All the Bases

Insurance enters the wealth management big leagues

BY MARK NOBLE

Manulife has been making big moves in Canada and the U.S., such as the blockbuster acquisition of John Hancock, the introduction of the most popular variable annuity in Canada and more recently the takeover of Berkshire Securities. In an effort to understand the impact of these changes, Roy Firth spoke candidly to Advisor Group reporter Mark Noble.

Q Where are you seeing growth?

A What is a little misunderstood about Manulife is it's a lot bigger in the wealth management business than a lot of people appreciate [and our] growth [in Canada] is coming from wealth management and investment products such as mutual funds, banking products and even products like Universal Life (technically a type of wealth management product). We believe that one of the key drivers for the Canadian operation's growth over the next five years is going to come in the wealth businesses.

We are unique in how we do our business in that we really focus on the independent financial advisor. That's our target market and in fact we view the financial advisor as our client. Everything we do is designed to help them grow their business and serve their ultimate clients and be able to provide the full product range to their clients.

> We do not have captive distribution. We do not believe in captive distribution.
>
> **Roy Firth**

We do not have captive distribution. We do not believe in captive distribution. We believe that captive distribution creates competition for the independent financial advisor and we really want to be the company of choice for the independent advisor.

That said, we have very extensive distribution and wholesaling capabilities through a number of different channels. There are three basic channels, one is independent advisors that have decided to contract directly with Manulife. The second channel is corporate accounts and it consists of people who deal and contract with MGAs and producer groups of certain types. The third is National Accounts and they are the large IDA firms such as RBC Dominion Securities and Scotia McLeod.

We do also have a mutual fund dealer and, now, an IDA firm of our own (subsequent to the acquisition of Berkshire Securi-

Continued on page 12

ADVISORNEWS

All the Bases

Continued from page 1

ties). Soon, the overall umbrella of Manulife Securities will have about 1,500 advisors and about $20 billion of funds under administration.

Q Are the 1,500 advisors with Manulife Securities and Berkshire?


Firth

A Correct. They are their own independent players but they contract through us to sell those products.

We believe there is a huge opportunity to grow the dealerships, which includes the IDA and MFDA dealerships. We believe we can be the provider of choice for those types of advisors who are really planning-focused advisors – ones that are not aggressive traders in stocks in bonds but want to do full plans and have a large portion of their assets in managed money. We expect that we will be able to really solidify the whole operation once it's merged together [to be completed by the end of this year]. While we would like to provide product to these people they are under no obligation to buy the products we provide.

Q A number of companies are trying to go the opposite direction. They are trying to bulk up their captive distribution. How much growth do you think there is in the independent advisor channel?

A We believe the independent financial advisor has advantages over them as they tend to be more stable. They tend to be closer to the community and they tend to have longer relationships with clients. They are not employees, whereas they are at some of [bank-owned] firms.

I think you have to take a look at some of the research done by Investor Economics; when they look 10 years out they show more growth in the advice channel than in other channels, and certainly more than in the do-it-yourself channel.

I believe there are two ways to look at this: 1) do you believe in advice, or not? 2) If you believe in advice what type of advice, captive or independent?

> The independent advice channel is one that allows people with an entrepreneurial spirit to run their own business.

We think that the independent advice channel is one that allows people with an entrepreneurial spirit to run their own business while being supported by a strong company like Manulife. We think that it is the best of both worlds. We believe that the larger, more significant advisor will opt for that model.

Q Where does the Manulife Bank figure into this growth strategy?

A Manulife Bank is an interesting success story. Over the last six or seven years it's gone from virtually nothing to over $10 billion. It's grown more than 20-fold over the last five to six years and earnings have gone up substantially.

What we have done is created a virtual bank that has a limited range of products but we think it does complement the services that advisors can provide to their clients and allows the independent financial advisor to compete against the big banks. Right now they know that all of their clients have accounts at the big banks and [these] big banks are trying to get the advisor's clients to deposit more of their wealth with them. Our bank allows independent advisors an outlet and an extra product range to solidify their relationships with their clients and it has worked remarkably well.

The main products we offer are investment loans and an all-in-one mortgage product called Manulife One. We are unique in this process because the independent advisor stream is in effect our branch network. These people are our representatives in the field.

[Yet] we also have a team of well over 100 of, what we call, "banking consultants" who work with the advisors to provide expertise for the credit and deposit products Manulife Bank provides.

Another thing that is unique is that, unlike some of the other virtual banks out there, we've managed to grow both sides of the balance sheet at the same time. While we have investment and Manulife One loans on the books, we also have a very significant core base of demand accounts, personal savings in what we call our Advantage Account and Manulife Investment Savings account (a type of high-rate account that trades through the FundSERV network).

Q We can't really talk about your success without talking about IncomePlus. Are you surprised by the success of that product?

A Surprised is not the right word. We're not surprised by it, but we feel justified or at least validated by the success we have had.

We are now over $3.5 billion in sales since inception (as of February 1, 2008). It's a very dramatic growth. We believe we've identified a great big component that fills the need for retirement income.

We developed early and competitors started to follow. We believe more will follow. Do we feel threatened by that? No. I think we will see this [guaranteed minimum withdrawal benefit] category grow astronomically. We obviously want to have a very substantial market share, but it's still [great] to have other people acknowledge the benefit of these types of products.

The success we've had with IncomePlus has been a combination of having a good product, good wholesaling, good product platform, good sub-advisors and partners in the products. As well, we have invested significantly in terms of marketing because we had to build the product. We had to make people aware of what this product category was because it didn't exist before. This also makes it a very enjoyable project for the staff to work on.

We think that there will be more competition in due course. There will be new kinds of features that come out with different types of iterations as we go forward. We have a lot of expertise in our U.S. [John Hancock] operations that helps us with product design, placing and the like. One of the advantages of having a very large operation in the U.S. is that it is one of the leaders of sales of variable. [And] this is a type of variable annuity, as you know.

Q On the flip side, as a provider of this product during a volatile period do you have to take on more risk internally?

A Because we are so large and because we have such a large book of business, which is already over $3.5 billion dollars a year, you can create a very diversified book. You diversify over the types of funds, the time horizons, the maturity dates and so you're able to create, in effect, your own hedges against the volatility. Any individual who only has their own $200,000 or $300,000 to work with can't do that on their own.

We have seen some financial analysts say you can construct these things on your own. You can't really construct them, because on your own you don't have the diversification required that we can have with billions of dollars under management. It's a different type of diversification that we are able to do because of our size. That's why you're also not going to see a lot of small players entering this business.

Lastly, these are very long-term products. These are technically 20- to 30-year products, so the credit ratings of the companies that are actually providing these services are very important. As a client you want to know that company is going to be there in 20 to 30 years. The financial strength of Manulife is one of the big things that help us as a provider of these types of products.

Q Do you have any concerns about non-guaranteed mutual fund retirement income products, which have a lower MER than guaranteed products taking market-share?

A We are starting to look at product allocation – an analysis of an overall portfolio. We think these products certainly fit into someone's portfolio but it just depends on what portion and what type of risk profile you want to accept.

> On your own you don't have the diversification required that we can have with billions of dollars under management.

We are going to see more and more products coming out that deal with this payout of wealth and all with different characteristics. These ones happen to be insurance products that have life insurance benefits, avoidance of probate, they have creditor protection – a lot of features other products don't have.

Financial advisors will have to recommend what they think is in their client's best interest. The other thing I would like to point out is that these products also have fee structures that for larger clients can be actually reduced quite substantially. On the surface, fee is basically a mutual fund fee with a guaranteed fee on top of that, which is 50 to 75 basis points. If you have the larger amounts, they're able to reduce the overall fee quite substantially.

Q How is the transition of Berkshire Investment Group coming along? Also, are you interested in acquiring other wealth management firms?

A [Acquisition] is something we are always looking at.

The integration of Berkshire is going quite well. We had two series of road shows with the advisors, and we are going through the process of the systems integration, branding integration and such. Most of that is going to be completed by the second half of this year.

[The result is] we will be able to provide a lot of services to these advisors that will help them grow their book. Whether we are in fact going to buy other players, that remains to be seen. Clearly we will evaluate that as time goes on.

We also think that there are a lot of advisors that will migrate to the platform we will offer. We think a lot of them will see that it is a platform with a product range and a brand name that suits their needs. We think we can grow that way – not by acquisition but through recruiting.

Q I've heard owning distribution firms is a low-margin business.

A Distribution is not a business where you make a lot of money. You do much better at being a manufacturer. There are two components to any dealership business. There is the pure transactional business and there is the capital markets activity. Berkshire did have a small but growing capital markets activity of manufacturing products that could be sold through the network. At the same time there is the opportunity to provide services for those advisors where they see it appropriate to buy Manulife products.

Q You recently re-branded your Elliot and Page Mutual fund business to Manulife – any other strategies to increase the awareness of your mutual fund business?

A We look at our investment funds business as one single business and the teams that run those businesses are completely integrated. [Yet] we do see an opportunity to grow the mutual fund business.

We have been launching a number of new funds over the last 18 months. Normally, it takes two to three years for a fund to mature and start bringing in a substantial amount of assets. We have a lot of funds that are maturing and those will provide a lot of opportunity.

Another thing we are working on is building the brand. We have done a lot more advertising. We have done radio and a fairly substantial amount of print advertising, and we'll continue by featuring some of our very strong portfolio managers. [Finally], our wholesalers are working extensively with financial advisors on growing the mutual fund business.

Q Sun Life does the insurance on the GMWB with CI; would you ever consider creating the GMWB for a competitor.

A It is something to be looked at and considered. Sun Life and CI are a little bit different insomuch that Sun does own 37% of CI and the SunWise seg funds are managed by CI. That said, it is something that we are evaluating and if the margins are reasonable, we're certainly open to considering those types of things.

We have included on our platform CI funds, Fidelity Funds, AIM Trimark and Mackenzie. Whether we would do an exclusive family – it is something to consider. AER