Manulife - Hancock: a marriage for life

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John Hancock - Manulife: Distribution Comparison

Source: Manulife and John Hancock

Distribution Channels	Relative Strengths		
	Manulife	Hancock	Combined
US agency Force	None	Strong	Strong
US Insurance Brokerage	Strong	Modest	Strong
US Bank Fixed Annuity	None	Strong	Strong
US B/D Variable Annuity	Strong	Modest	Strong
US B/D Mutual Funds	None	Strong	Strong
US LTC Brokerage	None	Strong	Strong
US 401(k) –TPA & B/D	Strong	None	Strong
CDN Stock Brokerage Firms	Strong	Modest	Strong
CDN Managing G.A.s	Modest	Strong	Strong
CDN Ind. Financial Advisors	Strong	None	Strong
Asia Agency Force	Strong	Modest	Strong

BOSTON — One of the few potentially troubling aspects of the multi-billion dollar merger between Canada's Manulife Financial and Boston's John Hancock Financial Services is the uncertainty for employees, agents and brokers of both companies, an uncertainty that could last until April of next year, when the merger is set to be complete.

The companies have earmarked cost reductions of $350 million over a three-year period but have not provided details on how many jobs could be cut.

Manulife Spokesperson Donna Lindell said agents and brokers have nothing to worry about.

"Basically they just have access to an even more diverse product line offered by both companies," she said.

Where the savings will come from is all speculation at this point.

"That has yet to be determined," said Lindell. "I think a lot of the savings would be on obvious things like IT matters."

Hancock representatives were less forthcoming with speculations, referring to the company-issued press release in response to each question, and declining further comment.

Hancock agents were also instructed to refer media questions back to Hancock headquarters.

But the information released to the public suggests not many employees have to worry because each company specializes in products the other company lacks.

"It is premature to speculate on job cuts at this time," said a release on Manulife's Web site.

The release refers to an Integration Team that will produce specific recommendations after reviewing all of the overlapping areas over the next six months.

A fact sheet put out by Manulife and Hancock details the compatible distribution systems of the two companies that when merged will create the second-largest life insurance company in North America. In U.S. individual life insurance sales, based on 2002 figures, Manulife and John Hancock rank 16th and eighth, respectively, but combined they will rank fourth.

The same merger math works for other products such as variable annuities, where Manulife ranked 11th and Hancock ranked 28th. Combined the two will rank eighth.

And with products that one company has that the other doesn't currently have, the merger is further complementary. Where Hancock is ranked second in long-term care insurance, the new company will be ranked second. The same goes for small case 401(k) pension plans. Where Manulife ranks first and John Hancock hadn't offered the product before, the new company will still be in first place.

"There will be layoffs where there are duplicative functions," said Michael A. Cohen, vice president and Hancock analyst for A.M. Best. "Fortunately there aren't many duplicative functions."

Bob Adams, A.M. Best's Manulife analyst, agreed.

"There's not a whole lot of overlap so these companies are really gaining a whole lot of product breadth by combin-

continued

ing organizations," he said. "There will be a lot of nice sales growth going forward."

Adams also said he thinks the combined organization will have a more diverse agent pool as Manulife is more of a broker/dealer than a distribution shop.

"Hancock has more career agents," he said. "It increases distribution in a diversified fashion. Both companies will benefit now because they have different products to offer."

With such a seemingly perfect merger, there is still room for things to go awry, and analysts are saying it's not out of the realm of possibility. However, a breakup fee imposed by Manulife would cost Hancock 3% of the deal's value plus expenses.

Donald Chu, an analyst in the Toronto office of Standard & Poor's, during a recent teleconference on life insurance industry mergers, said anything is possible at this stage of the merger.

"There always is the opportunity for another company to come in with a competing bid whether or not it be a white knight," he said. "Bear in mind there is a 3% breakup fee plus expenses associated with any shareholder coming in so they would obviously have to better the bid by a bit and also pay up."

He said that since this merger is such a friendly transaction, anybody coming in would make it a hostile transaction and most likely be viewed as unfavorable on the street.

Cohen compared the merger to a smitten couple.

"I would say Hancock would have no reason to pay the breakup fee to go somewhere else because there would be nothing to gain and quite a bit to lose," he said. "If you're engaged to be married to someone you think is going to be a good spouse do you want to keep looking for somebody who you think is going to be a better spouse, if you think you have already found the true love of your life?"

Rodney A. Clark, an analyst with S&P, also compared the merger to a romantically linked couple during the S&P teleconference. He said prior to the merger both Hancock and Manulife spent a lot of time making their companies more attractive to prospective partners- playing the singles scene.

"Both of these companies over the last few years have cleaned up their shops and have gotten rid of some of the bad businesses that lacked scale," he said.

Prior to the merger Hancock CEO David D'Alessandro had said the company had to get bigger to survive, either by buying another company or selling. Cohen said he did not think this was exactly the case.

"As far as the 'survive or thrive' mentality goes, if you look at Hancock, I don't think their survival was an issue," he said. "What I think David D'Alessandro was saying is 'we want to be a power house,' and now he's in a position where he's in one of the largest seven insurance organizations in the world. And that is powerful." ❐