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Breakout Session #6 Managing Inforce Business In The Ever- Changing Environment

Moderator: Rachel Yap, Director, Sun Life Financial



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Speakers



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Options for Dealing with Non-strategic Inforce Business

Naveed Irshad

Head of North American Legacy Business

Manulife

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Determining non-strategic blocks: Manulife Example



STRATEGIC ALIGNMENT

How important is the block or business in delivering on Manulife's long-term objectives and ambition?



- Product line open vs. closed



FINANCIAL IMPACT

How does each block currently contribute to our business results and financial statements?



- Capital allocation requirement
- Earnings
- ROE



RISK ASSESSMENT

Does the block or business generate material risks that the company would like to limit?



- Equity risk
- Interest rate risk
- Alternative long duration asset (ALDA) risk
- Morbidity risk
- Policyholder behaviour risk

Developing a range of options

Inorganic opportunities

Identify options to transfer all or a portion of risk to third parties

Dispositions

Reinsurance

ALDA reduction

Expense management

In-force management

Organic opportunities






Pursue optimization activities to improve business performance

Targeted outcomes:






- Free up capital for redeployment to high growth opportunities
- Improve total Company ROE
- Reduce relative size of legacy book
- Reduce key risks (market, morbidity, policyholder behaviour)
- Improve total Company valuation

Identifying where active markets exist

Active market interest for many blocks and risks

-  Fixed annuities
-  Mortality risks
-  Longevity risks
-  Lapse risk
-  Variable annuities (non-Canadian)

Markets are less active for certain risks

-  Investment risk in Canada
-  Biometric risk with non-credible experience
-  Products with significant optionality
-  Blocks reinsured with non-guaranteed rates
-  Unhedgable risks

Executing our “inorganic” initiatives

Reinsured portions of our Legacy businesses to reduce risk and free up capital

- In 3Q 2018, Manulife announced agreements with highly rated counterparties to reinsure substantially all of its legacy US individual pay-out annuities and group pay-out annuities businesses, and mortality and lapse risk on a portion of its legacy Canadian universal life policies



Which Legacy Blocks?

- **US individual and group pay-out annuities blocks**
(~\$12 billion of policy liabilities)
- **Mortality and lapse risk on a portion of Canadian UL policies** *(~\$1 billion of policy liabilities)*



What risks were transferred?

- **Interest rate risk**
- **Alternative long duration asset (ALDA) risk** *(to be sold externally)*
- **Policyholder behavior risk**



How much capital we freed-up?

- **Expected to release over \$1 billion¹ in capital**
- **Ongoing earnings are expected to be reduced by ~\$80 million² per year**

¹Inclusive of the up-front impacts to net income available to shareholders as well as capital expected to be released over the next 12 months as we further refine our U.S. asset portfolio post transaction
²Before reflecting potential benefits from any redeployment of capital released

Manulife example: Organic initiatives presented at Investor Day

| | Long-Term Care | Variable Annuities | Life Insurance | Fixed Products |
|--------------------------|---|---|--|------------------------|
| Pass-through | State approvals for rate increases | | Utilizing pass-through features where appropriate | |
| Risk reduction | Policy cash-outs Alternative offers | Enhanced transfer program (Canada GMWB ¹) Policy cash-outs (US GMDB) | Policy cash-outs | |
| Claims management | LTC Portal Wellness initiative Advanced analytics | | | |
| Other | ALDA asset mix changes Commission buyouts | | Reinsurance recaptures Rationalizing investment options within policies ALDA asset mix changes Commission buyouts | ALDA asset mix changes |

Expense initiatives to span multiple years and additional initiatives to be deployed in 2019 and beyond

Executing our “organic” initiatives

Made strong progress to convert our clients to less capital intensive segregated fund product

- In 2018, Manulife offered guaranteed income segregated fund clients in Canada an opportunity to convert their policy to a low guarantee segregated fund product



What is the offer?

- Offered our clients in Canada an opportunity to convert their policy to a segregated fund product having lower fees, fewer withdrawal penalties and greater fund selection



How long it ran for?

- ~90 days
- Clients received their offer letter by end of September and had until mid-December to accept the offer

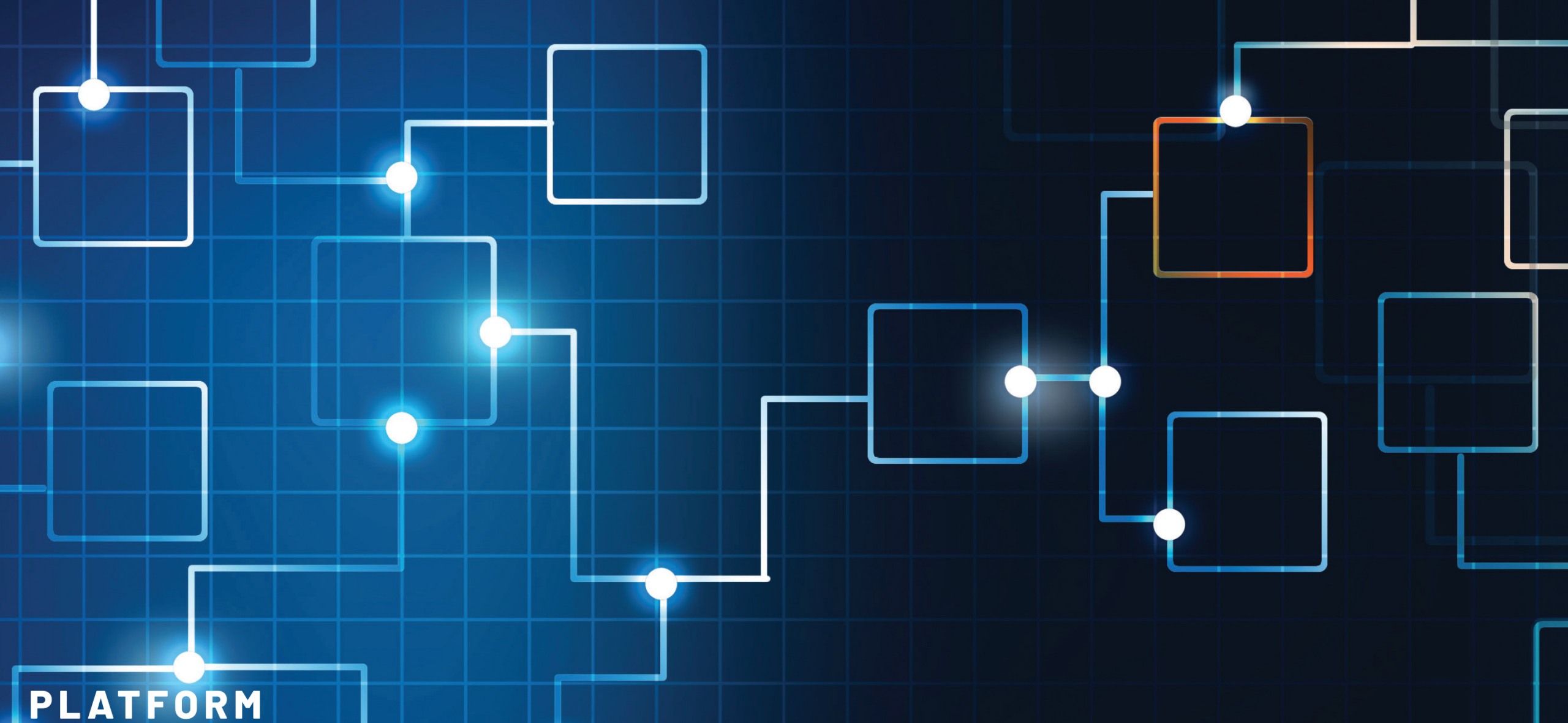


How much capital we freed-up?

- Expected to release over \$100 million in capital
- Ongoing earnings impact is expected to be immaterial

My key lessons learned

- Always take a first meeting – with reinsurers, bankers, consultants and especially peers who are on similar journeys
- Silver bullets are rare – take a systematic block by block, risk by risk approach
- Ensure structured decision making and approval process with minimum financial criteria to move ahead with transactions and initiatives
- Ensure proper MIS in place for analysis – marginal impact of moving forward with initiatives
- When onboarding new business be transparent with senior management and board about whether an exit strategy exists if needed
- Look for quick wins to build credibility, momentum and energy



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Engagement Platform applications to insurance inforce

Albert Tiw

EVP, Chief Business Development Officer

Hannover Re - Canada

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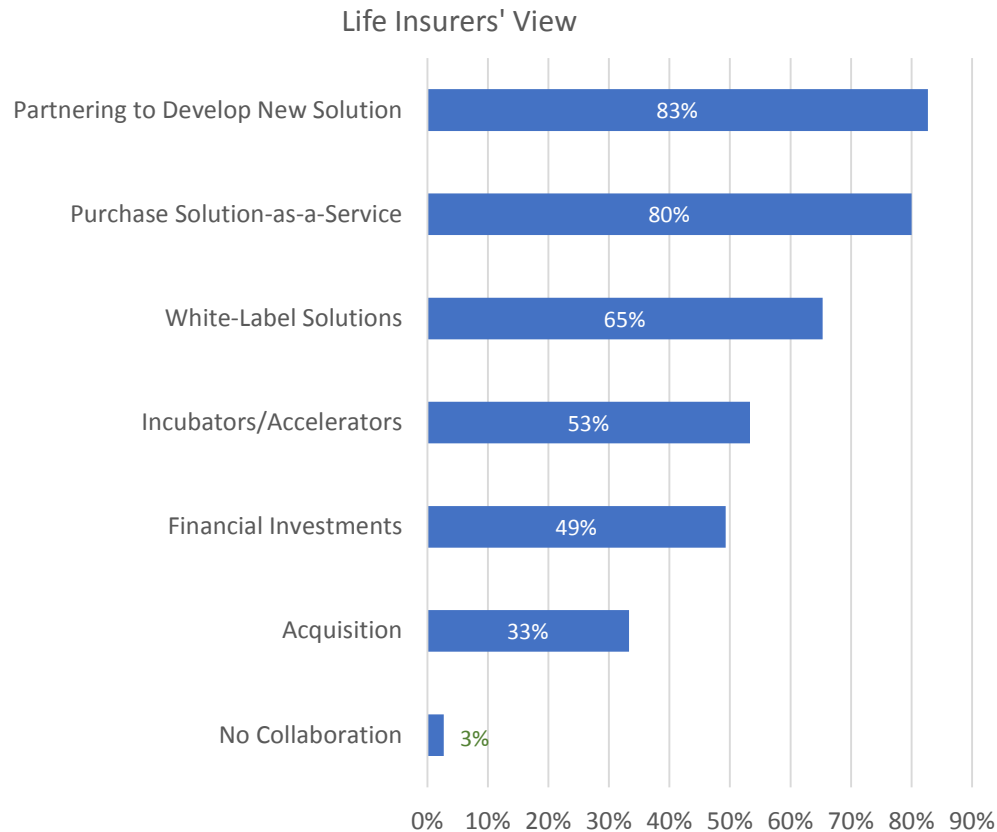


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Key Trends Across the Globe

Collaboration and Partnerships - Road to Success For Both

Insurtech Engagement Preferred Approaches



- ▶ Movement from Disruption to Enablement
- ▶ Innovation focused on the customer experience
- ▶ Partnership, collaboration and ROI key
- ▶ Benefits for Insurers
 - Speed to Market, Digital Capabilities, Competitive Advantage, Better Top/Bottom Line
- ▶ Benefits for Insurtechs
 - Customer Trust, Brand Recognition, Size, Scale and Capital

Cap Gemini/Efma: World InsurTech Report 2018 - Insights from over 140 executives in 33 markets

Engagement Platforms

Examples From Around the World



Engagement Platforms

Differentiation and Value Creation



Data Analytics



Improved Health



Persistency

Key Benefits



Customer Experience



Expenses



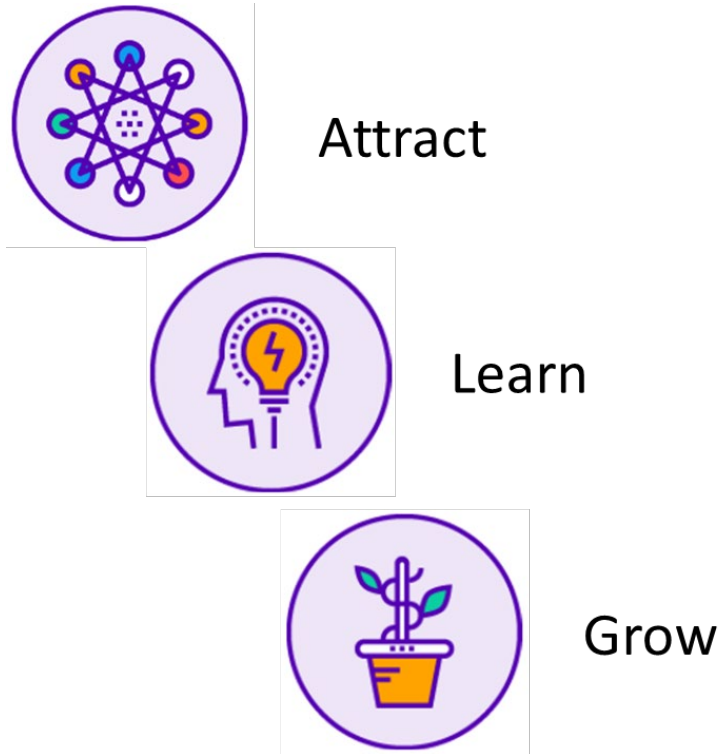
Cross Selling

Sureify: End-to-end Lifetime Platform



- ▶ Successfully launched omni-channel sales in under 6-months with a 27% increase in placement and a 43% reduction in implementation cost.
- ▶ Reduce call center requests by 40% due to enabling digital self-service while increasing customer NPS and significantly reducing servicing cost.
- ▶ 300% increase in response rates to lapse notifications; with 60% paying within 24 hours.
- ▶ 70% of IoT connected policyholders interact monthly driving consistent cross sell opportunities and up to a 55% improvement in persistency.

life.io: Business Analytics



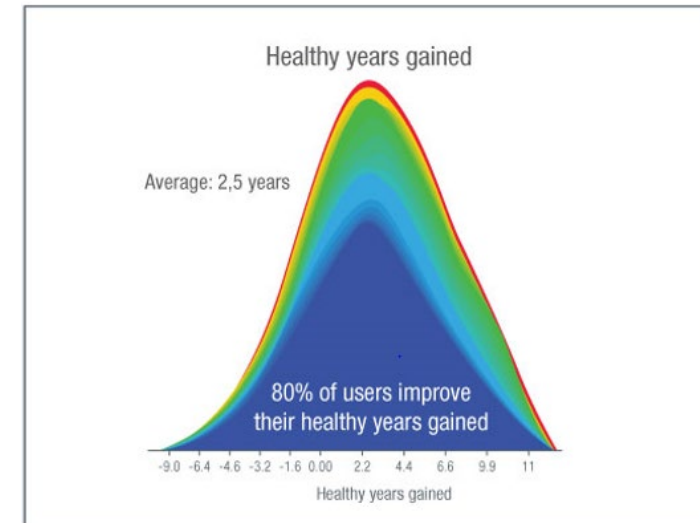
- ▶ University of Connecticut Center for Advanced Business Analytics (CABA)
- ▶ Week 1: >1% sign up rate
- ▶ A/B/C Testing
- ▶ Week 3+: 9.41% growing to 12%
- ▶ Continuous Improvement
 - ▶ 75% increase in unique entrants
 - ▶ 32% increase in total entrants
 - ▶ activation/reactivation of dormant users

Result: Reduction on Term policy lapses: 20-35% over 12 mths

dacadoo: Health Score



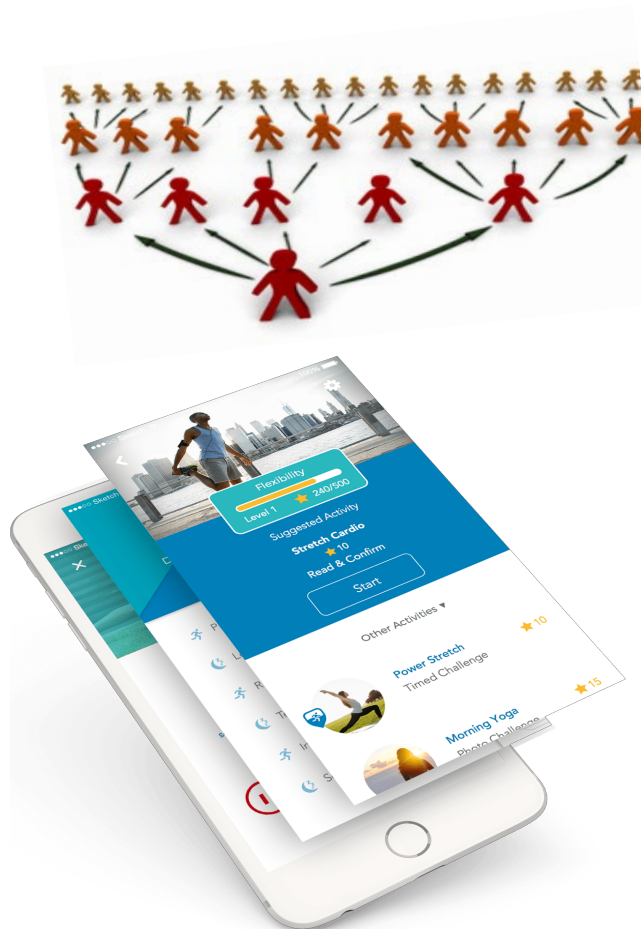
| Variable | % of dacadoo users which have changed | Average decrease |
|--------------------------|---------------------------------------|------------------|
| Weight | 29,4% | 2,7% ▼ |
| Waist | 10,3% | 3,8% ▼ |
| Systolic blood pressure | 11,1% | 5,0% ▼ |
| Diastolic blood pressure | 10,7% | 5,9% ▼ |
| Resting heart rate | 9,8% | 6,8% ▼ |
| Diabetes risk | 41,8% | 28,4% ▼ |
| Hypertension risk | 34,4% | 17,3% ▼ |



Source AKDresearch/active users on dacadoo 2011-2014

A 2014 analysis of 67,000+ dacadoo users showed that on average, 80% of active users improved their “healthy years” by +2.5 years and also reduced several modifiable health risk factors considerably.

Optimity: Viral Lead Generation



- ▶ Loyalty program + gamified health rewards app
- ▶ Marketed to the inforce population and affiliates
- ▶ Produces Viral Leads (one to one ratio)
- ▶ Revenue from targeted insurance offerings
- ▶ Positive Cash Flow @ 90 days
- ▶ Breakeven @ 6 months

Key Findings

One Size **Does Not** Fit All

- ▶ Understand your Goals.
- ▶ Short-term Success does not always translate to Long-term Engagement.
- ▶ Try. Start Somewhere and Learn.
- ▶ Differentiation and Value Creation is Paramount.
- ▶ Backwards Looking Solutions will leave you vulnerable to Future Trends.



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Questions?

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