

ADVISORNEWS

Sun Life Clarifies Brand by Scraping Clarica

BY MARK NOBLE

It's the end of the line for the last vestiges of one of Canada's oldest insurance companies. The name of Clarica Financial Services, a subsidiary of Sun Life Financial, is being phased out and replaced with the Sun Life brand.

Formerly Mutual Life of Canada, Clarica can trace its roots back to 1870. The Waterloo-based company changed its name to Clarica after it demutualized in 1999 and became a publicly traded company.

In 2002, Sun Life purchased Clarica for \$6.7 billion, but rather than integrating the brand it ran it as a distinct subsidiary. Combined, the two companies created a regional insurance juggernaut and Sun Life became one of North America's largest insurance companies based on market capitalization.

The Clarica brand has served Sun Life well. Kevin Dougherty, president of Sun Life Financial Canada, says that Clarica and its 3,500-

strong sales force has functioned as a major distribution generator for much of the company's individual life insurance sales.

Since the integration of the two firms, Clarica has been used to brand the company's 3,500-strong career advisor force across Canada, who are focused on selling the company's products, some of which were branded Sun Life and some of which were branded as Clarica, he says. "All of it was underwritten and backed by Sun Life Financial," Dougherty says. "Clarica has really been a distribution brand as opposed to an insurance company brand since we did the integration."

The elimination of the Clarica brand allows Sun Life to keep its individual distribution network, while achieving some other key marketing goals, including streamlining its marketing budget for things like media, advertisements and sponsorships. Dougherty says that using Clarica's distribution

network to build up Sun Life's individual product profile is of strategic importance as well.

"This is really all about business strategy," Dougherty says. Eliminating the Clarica brand will help Sun Life raise its profile by pooling marketing budgets and it will allow the company to try to build up its career sales force faster than it already is, he explains.

"This move is really about raising the profile of the company ... This doesn't change our relationships with our advisors at all."

Bulking up the sales force is particularly important with the fast-approaching retirement of boomers. As an industry leader in group plans, Sun Life wants this brand recognition to be transferable to individual products for retirees leaving those group plans.

"We see a great opportunity to leverage our industry-leading group businesses as members of group plans leave these plans to retire," Dougherty says. "It will be easier to pass the customers across to our

individual business if we have a unified brand strategy."

To fill the demand for this potential transfer of customer base, Sun Life is hoping to tap Clarica's sales expertise in the field. Dougherty is adamant there will be no employee displacement with the rebranding — in fact quite the opposite: Sun Life wants to tap into Clarica's system of recruiting and training of career life insurance agents.

"This move is really about raising the profile of the company. We're very focused on that. We're also very focused on building up our career sales force as well as our multichannel strategies and group business," he says. "This doesn't change our relationships with our advisors at all, but we do believe it opens up quite a few new opportunities to achieve synergy."

Sun Life says the branding transition will be completed by the first quarter of 2008 and will be supported by an increased investment in the Sun Life brand. The change will not impact client service, advisor operations, existing policies, investments or current product offerings. The cost of the move is estimated at \$40 million. **AER**

Mortgaged Markets

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"A lot of the refinancing took place a few years ago, and consumers were locking in very low, sometimes at sub-4% rates for 30 years. A lot of them are able to weather this storm."

At the same time, a number of people who were attracted to these products because of the low interest rates are finding that their mortgages are coming due and that the rates are much higher, adds Murphy.

"The unfortunate part of this is that it will have an effect on some first-time home buyers that maybe can no longer access this market, so liquidity might dry up there," says Riach. "It's just a symptom of the housing market slowing down or falling off a little in the U.S., which is going to have a ripple effect on not only the mortgage market but some of the consumer-oriented sectors — but I don't think the sky is falling."

In terms of the impact this will have on the U.S. economy, Riach suggests it will be minimal since consumers at the lower-income end make up a large number of the foreclosures.

Closer to home, Murphy is trying to deflect the negative connotation associated with sub-prime products.

"There is a market for sub-prime," he says. "Generally speaking, it is for self-employed people whose income may vary from year to year; it's new Canadians who may not have a credit history and these people still want to get into the home ownership market and build equity."

The sub-prime market provides an option to own a home sooner, but Murphy stresses it's not for everybody. He says that it's not fair to lump the U.S. experience with Canada's. "The vast majority of Canadians who have sub-prime mortgages in Canada are paying them."

It's clear the fallout in the U.S. is carrying into Canada as several sub-prime lenders have watched their stock prices decrease last month.

As for the U.S., Riach says the effects will be longer lasting. "At the margin, some of these lower-quality sub-prime lenders are going to go belly up, but the larger, higher-quality mortgage companies that do participate in the sub-prime market but have a much more diversified book are going to come through this OK," he says. "It might even be good for the industry to have this shake out a little bit as it gets rid of a lot of marginal players." **AER**

An Option for Canadian Brokers

BY MARK BROWN

When it comes to risk management, Canadian retail brokers lack the proficiency of their American counterparts, and clients have less access to products as a result, says the head of the Montreal Exchange.

Only about one in five retail brokers in Canada is licensed to sell options, whereas in the U.S., the licence is considered standard. The options licence is part of the Series 7 exam, the U.S. equivalent of the Canadian Securities Course, says Luc Bertrand, president and CEO of the Montreal Exchange. Bertrand uses "equivalent" loosely. About a quarter of the Series 7 exam is on equity options, he says, which, by his estimation, is tougher than the CSC.

In Canada, the CSC covers a wide range of topics related to capital markets and financial instruments including equities, derivatives and managed products, but advisors wanting to sell options and derivatives are required to take two additional courses: the Derivatives Fundamentals Course and the Options Licensing Course.

Bertrand directs a lot of his frustration at the Investment Dealers Association of Canada. "What we are arguing is that Canadian stock brokers should be more proficient in risk management and for that, the IDA, which has the responsibility for proficiency standards of the stockbrokers, have to rewrite the whole Canadian Securities Course," he says.

The IDA, however, takes issue with Bertrand's comments. Of the 27,310 registrants in the IDA, there are 6,184 approved to

trade and advise on options and another 1,060 to trade in options but not advise, explains Paul Bourque, senior vice-president for member regulation with the IDA. But even this figure is far below the percentage of U.S. brokers licensed to sell options. Why the difference? "It's really an issue of what the market and the businesses want in terms of the proficiency of their staff," Bourque says.

He points out that the Canadian Securities Institute, an independent, for-profit organization that runs much of the securities training in Canada, is responsible for developing the courseware for brokers. "If there is a need for more training in this regard, I have no doubt the market will respond," Bourque says.

Currently, the CSI meets with IDA staff and industry representatives on a monthly basis to discuss the proficiency standards for the various registration categories as well as the curriculum and content of CSI courses, says Marc Flynn, the CSI's vice-president of regulatory relations and academic standards. The CSC covers what the IDA and member firms believe entry-level brokers should know, he adds. While the CSC covers derivatives, it does so in order to provide new IAs an overview of their features, benefits and suitability for investors.

While the IDA doesn't determine what goes into a course, its role is to make sure the course content is sufficient to address the qualification.

Clearly, Bertrand doesn't think this is enough. In order to beef up the knowledge of options and derivatives in Canada the MX offers 55 online courses and has delivered over 300 seminars across Canada on options trading. Bertrand illustrates how options can be used to hedge gains against future losses. For instance, say company XYZ soars 50%. A

broker could buy a put or sell a call and by doing so, the broker is buying an insurance policy, he says. That happens in the U.S. but not in Canada, he adds.

The limited number of brokers who deal in options and derivatives is one of the biggest barriers to the growth of the Montreal Exchange, whose stock began trading on the Toronto Stock Exchange last month. "If there were more retail brokers licensed to do our business, we would be looking at all sorts of new product lines to launch," Bertrand says. "At the end of the day, these financial products are like any other product. They are sold and bought. You need to keep an army of individuals on a daily basis recommending them to their clients."

If the growth of the Montreal Exchange in recent years is any indication, brokers might be well advised to consider getting their options licence. Since 2002, global derivatives trading has had a compound annual growth rate of 18%. Revenue for the Montreal Exchange is growing at a compound annual growth rate of 25%.

There are a number of factors driving this growth. The Montreal Exchange's prospectus lists several, including: an increased awareness of the importance of risk management, greater price volatility in key market sectors such as fixed income, broader access to futures and options markets, as well as relatively low amount of committed capital needed to trade derivatives.

As a sign of just how important the derivatives markets are to Canada is the TSX's stated intention to launch its own derivatives exchange — the DEX — in 2009, after its non-compete clause with the MX expires. The Montreal Exchange has had a monopoly on options trading in Canada since 1999. **AER**