

WHEELIN' & DEALIN'

SUPPLY-SIDE CONSOLIDATIONS HAVE CHANGED THE LANDSCAPE FOR ADVISORS.

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This is the first of a series of 12 articles aimed at helping *Advisor's Edge* celebrate its 10th anniversary by chronicling the changes the financial industry has seen during our first decade. This month, we look at industry consolidations and in future issues we'll touch on, among other things, the proliferation of industry designations, what constitutes a big book, and alterations in the regulatory landscape. It's going to be an interesting year, so stay tuned.

The world of the advisor has changed dramatically over the past decade, but no trend has been as unrelenting—or has had a greater impact—than consolidation. In the mutual fund industry alone, the number of firms reporting to IFIC has contracted from an astounding 83 in 1998 to fewer than half that presently. The insur-

ance industry has also shrunk, with a rash of mergers and acquisitions following widespread demutualization. And the number of major independent carriers has fallen to just a handful.

The trend has been so inexorable that the significance is only truly apparent when viewed as a sequence of events. While some major individual deals have been struck, the greatest changes took shape into three main chains of events. These three sequences—along with some clever marketing and strong investment returns—helped build three of the largest brands on the Canadian financial services markets.

Dawn of a Trend

CI really got the ball rolling in 1999, with the purchase of BPI Financial. Stretching slightly beyond this article's 10-year capsule, BPI had purchased Bolton Tremblay in 1994, which immediately bulked

up the much smaller BPI. "This was the head-turning 'minnow-swallowing-the-whale' story that set the foundation for CI to become the powerhouse it is today," says Dom Rando, vice-president, mutual fund research, TD Wealth. "BPI was on a performance tear and provided the octane and advisor attention CI was looking for during the technology run-up."

Apparently, it took awhile for CI to digest this acquisition, but it had whetted its appetite. In 2002, the firm was hunting again and, after a flurry of deal-making, came home with big game. Sparking the trend that would dominate the new millennium, the firm moved into the distribution channel, making a bid for Assante. To fund the purchase, CI sold an equity stake in itself to Sun Life, which also bought Clarica in the same year. CI pocketed not only the cash needed for the Assante deal, but also **continued on page 17**

continued from page 15 scooped up Sun Life's investment fund subsidiaries at about the same time.

"CI bought a lot here. Sun had been a large player in mutual funds and so was Clarica," says Byren Innes, senior VP and director of financial services consultancy Newlink Group. The deal was a good one for Sun Life as well, which Innes says had largely turned its back on independent advisors when it bought Clarica. "This was how Sun Life got its distribution back, by taking its stake in CI, which had bought Assante."

CI was able to consolidate the back-office operations of its mutual funds and the newly acquired segregated fund offerings. With assets under management jumping from billions to tens of billions, the firm was able to cut costs dramatically. The deal also brought Spectrum Investments under the CI banner. Rando notes the deal led to the significant addition of Kim Shannon to CI's fund lineup and began shaping CI Financial as one of the top domestic equity sponsors in Canada. Shannon stayed on with CI until 2006. By 2003, the Assante deal closed, adding that firm and its IQON and Synergy divisions to the CI family and leading to the lucrative relationship with Picton Mahoney Asset Management—"one of the most coveted earnings momentum managers in the country, further strengthening CI's powerful domestic equity manager lineup," adds Rando. To date, CI has continued to focus its buying power on the distribution channel, buying up Blackmont Capital in 2007.

Power Plays

Within the financial services industry, it was the mega-deal of its day. Already the largest mutual fund company in the country, in 2001, Power Corporation's Investors Group purchased Mackenzie Financial for about \$4 billion, putting IG virtually beyond reach of its rivals. It was a bargain; in December 2000, a month before the deal, IG managed \$44.5 billion in mutual fund assets, leading the second largest fundco, AIM Funds (\$35 billion AUM) and Mackenzie, the fifth largest (\$31.7 billion).

By the end of 2001, IG and Mackenzie were still reporting separately to IFIC, but IG's assets had fallen 6.4% to \$41.6 billion, while Mackenzie's had climbed 4.9% to \$33.2 billion. By late 2007, IGM Financial (IG, Mackenzie and Counsel Funds) had combined AUM of about \$111 billion.

But Investors Group was not the only member of the Power Corp. family to go on a shopping spree. In 2003, its cousin on the insurance side, Great-West Life, bought Canada Life for more than \$7 billion. For a buyout of its size, it was relatively hot on the heels of GWL's 1997 purchase of London Life. "They kept the brands, as Power tends to do," Innes points out, as each brand has its own unique specialty, product line,

or distribution channel. "GWL has 'gold key' brokers dealing direct; London Life is captive; Canada Life operates via MGAs and national accounts," he says.

"Where it gains bigtime is the giant processing administration plant to give it the economies of scale—just the same as it did on the mutual fund side."

Not content with its dominant position, Investors Group bought a \$95 million controlling stake in Investment Planning Counsel, closing the deal in the spring of 2004.

Manufacturing a Giant

Perhaps the most dramatic chain of events, however, was that which took out a handful of major insurers in a matter of a few short years. In simplified form, it began in 2000, when Maritime Life bought the Canadian operations of Aetna for just under half a billion dollars. The next year, Maritime bought Royal & Sun Alliance Life.

Then, in September 2003, Manulife Financial announced the blockbuster: a merger with Boston's John Hancock Life Insurance. The deal was valued at about \$15 billion. The move brought Maritime Life under the Manulife banner, as Hancock had bought Maritime back in 1969. By December 2004, Manulife had completely merged its Canadian operations with those of Maritime.

"This was the end of a chain of acquisitions that wiped out six or seven companies," says Innes, adding the impact for advisors was a nightmare from an administrative point of view. "A level of expertise was lost with each rationalization; there's little chance Manulife will know everything about an [Aetna or Gerling Global] policy that was sold in 1991."

Still, Manulife had cemented its place as the dominant insurer in Canada, with a foothold in the MGA channel.

The Banks

Largely locked out of the Canadian M&A market, the big banks were not content to sit on the sidelines. They sought their fortunes south of the border, either expanding into the U.S. market (BMO, TD, RBC and CIBC) or casting their nets further out into Latin America (Scotiabank). These forays have, however, had little impact on the Canadian advisory landscape, and have been met with mixed results.

Where the banks have truly flexed their muscles is in the Canadian mutual funds industry, leveraging their extensive branch networks and easy access to bulk up their money management divisions. How those efforts play out will bear heavily on the working lives of advisors over the coming decade. ^{AE}

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