’s web site, <http://www.sec.gov>, and may obtain documents filed by Delphi free of charge from Delphi’s website at [www.delphifin.com](http://www.delphifin.com). In addition, the proxy statement and other documents filed by Delphi with the SEC (when available) may be obtained from Delphi free of charge by directing a request to Delphi Financial Group, Inc., c/o Investor Relations Department, 1105 North Market Street, Suite 1230, Wilmington, Delaware 19801.

### Certain Information Regarding Participants

Tokio Marine and its directors, executive officers and certain employees and Delphi and its directors, executive officers and certain employees may be deemed to be participants in the solicitation of proxies from the holders of Delphi common stock in respect of the proposed transaction. Security holders may obtain information regarding the names, affiliations and interests of Delphi and its directors and executive officers in Delphi’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed with the SEC on March 1, 2011, and its definitive proxy statement for the 2011 Annual Meeting of Stockholders, which was filed with the SEC on April 14, 2011. To the extent holdings of Delphi securities have changed since the amounts contained in the definitive proxy statement for the 2011 Annual Meeting, such changes have been or will be reflected on Statements of Change in Ownership on Form 4 filed with the SEC. Investors may obtain additional information regarding the interests of such participants by reading the proxy statement regarding the acquisition when it becomes available. These documents (when available) may be obtained free of charge from the SEC’s website at [www.sec.gov](http://www.sec.gov) and Delphi’s website at [www.delphifin.com](http://www.delphifin.com).

On December 21, 2011, Tokio Marine Holdings, Inc. made an investor presentation in Japan. Delphi Financial Group, Inc. has made these materials available on its website. The text of the material is as follows:

Acquisition of  
Delphi Financial Group  
December 21, 2011  
Tokio Marine Holdings, Inc.  
President: Shuzo Sumi

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Cautionary Statement Regarding Forward-Looking Statements

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Additional Information and Where to Find It

This communication may be deemed to be solicitation material in respect of the proposed acquisition of Delphi by TMHD. In connection with the proposed acquisition, Delphi intends to file relevant materials with the SEC, including a proxy statement on Schedule 14A.

**SECURITY HOLDERS OF DELPHI ARE URGED TO READ ALL RELEVANT DOCUMENTS FILED WITH THE SEC, INCLUDING DELPHI'S PROXY STATEMENT, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION.** Investors and security holders will be able to obtain the documents free of charge at the SEC's web site,

[www.sec.gov](http://www.sec.gov), and may obtain documents filed by Delphi free of charge from Delphi's website at [www.delphifin.com](http://www.delphifin.com). In addition, the proxy statement and other documents filed by Delphi with the SEC (when available) may be obtained from Delphi free of charge by directing a request to Delphi Financial Group, Inc., c/o Investor Relations, Bernard J. Kilkelly, Vice President - Investor Relations, [bkilkelly@dlfi.com](mailto:bkilkelly@dlfi.com), +1.212.303.4349.

Participants in Solicitation

TMHD, and Delphi and its directors and executive officers may be deemed to be participants in the solicitation of proxies from the holders of Delphi common stock in respect of the proposed transaction. Security holders may obtain information regarding the names, affiliations and interests of Delphi and its directors and executive officers in Delphi's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed with the SEC on March 1, 2011, and its definitive proxy statement for the 2011 Annual Meeting of Stockholders, which was filed with the SEC on April 14, 2011. To the extent holdings of Delphi securities have changed since the amounts contained in the definitive proxy statement for the 2011 Annual Meeting, such changes have been

or will be

reflected on Statements of Change in Ownership on Form 4 filed with the SEC. Investors may obtain additional information regarding the interest of such participants by reading the proxy statement regarding the acquisition when it becomes available.

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Agenda

1. Transaction summary
2. Strategic rationale
3. Overview of Delphi
4. Joint initiatives toward future growth
5. Valuation

Appendix: Financial Statements

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- 1 Continued expansion of revenues and profits of international insurance business
  - The U.S. insurance market is the largest in the world and expected to continue growing over the medium to long term
    - Delphi is an insurance group with quality operations in both the U.S. life and P&C markets
    - Ø Delphi has an experienced management team and has consistently achieved high growth and profitability
  - Acquisition will contribute to the further expansion in revenues and profitability of the international insurance business
- 1 Further diversification of our business portfolio
  - Entry into the U.S. specialty life insurance market will enable us to broaden our profit base and further diversify our risk exposure
    - Limited exposure to natural catastrophe risks
    - Minimal influence from the U.S. P&C insurance pricing cycle
  - 1 An ideal fit with our current U.S. operations-possibilities of new business opportunities
    - Very little overlap with the business lines of our current U.S. operations
    - However, similar client base provides significant cross-selling opportunities
    - Further expansion of Delphi's business by combining with Tokio Marine's strengths

Strategic Rationale of Delphi Acquisition

1. Transaction summary

Strategic rationale

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1. Transaction summary

Delphi's strengths

1 Strong focus on niche business lines of the employee benefits market

1 Experienced and excellent management team

1 Strict underwriting discipline and bottom line orientation

1 Superior investment performance

Consistently achieving high growth and profitability, outperforming peer companies

Delphi's strengths

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- U.S. life and P&C insurance group focusing on niche business lines in the employee benefits insurance market and registered in Wilmington, Delaware. Delphi operates in fifty states and employs approx. 1,900 staff
- Founded in 1987 when the current Chairman and CEO acquired Reliance Standard (founded in 1907), a life insurance company. Listed on the NYSE in 1990 and acquired a P&C company, Safety National (founded in 1942) in 1996
- Shareholders' equity of \$1.72B at September 30, 2011; estimates for 2011: Premiums: \$1.6B, Net Income: \$200M, ROE: 12.5%
- Operating company financial strength ratings: A.M. Best: A, S&P: A

Delphi basics

Transaction details

1. Transaction summary

Delphi basics and transaction details

- Transaction: Tokio Marine intends to acquire all outstanding shares of Delphi stock and make Delphi a wholly-owned subsidiary  
\$43.875 for Class A Common Stock
- Consideration per share: \$52.875 for Class B Common Stock  
Delphi will also pay a special dividend of \$1 per share  
Approx. \$2,664 million (approx. 205 billion yen\*) financed through cash on hand and borrowings, plus \$1 per share special dividend (approx. \$64 million),
- Aggregate consideration: for total aggregate consideration to shareholders of approx. \$2,728 million  
Second quarter of 2012. Subject to customary regulatory approvals and
- Expected closing date: Delphi's shareholder votes  
(\*exchange rate US\$1=Yen 77)

(~2000)  
business  
development  
focused on  
Japanese  
clients  
Re-  
P&C  
emerging  
markets  
Life  
markets  
Kiln  
Indian  
life business  
Delphi

Step by step expansion since the year 2000

International insurance business grew substantially after 2007 due to large scale acquisitions  
of Kiln and Philadelphia

## 2. Strategic rationale

History of international insurance business growth

Strengthening of non-  
Japanese business

U.S. and  
European  
markets

Expansion in  
emerging  
markets

Further growth,  
diversification  
and capital efficiency

72.0  
billion yen  
Fiscal 2010  
Japan  
66%

International  
34%

143.2  
billion yen  
Fiscal 2007

105.0  
billion yen  
Fiscal 2002

Proportion of international business grew from just 3% in 2002 to 34% in 2010

Japan  
97%

International  
3%

Japan  
79%

International  
21%

## 2. Strategic rationale

Accelerated growth of international insurance business

1 Proportion of international business of total adjusted earnings (2002-2010):

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Source Swiss Re SIGMA  
Premium breakdown of world P&C market by region  
(2010)

Premium growth of world P&C market

U.S. is the world's largest insurance market where we aim to further strengthen our presence  
First entry into U.S. life insurance market (specialty life insurance market which focuses on underwriting  
profitability like P&C) achieves a more diversified insurance portfolio

1 Market volume of U.S. insurance market:

P&C: approx. \$660 billion Life: approx. \$506 billion Total: approx. \$1.2 trillion

2. Strategic rationale

Expansion of revenues and profits in the world's largest insurance market

	U.S. P&C market	World P&C market
10 year CAGR	4.1%	7.2%
Other	7%	
North America	41%	
Asia	11%	
Japan	6%	
Europe	36%	

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Japan

54%

Contribution to adjusted earnings of  
international insurance business

(\*1) Negative impact of Thai flooding loss of 65 billion yen added back to the fiscal 2011 estimated adjusted loss of 31 billion yen.

(\*2) Exchange rate: End of September 2011 rate of 76.65 yen to the U.S. Dollar.

(\*3) Loss estimates for the Thai flooding (65 billion for international insurance business and 10 billion yen for Japanese non-life business) is excluded from fiscal 2011 estimated adjusted earnings.

Note: Increase in net written premium and adjusted earnings are simulations based on fiscal 2011 estimates and Delphi's profit /loss will be consolidated with Tokio Marine's financial statements from fiscal 2012. Figures of Delphi are based on its own forecast.

Proportion of international insurance business  
of total adjusted earnings

Before acquisition

(91 billion yen)

After acquisition

(106 billion yen)

Achieve further increase of international insurance business through Delphi acquisition

Acquisition

benefit of 15

billion yen

1 Simulation using fiscal 2011 estimates (pro forma combined basis)

2. Strategic rationale

Increased profitability and contribution of international insurance business

(Billion Yen)

International

37%

International

46%

\*1,2

\*3

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(\*1) Increase in net written premium and adjusted earnings due to the acquisition of Delphi are projections based on fiscal 2011

estimates and Delphi's profit /loss would be consolidated with Tokio Marine's financial statements from fiscal 2012.

(\*2) Exchange rate: End of September 2011 rate of 76.65 yen to the U.S. Dollar.

Before acquisition (526 billion yen)

After acquisition (650 billion yen)

(for reference only)

2. Strategic rationale

Building a more diversified business portfolio

1 Net written premium of international insurance business (by region / company)

– Simulation based on fiscal 2011 estimates (combined pro forma basis) \*1,2

Philadelphia

29%

Kiln

15%

North America

6%

Central/South

America

12%

Asia(P&C)

12%

Asia(Life)

12%

Europe/Middle East

3%

Reinsurance

11%

Philadelphia

23%

Kiln

12%

North America

5%

Central/South

America

10%

Asia(P&C)

10%

Asia(Life)

10%

Europe/Middle

East

2%

Delphi

19%

Reinsurance

9%

10





IFounded: 1942

IEmployees: approx. 280

IBusiness lines:

Excess workers' compensation  
Workers' compensation assumed  
treaty reinsurance  
Large deductible workers'  
compensation  
General liability insurance  
Auto liability insurance etc.

IRanking:

Leading share in excess workers  
compensation (27%)

ITarget clients:

Municipalities, schools and hospitals  
which comprise 70% of client base

IFounded: 1987

IHead office: San Jose, California

IEmployees: approx. 600

IServices provided:

Integrated disability services  
Claims services for workers  
compensation

Absence management services

Focusing on the niche insurance market of employee related benefits, Delphi is able to secure high growth and profitability as a market leader

IFounded: 1907

IHead office: Philadelphia, Pennsylvania

IEmployees: approx. 1,000

IBusiness lines:

Group disability insurance  
Group life insurance  
Travel/accident insurance, limited  
benefit health insurance, dental  
insurance  
Fixed annuities

IRanking:

11th in group disability insurance  
market

12th in group life insurance (in-force  
policy basis)

ITarget clients:

Small/medium companies with under  
500 employees and some large cap  
companies

3. Overview of Delphi

Delphi's organization and business structure



Premium and fee income

Pre-tax operating income

Source: Delphi presentation material

A balanced business operation consisting of life, P&C and annuities

### 3. Overview of Delphi

Delphi's premium breakdown by segment (2011Q3YTD)

P&C

20%

Annuity

27%

Excess Workers'

Comp

16%

Group Life

20%

Other Life

4%

Other P&C

4%

Fixed Annuities

27%

42%

P&C

46%

Annuity

12%

Excess Workers'

Comp

38%

Group Life

16%

Other Life

3%

Other P&C

8%

Fixed Annuities

12%

Group Disability

29%

Group Disability

23%

12

(\$' m)

CAGR ('01- '10): 17.7%

10.2%

7.2%

Source: Delphi Annual report, A.M. Best (\*)After tax net income less after tax realized investment gains/losses

(\$' m)

1 Annual Premium and Fee Income (2001-2010)

CAGR ('01-'10): 12.2%

(U.S. P&C market average: 3.0%)

2011Q3 YTD

growth rate:

9.7%

1 Annual Operating Earnings (2001-2010)\*

1 Return on Average Equity (2001-2010 average)

Delphi has limited exposure to the U.S. P&C pricing cycle and has consistently increased insurance premiums and achieved stable profits for the past ten years

3. Overview of Delphi

Consistent high growth and profitability

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1 Annual combined ratio (C/R) (2001-2010)

2001-2010 average C/R: 94.6%

(U.S. P&C market average C/R\*: 101.3%)

(\* ) Delphi manages their life insurance business by combined ratio similar to P&C so the above chart compares performance with U.S. P&C industry average.

Source: Delphi annual report (U.S. GAAP), A.M. Best  
94.6%

Average combined ratio is below 95% and achieves stable and excellent underwriting results

3. Overview of Delphi

Stable and excellent underwriting profitability (combined ratio)

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Annual return Volatility

Delphi	7.02%	3.78%
Benchmark (Barclays Aggregate)	5.84%	3.81%

Source: Delphi IR presentation  
Investment Asset Breakdown: \$7.3 billion  
(as of September 30, 2011)  
Ten Year Investment Return and Volatility  
(2001 - 2010 monthly data)

Delphi has consistently achieved returns above the market benchmark by mitigating volatility and managing cash flow and matching of assets and liabilities

3. Overview of Delphi

Superior investment performance

Municipals, 34%

Corporate  
securities, 26%

RMBS, 21%

U.S. Gov. bonds,  
2%

Other bonds, 4%

Short term  
investments, 3%

Alternatives etc.,  
10%

15

1 Joint business with our current U.S. operations

Take advantage of overlapping client base with Philadelphia through cross-selling and marketing

Use of Delphi's expertise in workers' compensation to better service clients at TMNF's U.S. branch

1 Utilize our superior credit rating and financial strength to expand Delphi's business

Growth in Delphi's workers' compensation and fixed annuities business with our superior credit rating and financial strength

Achieve efficiencies for Delphi's outwards treaty programs and increase profits and ROE

A.M. Best	S&P	Moody's
A++ Tokio Marine	AAA	Aaa
A+	AA+	Aa1
A Delphi	AA	Aa2 Tokio Marine
A-	AA- Tokio Marine	Aa3
B++	A+	A1
B+	A Delphi	A2
B	A-	A3 Delphi

Ratings of Tokio Marine and Delphi's operating companies (as of December 21, 2011)

4. Joint initiatives toward future growth

1 Valuation

- Tokio Marine’s valuation based on calculation of Delphi’s intrinsic value
- Tokio Marine’s fairness opinion obtained from our financial advisor (Macquarie Capital)
- Acquisition price represents a transaction price to book ratio of 1.50 times fully diluted shares as of September 30, 2011 and after deducting a special dividend of \$1 upon closing. The purchase price also represents a premium of 59% when compared to the average share price of the last twelve months
- Tokio Marine also expects goodwill of approximately 60 billion yen

5. Valuation

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1 Delphi historical income statement  
1 Delphi historical balance sheet  
Appendix: Financial statements

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Delphi historical income statement

Appendix: Financial statements

(\$M)

2006

2007

2008

2009

2010

Premium and fee income

1,157

1,304

1,385

1,401

1,420

1,160

Net investment income

256

271

135

318

351

256

Net realized investment losses and others

1

4

89

148

34

6

Total revenue

1,412

1,571

1,431

1,572

1,737

1,410

Benefits claims and interest credited to policyholders

847

945

989

991

1,005

834

Commissions

74

85

87

93

94

71

Amortization of cost of business acquired

81

81

80

101

111

59

Other operating expenses

176

200

208

239

258

235

Operating income

233

260

67

147

269

210

Interest expense

25

27

32

28

43

28

Income tax expense

63

68

4

19

52

40

Net income

142

165

39

99

174

142

Main Indicators

Return on beginning shareholders' equity (ROE)

13.7%

14.0%

3.4%

12.1%

12.8%

12.3%

L

Loss & LAE ratio

70.6%

70.3%

69.5%

68.5%

68.7%

69.6%

E

Expense ratio

22.6%

22.1%

22.7%

24.8%

26.1%

25.4%

Note: The above figures are U.S. GAAP reported figures. Adoption of FASB rule changes on a retrospective basis are not reflected.

2011Q3

YTD

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Delphi historical balance sheet  
 Appendix: Financial statements

(\$M)

2006

2007

2008

2009

2010

Investments

4,483

4,988

4,655

5,749

6,550

7,336

Cash

48

51

64

65

73

91

Cost of business acquired

268

174

265

250

248

159

Reinsurance receivable

411

403

377

355

360

368

Goodwill

94

94

94

94

94

94

Total assets

5,670

6,095

5,954

6,921

7,760

8,537

Future policy benefits	891
	979
	1,044
	1,123
	1,144
	1,173
Unpaid claims and claims expenses	1,217
	1,375
	1,530
	1,680
	1,826
	1,977
P	
Policyholder account balances	1,119
	1,083
	1,357
	1,454
	1,754
	2,030
Corporate debt	264
	218
	351
	366
	375
	375
Total shareholders' equity	1,175
	1,141
	821
	1,359
	1,595
	1,721
Total liabilities and equity	5,670
	6,095
	5,954
	6,921
	7,760
	8,537

Note: The above figures are U.S. GAAP reported figures. Adoption of FASB rule changes on a retrospective basis are not reflected.

2011Q3

YTD

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Company contacts

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