Manulife Financial

Asia Investor Day

September 9, 2008 - Transcript

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Michael Huddart	EVP & GM - Hong Kong
Cindy Forbes	SVP, CFO - Asia
Amir Gorg	AVP - Investor Relations

Welcome – Amir Gorgi - Presentation

Amir Gorgi: Good morning, ladies and gentlemen, and welcome to Manulife Financial 2008 Asia Investor Day. I'd like to also extend our welcome to those of you joining us via webcast today. My name is Amir Gorgi, I'm head of Investor Relations and it's my pleasure to be your Master of Ceremonies today. Joining me at the front table is Robert Cook, General Manager of Asia Division and Cindy Forbes, Chief Financial Officer of Asia Division.

Before we officially get started I'd like to make a few announcements. Earlier today it was announced that Don Guloien would succeed Dominic D'Alessandro as President and Chief Executive Officer effective May 7, 2009. It was also announced that John DesPrez would become Chief Operating Officer. We have provided copies of the press release for more details.

Each of you should have received a package upon registration this morning. And that package includes copies of today's presentations, as well as biographies of each of our speakers. For those of you joining us via webcast this information is available in the Investor Relations section of our website at www.manulife.com. In the interest of time I will briefly introduce each speaker. And I encourage you to refer to their biographies for more detail on their current responsibilities, as well as their impressive credentials.

This year, in lieu of parting gifts, we've made a donation to the Red Cross' China Earthquake Appeal. As you may recall, on May 12th an earthquake measuring 7.9 on the Richter scale devastated China's south western province of Sichuan leaving millions in need of relief. Manulife has supported the Red Cross China Earthquake Appeal from inception and continues to do so today.

Finally, in case of an emergency, fire exits are located at the back of the room to your right and leading down to the atrium. Washrooms are also located through the same doors, then to your left, before the atrium.

Turning to today's agenda you'll notice that we have a full and comprehensive day. Each session will spend approximately one hour in length, starting with the presentation and concluding with the questions and answer period. We ask participants to withhold their questions until the end of each presentation, and to limit their questions to one or two in an effort to answer everyone's questions. If you have a question, please raise your hand and wait for a microphone before proceeding with the question.

We will pause for two, 15 minute breaks today; one in the morning and one again in the afternoon, and we'll break for one hour for lunch. We ask that everyone be punctual on returning to this room after each break so we can resume in a timely fashion. And finally, for those of you that listen to our earnings calls on a regular basis you will no doubt know this slide off by heart.

On behalf of the speakers that follow I wish to caution investors that the speakers remarks contain forward-looking statements within the meaning of the Safe Harbor provisions of Canadian and U.S. securities laws. Certain material factors or assumptions are implied in making forward-looking statements and actual results may differ materially from those expressed or implied.

For additional information about material factors or assumptions implied in making forward-looking statements please consult the slide titled, Caution Regarding Forward-Looking Statements in this presentation, together with the Securities filings that are referred to in the slide. That caution also provides additional information about material factors that may cause actual results to differ materially from expectations.

With that, I'd like to introduce Robert Cook, Senior Executive Vice President and General Manager of our Asia Division. Bob is responsible for Manulife's Asia Operations which span 11 countries and territories. With over 30 years of experience at Manulife, Bob has held management positions in most of the Company's divisions and his experience spans multiple areas including strategic planning, product management, sales and marketing, Bob?

Strategic Overview – Bob Cook - Presentation

Robert Cook: Thank you, Amir, and good morning, everyone. It's a pleasure to welcome you all to Japan, one of the major locations for Manulife operations here in Asia. What I'm going to do in my opening remarks is just spend a couple of minutes at the beginning just establishing some context for Manulife for those of you who may not be as familiar with the Company. And then, I'll dive in to my overview comments about the Asia Division.

In terms of Q&A on my remarks, we're going to do the Q&A after the four territorial presentations, and then I'll leave some time in my closing remarks for any kind of general questions that you'd like to pose to me.

Manulife at a glance is a Canadian, U.S. and Asia operation. You see here that essentially we are a very diversified financial services Company. Diversified by country, diversified by product line, diversified by channels in which we operate and we, generally speaking, have very strong market positions in the variety of businesses that we choose to operate in; from the number one position in the Individual Life business for our U.S. Insurance operation, from being the top player in the small case 401(k) market in the Wealth Management area.

In Canada there's been tremendous amount of consolidation in the Canadian industry leading to us having market positions of one, two or three in virtually all the businesses in which we operate there. And we'll go through the various operations in Asia to establish our market positions for you there and give you some outlook to the future there.

Asia accounts for about 20% of Manulife's earnings right now and is expected, over time, to be the fastest growing part of our operations in recognition of the economic conditions and the demographics in this part of the world and the rapidly developing economies in which we operate in.

We are one of the big players around the world. This is a chart that we have to update on an almost daily basis now. I said to Amir last night, it would be interesting to have a before and after slide because this slide on the first of June doesn't bear much resemblance to what it looks like today. But clearly, Manulife's one of the top five life insurance players around the world and is strongly positioned for future growth.

Let me turn now to Asia, and give you some insights into our strategy and outlook here in Asia. As we go through the presentations today you'll see these arrows at the bottom of the slides which will give you some kind of an idea of where we are in the presentation. Most of the presentations will start off with a very brief summary of some key financial statistic on the operation that we're talking about, and then we'll get into various elements of strategy, competitive advantage and our outlook going forward.

For Asia as a whole our story is basically one of a very long term, consistent track record of growth approximating around 30% growth rate in both top line and bottom line results. I guess the key message I want you to take away from this slide as we start to look at the detailed operations is that this growth is really driven by four different kinds of performance.

It's first of all driven by organic growth in existing operations. Secondly, it's driven by business development through extension of product lines, through the mandatory of new market segments and through the development of new distribution channels. It has historically also been driven by a variety of mergers and acquisitions in the region. And finally, over this historical period has also been driven by territorial or market expansion.

I mention those four things because I think they're all, in addition to being components of our historical results, they will all four be components of our future performance. And they will all play a part in ensuring that we continue to deliver this kind of 30% plus growth in top and bottom line performance in the years going forward.

The slide also highlights for you some of the recent success stories that have contributed to the continuation of this great track record. You're going to hear from our next speaker about the tremendous results that we've had in our Japanese Insurance sales, which for several years, frankly, were growing at very, very modest rates. And now, over the first half of this year we've more than doubled our sales relative to the same position as last year. And I know you're going to be interested in hearing the story of how that was achieved.

We are seeing Insurance sales across the region grow quite dramatically this year. This is a function largely of the fact that in the current equity market environment, where Asia is basically suffering the same as other parts of the world, wealth management sales are definitely suffering this year. But, we've been able to compensate for that in many ways by tremendous increases in our Insurance sales across most countries in which we operate in.

And finally, I think you're all familiar with from the last few quarterly earnings calls of the story of the recovery of our Variable Annuity business in Japan from some product problems that we had 18 months ago or so. And we are now solidly positioned as one of the key players in the Variable Annuity business here in Japan.

I think our story here in Asia is a similar story to Manulife that Manulife tells around the world, which is a story of strength arriving as a result of diversification. We have a very strong Wealth Management businesses that are growing now in addition to our traditional Insurance businesses in Asia.

And you'll hear from all four of our main geographic areas the work that they have been doing over the last few years to develop the non-agency channels in parallel with our traditional strength in agency. I think the other part of our story here in Asia is that many of the markets in Asia allow us -- afford us an opportunity to earn strong margins -- stronger margins than we are typically able to get in some of the more developed countries in North America.

You see from the two pie charts here that from a bottom line basis our earnings are largely driven by our two big historical businesses, Hong Kong and Japan. And the bulk of those earnings are coming from the Insurance businesses in those two operations. But that is changing. And we've shown you in the bottom right hand corner the split in top line performance where you see by this measure, Wealth Management sales now actually exceed our Insurance sales in the region.

The reality is that earnings emergence on Wealth Management businesses is faster than Insurance, than the Insurance businesses. And so, I think we'll very rapidly see that the contribution from the Wealth businesses will become very significant to our future bottom line performance across the entire region.

I guess we as a management team have an objective today. Our objective really is to convince you that our story here in Asia is better than the other four companies that I put on this slide. The four companies on the -- the five companies on this slide of the global top 20, these are the five companies that I think have true multiple country Pan-Asia strategies.

So if you or your investors that you're advising or looking for an opportunity to invest in a company that has such a Pan-Asian strategy in addition to his home country's strength, these are the five choices you've got. And our job today is to try to convince you that we would be the best choice amongst these four.

We rank third amongst these five companies in terms of the proportion of current earnings that we're achieving from our Asia operations. And, over the three year track record that these, each of these companies is disclosing, we rank first in terms of earnings growth from the Asia operations. So, as I say, these are the competitors that we measure our self against in terms of delivering results here in Asia.

We operate in Asia in ten countries from Japan where we are now through China and Taiwan. Hong Kong where we, as you heard on the video, have operated for over 110 years, the Philippines, Vietnam, Thailand, Malaysia, Singapore and Indonesia forming the ASEAN countries. So there are some -- still some opportunities for market expansion, as you can see from the slides, but again are very strong Pan-Asia presence that we have in our [footprint] here in Asia.

Structurally we report results to you in -- split three ways, between Hong Kong, Japan and Other Asia. We operate the business through four operations the Other Asia is divided between ASEAN and China. I think the key message I want you to take from this slide is that we have a tremendously strong management team to drive our operations here in Asia.

Michael Huddart who runs Hong Kong, Philip Hampden-Smith who runs ASEAN, Marc Sterling who runs China and Taiwan, have all been in their positions for many years and even before these assignments have long histories in Asia. Craig Bromley, who runs Japan, was appointed to that position on the first of January of this year, succeeding Geoff Crickmay, but he was in place in that operation as the CFO for several years before that.

So, I think the key message I want you to take away from this is both the stability of the management team, which I think is becoming increasingly unique relative to some of our competitors in the region. And more importantly, is the tremendously long experience record that my management team has here in Asia. I'm the rookie of the bunch having come to Asia in January of last year, but as you have seen from my biography I've been Manulife for over 30 years and spent the period of 1999 to 2006 running our U.S. Insurance operations.

Well, those are the reporting segments. Reporting segments -- what we choose as reporting segments, largely are -- reflect the history of our operations, operations that have built up earnings over a long period of time. If I were to look at, going forward, how do I look at our operations. I basically look at them, as we put on the slide here, is we have four developed markets where demographics are definitely going to favor in the future Wealth Management growth.

The four developed markets meaning Hong Kong, Japan, Taiwan and Singapore. And then, we have six developing markets who are, generally speaking, characterized by very large populations, by very fast growing economies and, generally speaking, by relatively low insurance penetration. So, you're going to see some commonalty.

We talk frequently about the China story, and I know many of you are interested in the China story and we're going to give that to you in good detail. But there are similarities, there are similarities in the Vietnam story. So, I'm going to tell you about the Vietnam story as well today, so that you understand there are multiple markets in which we operate that have similar driving forces.

When I tried to put together a slide to talk about our overall strategy in Asia, because those ten countries are so different and have such different characteristics it is very difficult to come with a -- to come up with an over arching strategy in Asia. In Japan here, you're going to hear how we've imported a number of great ideas from North America in both the Insurance side and Variable Annuity side and on the Distribution side.

In Hong Kong, you're going to hear about the job that we're doing to leverage a very, very large customer base, doing cross-selling marketing programs to leverage the strength of that customer base. In China, you're going to hear about the system we have for a very efficient and tightly controlled expansion from city to city across the country.

So, where does that leave us in terms of an overall strategy for Asia? Well, I think when I came to Asia one of my objectives was to make Asia look more like Manulife in the rest of the world. And the key things I was looking to do there is, first of all ensure that we have very strong balance between Insurance and Wealth Management in every market. This was already starting in certain markets.

Obviously, you all know the history of the success in the Variable Annuity business here in Japan. And we were achieving great results with a variety of Wealth Management products in Hong Kong. But I wanted to see the same kind of results in every -- all ten of our countries in Asia. So that is one element of our core strategy across Asia.

The second thing is, in all of our countries we want to make sure that we are operating through multiple channels of distribution. We do have an Asia -- unlike our operations in North America, we still have a very, very strong captive agency distribution channel and we're very good at managing those channels and we value them tremendously, but we don't want to be solely reliant on them.

We do want to view ourselves, as we do in North America, as a manufacturer. And our job is to connect ourselves as a manufacturer to our chosen target markets through as many different channels of distribution as we can identify. So, you will hear the story from various presenters throughout the day of the work that we are doing to expand those channels of distribution in all of our markets.

And finally, we're trying to do a better job of leveraging the Manulife brand across all of Asia. I think I told some of you in Toronto last year at Investor Day in Toronto a story, which I'll repeat for those of you who didn't hear it. We appointed a new General Manager for the Thailand operation which is something we acquired as part of the John Hancock transaction. And he -- it was not a very well run company and he had to basically rebuild his entire management team.

And he was interviewing this young actuary for a senior position in the Company and she was tremendously well qualified, probably too well qualified given there are very few qualified actuaries in Thailand. But the recruiting process was going quite well and the relationship was being built between our General Manager and this person. So he finally -- he felt comfortable asking her, why are you still here?

You're so well qualified you can write your ticket at any company in the country and we're a very small player here, why do you want to join us? And she said, well I know Manulife in Hong Kong and I know Manulife in Singapore. So, if what you're trying to build here in Thailand is like those operations I want to be part of that. So, that's just a little story to illustrate how the Manulife name and reputation is well known throughout Asia.

Our commitment -- we're not a, we're not a recently arrived player from North America or Europe. We have been in Asia for over 110 years, and I think that commitment is well respected. And as I say, we're just trying to -- we're going to try to do a better job of leveraging that in our marketing efforts going forward.

I guess I'd like to talk to you -- I mentioned before the four elements of historical growth. And then obviously, there's not much I can say to you about future mergers and acquisitions or about future territory expansion at this time. But, I can say a few words to you about recent successes and near term opportunities for organic growth and for business development.

On the organic growth side, I think you're all familiar with and we'll give you some more details on the story of the reestablishment of our Japanese Variable Annuity business. It's contributed tremendously to our growth this year. What you may not know as much about and we'll tell you a bit more about is the tremendous expansion of our distribution relationships here in Japan from an organization that three years ago perhaps just had two channels of distribution.

We had our captive agency or what we call the TA channel here in Japan, and a very strong relationship with Bank of Tokyo-Mitsubishi. But now, we have literally dozens of distribution relationships with other banks and securities firms and a brokerage organization here in Japan that have tremendously strengthened our distribution story.

Indonesia. I was asked by someone about a month ago, well, say Hong Kong is big and Japan is big, what's the next big business for Manulife Asia? And my answer was Indonesia. And so, we're going to spend some time in our ASEAN presentation to tell you a bit about that story.

Indonesia is a place we have operated for over 20 years, so the profit emergence is on the verge of becoming quite material. We're in multiple businesses. We're in the Insurance business. We're in the Group Life and Health Insurance business. We're in the Asset Management business. We run the number two asset management company in Indonesia, so that's just an indication of the range of business development in that organization.

Looking forward, you're going to hear the story about in Hong Kong, things we're going to do to leverage customer base. Hong Kong is a city of about 7 million people and about 1.4 million who are already our customers. So in order for us to continue our growth, we need to sell more products to people who are already our customers. So, becoming a better marketing organization is going to be one of the keys to our future success in Hong Kong.

And then, we're going to tell you some more details about our story in China where -- as I said to you before, our aspiration in China is to be the first of the foreign companies to legitimately be able to say that we operate on a national basis. And we are well on the road to being able to deliver on that promise. We have licenses now in about 34 cities operating in, I think, a little over 30 of those. And Mark in his remarks will talk to you about his goals for the next several years that are going to make what is already an impressive story even more dramatic.

And you know, when we talk about opening a city, every time we open a city, these are cities that have millions of potential customers. That's just the nature of the size and scope of China. If -- the next 30 cities that we open will all have millions of people in them. There are just that many large opportunities available to us.

On the business development side, I'm happy to make an announcement today that we plan to enter the mutual fund business here in Japan in October. The licenses are all in place, and we're just finishing up some administrative details in anticipation of the launch of our first fund at the end of October.

I think this is a -- an important part of our strategy to round out our Wealth Management business here in Japan, which currently is essentially largely a variable annuity business. And if we want to be a continuing strong player, we need to round out that portfolio of products offerings that we have here in Japan in order to take advantage of the aging population and, therefore, change in product demand that is occurring here.

In addition, we're going to talk to you about the successful building of the MGA, or independent broker channel, here in Japan for the sale of life insurance. This is a channel that currently accounts for over 40% of our total insurance sales here in Japan, a channel that only started last March. So in a space of a little over a year, we have essentially doubled our insurance sales in Japan through the creation of a new channel, and I think that's a tremendous business development success story.

And finally, we've been doing a tremendous amount of work to develop our asset management infrastructure throughout Asia. A year and a half ago, we had well-established asset management companies in Hong Kong, in Japan and, as I've just mentioned, in Indonesia.

But over the last 18 months, we have also established asset management organizations in the five countries noted on the slide, most recently as a result of an acquisition in Taiwan that will close next month in October. So, that will leave just two countries in our portfolio in Asia where we don't have asset management companies, and we have projects underway to -- in both of those countries.

So in conclusion looking forward, I think what we're seeing already is a tremendous improvement in our diversification by business through the shift into Wealth Management, in addition to insurance, and diversification by channel as we develop channels of distribution, in addition to our traditional agency channels. I think I've just gone through in the last two slides an indication that we have a very strong array of strategies in -- to deliver both continuing organic growth, as well as business growth -- business development growth, in new areas.

But, I guess I would be remiss if I didn't kind of conclude my remarks that we are still going to get this job done in Asia by using the kind of core differentiators that set Manulife apart all around the world, and that is that we will continue to run our organizations with a very strong degree of financial discipline and that we will continue to beat our competition not by great strategic insight, but through very strong execution -- very strong execution that will be delivered by building management teams that are stronger than those of most of our competitors.

As I say, I think these are kind of core attributes that have set our Company apart and have been key reasons for the results that Manulife has delivered over the years. And, I guess I would assert to you that those elements of management discipline are even greater differentiators here in Asia than they are in North America.

Thank you very much.

Japan – Craig Bromley – Presentation

Amir Gorgi: Okay. Thank you, Bob. Our next speaker is Craig Bromley, Executive Vice President and General Manager of our Japan operations. Craig?

Craig Bromley: Hi. As Bob mentioned, I'm the newest GM here for Asia. I just started in January. And I was the former CFO here in Japan, so I do know the financials quite well. But I'm probably not quite as good a speaker as Bob since I'm a finance guy, but I'll do my best anyway.

What I'm going to do today is just take you through some of our recent performance, some of our strategic positioning within our markets and try and impart upon you the significant growth potential that our Company has in this market. Despite some of the demographic and sort of market headwinds, I think, we have opportunities to grow in this market for a long, long time.

Now, I guess just in talking to a few people here, I kind of realize that the presentation is almost entirely focused on a very short period of time, so five years at the most, but maybe was a range of different understanding of our operation here in Japan. Some people have been following for us a long and will know it -- the story very well, others will probably not.

So, I will back up just a little bit to explain how we got into this market. It's a little bit different maybe than some of our entries into Asian markets. It was just really I guess about 1998, I think we signed our first agreement with Daihyaku. This was a Japanese domestic mid-sized mutual company that had run into financial difficulty, as many other firms had in Japan at the time.

Over the course of a couple of years, we ended up acquiring all of Daihyaku, which is the -- basically the base for our entry into Japan and the platform that we have been subsequently growing in many different directions.

So, I think that's helpful context because if you think about we initially acquired, it was really quite a traditional Japanese life insurance company with a distribution strategy and a product strategy, which was very Japan-centric with an emphasis on the captive agency channel of basically sales ladies, as people have heard of. And then we have pretty much transformed this business, and now I can take you through how we've transformed it and what it looks like today.

And just by way of reference, I used to run our sort of global M&A and was here working on this transaction in Japan back when we were initially buying the company, so I actually have quite a long history sort of since the beginning of our Japanese operations.

So first thing, just to talk a little bit about the numbers, hopefully most of you know our numbers story, but I just want to make a few points about some of the trends and some of the, perhaps, anomalies. So, I think very strong growth over a long period and a short period. [The] bottom line growth has been very strong for the five-year period and even stronger in the last year, so that's probably the most important one. The profits are growing quite sharply.

A couple of things to note about this, you can see a big jump up in 2005. Some of that would be underlying trends within our Insurance business and our Wealth business growing. Some of that is basically some investment noise as we capitalize on an improving market situation to make some investment profits.

The other trend I guess you can notice is an increasing emphasis on the wealth earnings within our overall earnings, so that has become a bigger and bigger portion of our business while our insurance earnings look like they've been coming down, but have actually -- the underlying operating trend is going up. And particularly you'll notice through last year, we've had a big surge profits, and this is really more driven by strong growth across our businesses, which I'll explain in greater detail later.

Premiums and deposits, this is a really strong story, 30% growth over the five-year period and 90% in the last year. So, this is a huge jump. Now for Manulife Japan, P&D is generally driven more by D, the deposits, so you're seeing a big surge in VA deposits, which sort of swamped the big growth we've had in our insurance premiums as well.

Funds under management kind of give you a bit of a picture of the trend. So when we acquired Daihyaku, we acquired a big block of business, very traditional business. It was a -- these were restructured liabilities where the interest rates had been reset, so it's actually quite a profitable business and it has been, as expected, running of. In the meantime, we have been replacing it with our own products, primarily universal life on the insurance side and our VA products, and you're seeing that shift as we are moving more off balance sheet into separate accounts with Wealth accounting for now the vast majority of our assets under management.

Some of the big highlight stats, 117% year-over-year insurance growth, 194% year-over-year VA sales growth through the financial institutions, so basically through the banks and securities firms, which is the majority of our distribution. And, a huge jump in Wealth FUM, and that's in spite of obviously not the greatest market conditions in terms of equity markets, which do have an impact on our separate account assets.

So I think, overall, the numbers basically tell a great story, and I'll try and give you some of the context of how that was created. So first of all, Japan right now represents about 7% of overall Company earnings. Now, that has actually gone up quite a bit. That was as of the end of 2007. We're probably now in the sort of 9%, 10% range, and you'll see the VA as being a big portion of our earnings, but that's actually increased quite a bit as well, and probably in the most recent quarter it would be about 50/50.

And so, what does this mean? Well, there are other companies where Japan earnings are a bigger percentage of overall Company earnings, and so we have certainly some aspirations to grow. There are companies with bigger absolute earnings footprint in Japan, which is even more important. And it's really my goal as a General Manager to be one of the biggest foreign players in Japan. I think that's entirely possible. We have demonstrated that we can enter new channels and compete with anybody.

Our competitive set here in Japan tends to be quite similar in many respects to our competitive set in other countries where we operate, and we succeeded there and I think we can succeed here. We have, as I say, a great track record. And if you look at, say, a company like AIG and how much earnings they derive from Japan, I think that's a reasonable target to shoot for, although it may take a few years to get there. So, I'm really excited about both our track record and our potential for continued growth.

The next slide, the next two slides are really about the market and I assume that most of you are quite familiar with sort of the characteristics of the market, both the insurance market and the overall demographic situation in Japan, so I'm not going to spend an awful lot of time on these slides, but I'll make a couple of points. It's a huge market, if you didn't know that. So with a huge market there is lots of potential.

I guess one of the main points that I'm going to be stressing throughout here is that, you may look at Japan and say, well, yes, it's really big, but it's not really growing. So, how much potential do you really have in a market that's not growing? And it's true that this is a pretty, from a demographic perspective, a very sort of flat population situation and generally not stellar economic growth.

But underneath that there is a lot of change going on in this market, and I think those changes create some opportunities for us and those changes take several forms. There's a -- big changes in the regulation of insurance products and all financial services in Japan and that's creating quite a bit of dislocation, quite a bit of anxiety for the players in that market.

Additionally, there is big changes in customer preferences, in the way they want to acquire products, where they want to acquire them, how they want to acquire them, what products are appealing to them, that's all changing as well. Once again, creating considerable anxiety. So, I guess the anxiety though is primarily for the big, established players.

So that would be both the big domestics who have been generally losing market share for quite some time to the foreign companies, and even to a certain extent to the large entrenched foreign companies that derive big portions of their income from Japan. These are the companies that stand to lose the most with change. And the companies that stand to make the most with change are companies like Manulife who have the capabilities, the skills, the experience, the competencies, the base to pursue new opportunities vigorously and take share away from our established competitors.

So that's really what I want to say about the market. I'm happy to answer questions about Japan because I find it a fascinating place in terms of its demographic profile. I guess the other obvious thing to say is that this is an aging population, and that too is creating differences in the product profiles or the product preferences of consumers.

I don't think this is really any news exactly, but the life insurance market is not growing, the medical market has been growing. As people age this is a bigger priority for them and there is concern about the government being there in a whole bunch of different ways to be able to fund retirement and fund the health system. So we're seeing, really a big growth in Wealth Management opportunities, in the medical opportunities, but still some obviously, some opportunities within the life markets as well.

So this is a chart, just of our financial strength ratings. No news I don't think, that Manulife is a AAA Company. But I guess I wanted to make the point that even say 15 years ago, 20 years ago it was very difficult to convince the Japanese consumer to trust a foreign company to acquire products from, particularly something as long term and as sensitive as insurance.

I think that has been changing quite a bit over the last ten, 15 years and we've seen a movement towards the foreign brands, and really more of a willingness to accept the idea of acquiring foreign products here in Japan. But there is still a remaining challenge which is for the Japanese consumer to try and figure out who it is out there to trust in terms of making their investments.

You see a lot more -- they're open to a lot more different sellers but how do they sort through who is the best one to buy from. So I think it's actually extremely important when we can just basically end any conversation about whether we are a trustworthy brand by basically pushing forward the AAA and saying, it really doesn't get any better in the Japanese market or anywhere else in the world, than Manulife. So let's just move on to the sale.

So I talked a little bit about the fact that we have the skills and expertise in Japan to carry out some of our ambitious plans. And that is owing to, in part, to our senior management team which is a bit of a mixture of people from Daihyaku organization, some people from obviously, North America and people that we have hired, senior executives from other Japanese or foreign companies here in Japan.

So I just actually wanted to -- each person to stand up, Kobayashi -san is our Head of the PA channel. And not everybody is here, so --. Mark Oberhellman is our CFO, and Morita-san. Is Morita-san here? No. Yoshizumi-san is Head of our MGA channel which we are going to talk a little bit about today and is responsible for some of the great results we've been seeing there.

Mark Hidaka is the Head of our Investment Trust business that we're launching in October. And from Investments we actually have Sudo-san here. And, is Minami-san here? Minami-san is responsible for our -- broadening our distribution into all these different banks that you're going to hear about and is responsible for bank distribution in general.

So, I think what I would say really about management here in Japan is it's actually quite difficult to acquire. People don't tend to move around in this market as they do in other countries. So for a new entrant to come into Japan without any kind of a base and try to assemble a team and launch into the market and take share is extremely difficult.

So actually that probably benefits those players that either have a long established history or were able to acquire a company like we did in Daihyaku and establish that base because Japan is a very different market, has different characteristics and without that local knowledge you're really in a -- quite a bit of trouble and probably aren't going to get very far.

So just talking about what is the core strategy here? Well, Bob touched on it certainly in his remarks, so let me just go back. I talked a little bit about Daihyaku. Seven years ago, really, Manulife Japan was the successor of Daihyaku. We operated through a captive agency channel only, selling mostly traditional insurance products and then changed that product profile later. But basically, it's fairly limited distribution and a distribution channel that was perhaps was, is -- continues to be a tough channel to grow extremely quickly and try to meet all the ambitions that we have for ourselves here in Japan.

So the progress, some of the numbers you've seen, some of the growth that we were showing on the numbers charts is really primarily attributable to the addition of Bank, Securities, Brokerage, Independent, Agency distribution. And of course, I'll talk more about that later.

With this expansion into all these different channels, and with our modernization of the existing channel and the existing product portfolio we've had to become very good at developing new products, being innovative. You know, if you're trying to capture market share quickly, trying to grow quickly you have to be taking a little bit with some chances, trying to do something a little bit different, distinguish yourself.

And Manulife, I think, globally, is recognized as a very innovative product leader. And so, that's one of the ways certainly we've tried to distinguish ourselves here in Japan, and I think the results suggest that we are being successful in doing so.

We've had this dramatic sales growth both medium term and particularly short term. So investments in our infrastructure, we have been continuously investing. When I talk about infrastructure I'm not just talking about systems or back office operations, although obviously those are important too when you're doubling or tripling your volumes, but also the infrastructure required to go out and get new businesses.

So we've been investing in getting the best product people that we can, from around Japan and the best distribution people and sales management et cetera. I mean, we are planning for this Company to be a very large Company in Japan, and we have to have the horses to drive that strategy and we've been acquiring those horses.

So all of those things have been and will continue to contribute to our goals of being one of the largest companies in Japan, but that is probably not going to do it in of itself, so we have been not just expanding out our PA channel, expanding our bank channel, but also adding new types of businesses and product lines, channels, et cetera.

So I guess in 2007, we launched the MGA channel. That was a brand new channel for us. In 2008, with the deregulation of the sale of protection products through banks, we basically entered that business. And I'll talk about that a little bit later, and that I think is quite a promising opportunity as well.

And in October, we'll be launching into mutual funds. And we have many other initiatives that are just boiling away, cooking away here, ready to go. But of course, we have to be a little bit measured in the way we roll out all these different initiatives and all these different opportunities. I think we have demonstrated our success in these areas, so I have confidence that when we bring out new things that they will be successful as well.

Just in terms of our current positioning, a market share slide here. Market share is actually quite difficult to exactly figure out in Japan. We don't have quite as good information as we might in the United States. We've got [Bard] and LIMRA and everything is sliced and diced 1 million different ways in a user-friendly format, but this is a -- it gives you some kind of a snapshot of where we're at.

So one of the things, we're quite a small player in the insurance market, representing I guess currently probably just over 1% of the entire sales of the insurance business, that's life and medical, in Japan.

That's not a trivial amount, given the size of the Japanese market, but one of the things you'll notice is that the industry growth was last year, and these are all fiscal years because that's really the way you get the information, industry growth was negative 14% while we actually grew our sales quite substantially, and that leads to the market share pick-up.

I foresee that probably the industry will bounce around a little bit. It's not going to 14% every year forever, and the demographics aren't so terrible in Japan. But, I foresee that we will continue to drive that market share growth forward.

And in the United States, I think in the insurance business we have something like over 5% or 6% market share, or something like that. It seems like a reasonable target for me to shoot for at least the medium term. That would give us another huge business globally, and I think it's quite achievable, given some of the initiatives that we have underway.

In the VA business, we are a pretty significant player. We were at about 11.5% [over] the time of this -- as of the end of March 2008. That has been a huge market share growth as well coming off of a -- as Bob mentioned, the bit of a low point in [our VA] sales. I guess what I'd say about the market share in VA is with Hartford sort of coming back down to earth -- Hartford was by far the market leader in the VA business here in Japan. They have come down quite substantially.

Now, there is no clear market leader. There is a few companies, four or five companies, all that have sort of 10% plus market share, really duking it out for leadership in the market. We're one of those companies. I don't expect that anybody is going to end up with the kind of 35% market share that Hartford once enjoyed in this market. It's just becoming a more competitive battleground.

I still see that we -- the VA market is going to grow in Japan. It's a demographically favored market, so there will be market growth. We have, I think, opportunities to take market share through distribution initiatives and new product introductions. So, I see that VA business going quite well for quite some time. But, I -- once again, I think we need to broaden our Wealth Management offerings and compete across a number of Wealth Management categories if we want to drive super-normal growth. So, that is certainly part of our strategy.

Next slide just goes through some of our flagship products, obviously we have lots of products. We have a full suite of products in each of these categories, but I just wanted to talk about these categories. Jack-in-the-Box, sort of a strange name, but Japanese financial products tend to get these sort of cute pet names. It's called the Bikkuribako in Japanese. This is our flagship VA product. It was launched in 2007, and really drove a lot of that sales growth that we're showing in that market share pick-up.

This is -- we have a full range of products. This is a GMAB product, so a sort of a maturity benefit, a living benefit. We also have other GMDB focused products, or -- and also withdrawal products, so we have -- we cover the full range. We are also expecting a major product introduction in the fourth quarter of this year, which we think will drive our sales even further.

ManuFlex. This is our flagship insurance product for the PA channel. This is -- that's our captive distribution channel, and it is really about still the only universal -- real universal life product in the Japanese market. And so, it sort of helps distinguish us and helps with our recruiting strategies, et cetera.

Along with ManuMed, we really offer the full gamut just between those products of basically anything -- any kind of protection that you would want in the Japanese market, from cancer protection and critical illness, accident, life, everything.

They're all riders that you can attach to this universal product, as well as making deposits into the funds and so forth, so it's a true universal life product. And we think this gives us a competitive advantage, and we're actually also looking at perhaps supplementing that universal life strategy with some other products for the retail market.

Prosperity, the third product there, is a cancer product for the corporate market. And that's the market that for the most part, the MGA channel it's servicing, but our PAs also sell these types of products. So, these -- this cancer product is our number one selling product in the MGA channel right now. It's a very strong product. It's probably the leading product in this category.

We also sell some supporting products through that -- the MGA channel and into the corporate market, including VA products and increasing term life products. We also see the potential to add retail products to the MGA channel, which I'll talk about later.

I guess as -- in terms of a product distribution strategy, we tend to sell all products through all channels. So basically, the PA channel sells our corporate products, sells our VA products, sells our universal life and other types of retail protection products. And the MGA channel's the same way, and the bank channel is increasing with -- the same way with the deregulation of the channel. So, we're not necessarily, specifically designing a product for a specific channel.

Usually, there's a catalyst. There's one channel that really wants a product, but then the effort is to sell across all channels. We think that really eliminates any possibility for channel conflict, because everybody is getting the same products at roughly the same time, and are competitive in all product categories in their channel.

So, I think this is probably the most competitive full suite of products. And every time we have new people joining our Company, I sort of take them through this and sort of challenge them to find a product suite with any other Japanese company that can compete or compare with that product line-up.

On to distribution. So I had mentioned that distribution diversification and broadening was the key to those big numbers growths, and you can see when we started with just the captive agency, we had roughly these types of numbers, 3,700 captive agents, but our branching into bancassurance and getting broad distribution in the bank channel has brought a 60,000 plus sales staff and are moving to the independent agency channel has served up another 9,400.

So, there's no wonder I guess with the access to our products of this many sales staff, this kind of an increase in our distribution, that our numbers are expanding rapidly.

I put up this slide. It actually shows what maybe some people don't realize because when they come to Japan, they just come to Tokyo, but Japan's a fairly big country with an urban population spread out through the entire country. Manulife operates through 98 sales offices and 8 regional offices across Japan.

These offices were actually a rationalized version of the Daihyaku distribution. So, Daihyaku had 300 sales offices across the country, but they tended to be quite small and a little bit beat up. So, we replaced them all 100 sort of state-of-the-art offices [and some] consolidation, and this is really the platform that we use for rolling out all of our channels.

So, we -- from and efficiency standpoint, what we tend to do as we've gone into these wholesale channels when we're adding new bank distributors and support a number of wholesalers is actually house the wholesalers within these already existing sales offices. We'll do the same with the independent agency channel.

So that gives us some efficiencies, and I think in general, having this nationwide network actually gives us a lot of credibility in this market. So maybe, [I'd say], some of the foreign firms really focus on just -- on Tokyo and on their wholesale distribution relationships.

But, I think for many of the institutions that we do business with, having a local presence, knowing that there's a Manulife building down the block, is actually quite beneficial and it gives us an entry into the door. So, the PA channel is not just a source of a business for us -- profitable new business, but also actually gives us some leverage into some other channels.

Just continuing on with the PA channel. PA actually means PlanRight Advisor, in case you're wondering. That's what they call our professional sales staff. You can see we have been successful in both growing the number of agents, and that has translated into higher sales, and we've also increased productivity in the channel, which has increased sales as well.

And really the goal in this channel, it's part of our growth story, but it doesn't represent all of our growth story by any means. So, the goal is to grow headcount fairly modestly, grow productivity reasonably quickly and between the two of those, create strong growth that underpins the rest of the organization and the growth in our other sort of new channels.

The independent agency channel, so this is the source of much of our growth. And for those of you who aren't so familiar with the channel, I'll talk about the channel itself, and I'll talk about our strategy within the channel. So, the market of the independent agents in Japan is very large and actually growing versus probably some of the other channels. So you ANP of JPY556 billion, so about $5.6 billion of mostly Insurance business. So, that's a huge, huge market.

And, the major product categories. Well, they're fairly spread out between all these product categories. If you can't read the slide or whatever, we have increasing term, which is one of the products that we sell, more traditional term insurance. Medical insurance is a significant category, and that is -- generally more retail focused.

Whole life insurance. Traditional whole life insurance is still a big product category in this country. Things haven't moved all -- to universal life and variable universal life at this point. Cancer insurance. This is a category that we play in as well where I said we had the leading market, and then there's some other products as well.

The number of potential distributors in the independent agency channel is enormous. And a lot of them are down to sort of mom and pop shops, one or two people, going right up to distributors with hundreds and hundreds of distributors. So, it's a very kind of fragmented, not uniform, type of distribution channel.

And coming into the market as a new player is very hard to suddenly just establish distribution to work with tens of thousands of individual companies across Japan. So, our strategy has been pretty focused on some key agencies that can sell a lot of the products, so the biggest agencies, the most professional agencies, and just giving them really good products and really good service and worrying about the rest of the distribution a little bit later.

And, I think that strategy has worked extremely well. So, I think things have moved beyond what we had foreseen, even when we launched the channel. And I guess in terms of our future plans, well even within just the -- this 100 distributors that we have grown over just the past year, we see more scope for increased sales. So these guys, just these 100 distributors, sell a tremendous amount of product, and we can be a huge part of that distribution story. And we are rapidly becoming a favored manufacturer for them.

We will then add additional agencies, but at a measured pace, because what we don't want to do is end up with a lot of inefficient distribution relationships, because we are focused on profitability. We want this huge growth in top line to be huge growth in bottom line as well, and that's the way we've chosen is to expand out efficiency and maintain a fairly low overhead in this.

Anyway, actually I think that number now is maybe at 102 agencies. I think it's a credit to the team that we brought in on the MGA side that they've been able to establish our credibility so quickly and get agreements with the -- with all the biggest, basically, agencies in Japan in such a short time and make such a meaningful contribution to our overall sales.

In future, we probably will end up competing in more than the two categories, cancer and increasing term. We -- we're sort of looking through the potential for selling more retail-type products. We sell mostly corporate products right now. We think that the retail side of the independent agency channel will grow quite substantially in the future as well, and we'd like to grow along with it.

Moving on to the bancassurance channel. I don't know if many -- most of you have seen sort of graphs a bit like this, but this is one of the -- this is really -- explains the story of why there are a number of foreign entrants into the Japanese market and in a broad category of financial services.

So, the first graph compares financial assets by household between Japan and the United States. And there's really just one major point on this, which is that in Japan, about 50% of household financial assets are held in deposits -- just bank deposits making basically no interest because of the low interest rate environment in Japan.

We see the U.S., much more diversified. These are both large, advanced economies. So, the -- this difference isn't really explainable by level of development, wealth, anything like that. It's really customer preference in the development of the market, in the development of alternatives for the Japanese consumers to save their money.

You'll notice that the Investment Trust business in the USA is a significant portion of the overall asset picture, whereas in Japan, it's actually quite small. So, that's the obvious reason why we're going into the Investment Trust business. There is huge potential. That discrepancy doesn't really make sense, and that difference is worth, in a Japanese context, hundreds of billions of dollars. So, we would like to have a piece of that.

And the next chart just shows Japan household financial assets and how they've changed from 2002 to 2007. So, although the -- these numbers are small, you still see a big amount of deposits. They have been coming down, so the story has been working that entrants have come in, whether it's to sell variable annuities or sell investment trusts or stocks or anything. All of those gone up, and deposits have gone down. But as the other chart had showed, there's still a long way to go, and that's what we are basically attacking and some of our competitors are attacking as well.

So, how are we attacking it? Well, I guess we should first talk about the VA business, because the VA business is a bread-and-butter business for Japan, the Manulife Japan, and this is the big story for us right now.

So, I just wanted to take you through actually the sort of the history and timeline of the development of our distribution in the VA and the -- basically the development of our business. So, it's a fairly young business. I already said that we haven't been in Japan that long, so most of our businesses are fairly young. But, this one is -- was a start-up going back 2002.

There was deregulation occurring back at that time, where banks were being allowed to sell these types of products, so that attracted a few entrants such as ourselves and Hartford and ING into this market. We started with a fairly small number of distributors, basically our own captive agency channel, as well as a few other financial institutions.

In 2004, we signed an important deal with the Bank of Tokyo-Mitsubishi, as it was called at that time. This was a -- sort of a strategic marketing alliance where we do joint product development, so we developed VA products specifically for them and our sort of the house product, so to speak. And that, along with the next year, Bank of Tokyo-Mitsubishi bought UFJ Financial, which was another one of the mega banks at that time, to form what is now called MUFG.

That really propelled our sales, and you'll see that in the next chart when we talk about sales. And, it also gave us I think a bit more credibility in the market, enabled us to establish some other relationships and propelled our account development activity.

Now really, just with getting Bank of Tokyo-Mitsubishi in 2004 and UFJ in 2005, two of the four largest banks in Japan, that actually took up a lot of our time in just pulling together the wholesale resources and product strategies and so forth for those banks. Since then, increasingly, we've been moving out into different directions.

Now, with the addition of some of these others in 2006, 2007, we are dealing with Resona being the other now mega bank, two of the four of the mega banks and all three of the big three securities firms in Japan, Daiwa, Nomura, Nikko, as well as 32 other regional banks and securities firms. In 2007, as I said, we actually started also selling through our -- through the independent agency channel, where we're one of the few companies that is actually finding success in selling VAs in that channel.

Now, we still think that there's considerable scope for expanding this distribution story further. So really, right now we're targeting 20 additional significant regional banks. So, we basically have a list of who we consider to be the big significant ones that we want to go after we definitely want to be the distributors for us.

And based on the success we've had over the last number of years and our discussions with them, and there's always ongoing discussions about the right opportunity to get on the shelf, I think we'll end up sort of signing up most of these 20 significant regional banks. And at that point, we'll have to think about, okay, where do we go next?

Do we go to the next tier of regional banks? Do we try a different strategy? But, just getting those additional 20 will propel our sales much further. So, it's been a great story of anchoring with this -- with the largest bank in the world in MFUG. It's now the largest bank in the world in terms of its deposits, and having a very strategy relationship with them and then diversifying that distribution and product relationships through -- throughout Japan and throughout the bank and securities channel.

So this is going to be the story, again how it's reflected on our sales and our funds under management. You can note, this is a 12-month rolling basis of sales. So, you see the big growth in 2004 and 2005 is we're adding Bank of Tokyo-Mitsubishi and UFJ, and then a slowdown basically going in 2006 and early 2007, where we withdrew one of our products due to a tax ruling that was unfavorable to us.

And that slowed down our sales growth momentum for a while, but as you can see then once we got back and launched some new products, our momentum took off again. And as of the Q2 '08 number, we're about 100 billion above our previous record period. So, it was a bit of a hiccup, but it hasn't really changed any of the long-term dynamics of this business and our success within it.

Funds under management obviously shows a much smoother pattern, just constant growth, and that growth is propelling our profit growth, as well as the fees from those funds drop to our bottom line.

Other things in bancassurance, I said the -- we're trying to take a bigger portion of the Japanese financial household financial assets. We're trying to exploit our relationships with banks throughout Japan. So, what are we doing? We have -- in general of course, we're trying to broaden distribution and deepen it at the same time.

So one of the opportunities obviously here, we are a significant player in the VA business. We have some credibility with all the financial institutions in Japan, and we've got a product category in investment trusts where we have a market that is inexorably going to grow, so it's kind of a natural to marry our global and Japanese expertise in investment management together with these relationships and local knowledge.

Additionally -- and I talked about the deregulation of the bank channel for protection products, so this is another way of tapping the consumer wallet and using new distribution that we're quite accustomed to do that. So we've -- the first thing we have done, deregulation occurred at the end of 2007, so it's fairly new. We launched a product -- our long-term care product, designed specifically for the banks although, as I said, we offer our products across all channels so our agents are selling this product as well now.

But, it's designed for the banks. It's sort of an investment-heavy long-term care product, so the first of it's kind in Japan. And we have signed MUFG to sell that product as well as a number of other regional banks, and we're continuing to roll that out to other regional banks. So, this actually represents a pretty big opportunity. It's very early days for protection sales in banks. We think we're well positioned.

We -- as part of that positioning, we provided 50 sales staff for in-branch sales of insurance products through a [Secondi] program to MUFG. Now, that gives them a big advantage in that they can pick up expertise on how to sell insurance, which is your real protection product, which is a new category for them, but it also provides some valuable things for us as well, in that we pick up expertise on what it's like to actually try and sell an insurance in a branch environment.

So when these people come back, they will be experts on the issues that you face, the sort of different types of sales pitches that you need to make in a bank sale versus a -- an agent sale. And we hope to take that expertise, serve MUFG better and also roll out these types of products and new products throughout Japan. I guess the final thing is we continue to professionalize our wholesale force. It's growing very fast, so there's a constant need to refresh and upgrade and make sure that these guys are the most professional force in Japan.

Just looking at the LTC sales, as I said, it's early days. We don't really break out the numbers on this product in this channel. That's not something we do usually in public disclosure, but I wanted to give you some sense that basically since we've launched the LTC product, sales have been going up every month, and we've been adding significant distributors every month.

And I think actually August went up once again, so this is, as I say, early days, but quite promising. And, I think there is opportunity to add many other products. And so, we're currently in discussions with a number of distributors about the best products to add to the bank channel.

So just a brief discussion on the mutual fund market, as I said, they -- this is a large and growing market. We've got, as of the end of 2007, about $670 billion of assets under management for the mutual fund market in Japan.

Net flows have been extremely flow, particularly in the last few years. It's true that 2008 hasn't been so kind to this market, as I don't think it probably has been anywhere in the world -- the best time for an investment trust market. But surprisingly, even in these -- this environment, net cash flow or net sales in the mutual fund business is still very much positive in Japan.

So if you looked at 2008 numbers, it's still a positive story, and I think that goes to -- even in these tough times, people need to redeploy their money into something that will actually earn them a yield and earn them a return. And so, I expect that this 2008 slowdown in sales will reverse itself and will end up marching back towards the U.S. kind of scale and positioning.

What we're doing with our October launch is we're going to launch some global asset allocation [fund], something -- a category that we're very strong at throughout the world. We're, I think, the number two player in North America in this category. So, that is our first product offering. We think they're excellent products, and we'll continue to supplement them with both other core products for the mainstream of Japan -- mainstream savings requirements, as well as certain unique funds that'll be more -- have more niche appeal.

So, we're pretty excited about this market. It's probably not going to take off in the next two months or anything and add meaningfully to our bottom line or nothing like that, but this is a business that is going to grow to be one of the biggest businesses that Japan has.

I guess the next two -- the next three slides are really wrap-up slides. So I just want to kind of repeat, I guess, maybe the last slide. So the story in Japan, you can see I'm pretty pumped about our opportunities, that there's -- all I talk about is growth. All I talk about is opportunity. We have big opportunities to increase our market share. We are a small but established player that's growing quickly. I think that enables us to be a little bit more nimble, a little bit faster than our competitors in bringing new things out and capturing new opportunities.

As I said, the market is changing. There's shifts in every direction, whether it's regulation, distribution or product requirements. We think that those present significant opportunities for us. We're diversifying our Wealth Management product line-up into different categories and diversifying our distribution, and there's still a lot left to be done. So, it's exciting days, I think, for our management team and for myself. So, I hope to continue the track record that we've established.

Thank you.

Amir Gorgi: So, we've got some questions?

Japan – Craig Bromley – Q&A

John Reucassel: Craig, just a couple of questions. On Daihyaku, the -- in the past years, you've talked about getting that PA distribution channel totally shifted from a relationship base to a needs base channel, and how's that been done now sort of on -- I hate to use sales lady, but is it a professional term?

And then just on the -- it looks like the new life policies are outstripping kind of the run-off policies at Daihyaku. Is that true as well?

Craig Bromley: Yes. So the answer to the first question -- and I don't think it's quite so black and white between relationship and needs, but I'll get to that in a minute. We -- of our current PA sales force, only less than 40% remain from the Daihyaku days, so there's been a huge turnover in our sales force. So, it's not the Daihyaku sales force that we inherited.

The demographics are very different. Much -- the people that we're hiring are maybe 60% female, 40% male, so we're not really actually targeting males or females. And I'd say that the product strategy that we have and the sales tools that we have really make it inevitable that needs base selling is done.

Now, that isn't to say there's no relationship selling, because I think any sales person will tell you that developing relationships is a huge part of making a sale. But, I think there's been a wholesale change in the strategy of the channel and in the sales methods that they employ.

The second question?

John Reucassel: On the -- just the new life policies that is kind of outstripping the kind of run-off from the old Daihyaku block, does that --?

Craig Bromley: Yes. I think it's probably pretty close. I think actually they're -- they probably now are outstripping --.

John Reucassel: Okay.

John Reucassel: Okay. Last question, and I'll pass it on. What -- the acquisitions, you clearly do a good job at buying kind of undermanaged assets or undermanaged companies. Are there more acquisition opportunities here in Japan that you could add onto?

Or, is it -- [I'm talking] when you talked about all organic opportunities? And then just on the mutual fund side, do you have to get a whole new wholesaler force? Or, like how -- what is the build-out here? Generally in North America, we see different levels of wholesalers for VAs and mutual funds and whatnot.

Craig Bromley: Okay. So, maybe I'll address the mutual fund question first. We will hire our own wholesalers for mutual funds. Now, that doesn't mean that we can't leverage off of the distribution system that we already have in terms of wholesalers for variable annuities. There could be opportunities both to introduce our products through those VA wholesalers, hold joint marketing seminars and training seminars for branch staff et cetera.

But our focus right now will be to have sort of dedicated mutual fund wholesalers, particularly at this moment, because it's a start-up business. We're trying to establish ourselves, and we need people who are really focused on mutual funds and not talking about a whole bunch of different stories. But, we will leverage our other wholesaler force.

In terms of acquisitions, there are changes. I talked about how many things are changing in this market. One of the things that is changing is we're actually getting some companies going public, so Dai-Ichi Life is notably one. It's a very big one. But, I think that's going to be a continuing trend because one of the difficulties in doing M&A in Japan is most of the companies, the domestic companies, are mutuals. And it's not that easy to acquire a mutual company.

There are other opportunities other than some of the big traditional domestic mutuals. But right now, I think we're more focused on the organic opportunities because, as you can see, they're pretty compelling, and I'm not sure that we can buy anybody that is better positioned in terms of their channel and product strategies. What we'd really probably be buying is a financial opportunity to do some reengineering and take some costs out and that sort of thing, which it would be great if it came along. But, it isn't really necessary to our strategy.

Eric Berg: Thanks, Craig. Eric Berg from Lehman Brothers. Two questions about the variable annuity business. You mentioned the intensity of the competition. I think you said ten companies fighting for share. What are some of the other -- what are some of the other trends, whatever you'd like to talk about with respect to distribution, product, what the public is going for that you observe in the variable annuity business?

And relatedly, what specifically, and I mean specifically, has Manulife done to permit it to continue to grow as rapidly as it has during a period when others are seeing their sales decline? Thanks.

Craig Bromley: Yes. I guess there's always trends I guess that you wonder whether they're long-term trends or flavor-of-the-day trends. I'd say right now, just the general equity market uncertainty is pushing people more over to fixed products, or at least less equity-sensitive product, so variable annuities with lower equity percentages or fixed annuities. So, that's been a trend.

I don't see that as a long-term trend. I see that as just a reaction -- a defensive reaction, to what's going on in the market. I think longer term what you're going to see is more a development towards a U.S.-style product portfolio. Currently in Japan, most of the products that are sold on the VA side are GMAB, living benefits products with mature -- with defined maturities.

In the U.S., the story's different. The products are generally withdrawal products. I think that's the most popular category. That trend, I think, is going to occur that -- you'll see a changeover moving to more U.S.-style product. That could take a little bit of time. The VA market in Japan has developed much more quickly than in the United States, so a whole bunch of new products got thrown at Japanese consumers at basically the same, and they're trying to sort out what exactly it is that they need and what it is that they want.

So we sometimes forget that, how fast things have move here compared to -- what took 30 years in United States can take like six here or something. So, I think that is what I'd see as a long-term trend. Sorry, your other question was --?

Eric Berg: (Inaudible - microphone inaccessible)

Craig Bromley: Yes. I guess some of it is we have this very strong position within MFUG. I think that is kind of unique to us in that we get to kind of test-market our products with MFUG, like we'll go in and really work with them and say, this is something that we -- we're thinking about. What do you guys think? How will this play with customers? So by the time we actually launch a product, we have a pretty good idea that it's going to be successful.

I guess the second thing is now where we've actually been short of some of our competitors is in the number of distribution relationships that we've enjoyed. Some of our competitors have hundreds of distribution relationships with regional banks, albeit many of them are very small and a lot of them not be active. These are historical relationships that you have between insurance companies and banks.

Others like Hartford have, I think, more distribution partners than we do right now. So, we've had the product expertise and we've had this advantage in terms of the way we develop products, and now it's just rolling it out to everybody else and make sure that everybody that can sell significant volumes of our product have it available to them. So, that's really the positioning right now.

Doug Young: Just a question on your distribution, you talked about the three channels and trying to avoid channel conflict. But as you think about the customers that those distribution channels service, is there any differences in terms of who buys products from the banks and then who buys products from the PAs? And then, I know you said the independent agencies are starting to grow in retail, but I just want to get a sense of maybe who they cater to.

Craig Bromley: Yes. I guess we haven't done any customer surveys really of what are the different demographic profiles for different channels. I'm not aware of anybody who has done that. There's probably some generalities that you could probably draw.

For instance, the independent agents per channel sells mostly to corporations, so they're almost like group policies or corporate policies. They do sell a fair bit to retail. A lot of what they would sell to retail would be replacement policies. Japan is a bit of a replacement kind of a place to begin with, but these would be sort of people shopping their insurance policy -- can I get a better rate? And so, that's maybe a little bit different.

The captive agents go out and actually find new customers. They have their own existing customer base, and they do replacements as well, but they're the hunter force that is out there really looking for new people. So, they -- the profile might be a little bit different in that respect.

You get to the banks, and it really depends on the banks. So, Bank of Tokyo-Mitsubishi would have a very wealthy customer base compared to some other institutions that we might deal with. The securities firms would fall in probably some of the same profile, but you get into regional banks and local communities and you're dealing with everybody from A to Z. It's the general population. So, be some differences and -- but a fair bit of overlap.

And really our strategy is, you let the customer decide where they want to buy it from. Do they want to walk into a bank branch and make a purchase there? Are they -- do they never go into their bank branch because they use the ATM all the time and they need somebody to tap them on the shoulder and say, come buy our product?. So that's -- we will give all the products to all the channels and let the customer sort out where they want to buy it.

Unidentified Audience Member: Hi. You mentioned the life variable annuity and cancer products. Can you talk about your -- just what you're seeing in the medical market and your sort of approach to that market?

Craig Bromley: Yes. We have -- a significant amount of our sales are coming out of medical products. And I guess the medical market was a huge, I guess, bright spot for the industry. As life insurance sales were going down, medical was going up, and so you had a bit of a balance in the market. I'd say that the growth in medical sales has actually leveled off. It's fairly flat. And, I think competition is fairly intense.

Some of the maybe historical advantages that companies like ALICO or AFLAC have had in that market are probably wearing off a little bit as everybody's focused a bit more on that market, including the domestics. So, I'd say it's a more competitive market and one that isn't rapidly growing by any means.

Well, I'll be available at lunch or whatever if anybody wants to ask further questions.

Amir Gorgi: Okay. Thanks, Craig. So, that leads us to our first break. We will take a 15-minute break and reconvene. Please help yourself to some refreshments in the back.

China & Taiwan – Marc Sterling - Presentation

Amir Gorgi: Okay. So, welcome back. Our next speaker is Marc Sterling, Executive Vice President, Asia Regional Operations, responsible for Manulife's businesses in China and Taiwan. Marc?

Marc Sterling: I'm hoping this mike works. They've miked me up because I'm the shortest presenter this morning in terms of height. My presentation, however, does take some time to go through.

Bob had mentioned that -- about the length of service for some of us on the Asia management team. I guess I would be among the old-timers. I've been in Asia now 20 years, 15 years with Manulife and prior to that about five years as an attorney in private practice. I've looked after our China business for all 15 years I've been with Manulife. I've looked after the Taiwan business for almost nine years, however by coincidence in the early 90s when I was still practicing law, I was the attorney who licensed our Company in Taiwan.

I'll go through a bit of the history of Manulife in China and -- before I get into the business. Manulife has a unique history. The Company, as you know, worldwide started in 1887. Unlike many other Canadian enterprises that when they went international decided that the U.S. was the logical place, Manulife only ten years after operating entered China. They entered Shanghai and Hong Kong in 1897. In fact, it took Manulife I believe about another 25 years before they entered the United States.

We stayed in China until about the end of World War II. At that time, the Chinese government basically sent all the foreign financial institutions out of China, and we exited. At about that time, we were operating in 12 cities in China and had a reasonable block of business. Most of the business that we did really at that time was very much of sales. We were just selling Canadian and -- Canadian policies in China.

In 1992, AIG gets a license in China, and after 10 or 15 years of hard work, they're licensed. And all foreign companies throughout the world saw this as the bell going off, their chance to enter the Chinese market. We all lined up. There were probably about 40 insurance companies trying to get the next license after AIG.

I tell the story that in those days, there was only one Dragonair flight that went from Hong Kong to Beijing in the morning. And you used to get on the flight, and there would be 10 to 15 other insurance executives, each from a different company, sitting in the seats next to you. The whole flight was a flight of people lobbying for their China license.

Manulife was very fortunate. We were selected as the second insurance company into China, but the rules of the game changed for us, that we're different from AIG. AIG entered as a branch. We were told we had to enter as a joint venture, and we began a process after we got the initial approval, which was I guess late '94, early '95, of negotiating with the Chinese government what the joint venture would like, and then much later who the partner would be.

We negotiated what turned out to be a good deal for us, much better than we realized at the time. We entered the market at 51/49 JV. Well AIG had a branch that, in the long run, proved to be much more cumbersome for them when they wanted to expand. There were two other companies that followed us in the 51/49 share holding, [Alliance and Oxdale]. Thereafter, all JVs that entered China entered as 50/50, and so today there's only three of the companies that are majority foreign owned.

We chose Sinochem as a partner in significant measure because they were an international company. They had expanded. They did trading business all over the world. They are the fifth largest trading company in the world. They're the 12th largest Chinese company of any kind, as ranked by Forbes.

And also important for us, they weren't an insurer. The entered the investment -- they entered the business as an investor and felt that we should manage the Company day to day. That proved, in the long term, to be a significant advantage.

Today, as I give this presentation, we are now licensed in nine provinces in China. We have -- under those provinces are 34 cities of which, as Bob mentioned, about 31 of which are operational today. We have about 850 staff, and we're -- we'll be approaching 10,000 agents by about the end of this month. We have a customer base of over 400,000 but that customer base, now that we're allowed to expand geographically, is rapidly expanding.

Just talk to you a little bit about my management team. When Bob earlier introduced us, he talked about the history and the way the teams are -- his Asia team has been in the market for so many years. I feel the same way about the management team we have in China. Of the group mentioned here, or just the China group, we represent about 60 years of China operating experience. I think that's a fairly group.

The other thing to note about the group is it's a senior group within the Manulife context. We have about eight vice president-level people and another 20, 25 AVPs at our corporate ranking level. So it's a fairly senior group, and it was built that way because of the expansion opportunity of China.

The third unique piece of this management team is the amount of agency experience. As the presentation goes along, you'll see there's a huge emphasis on how we build our agency, how fast we build it, how tight we run it. Of the 12 officer-level people we have in our agency -- who manage our agency in China today, those 12 people combine for 249 years of life insurance agency management experience, a very unique group.

And almost all of that experience for that group is in Chinese-speaking markets, whether that's China, Hong Kong, Taiwan, Malaysia, et cetera, they are very much a Chinese agency management group.

I want to talk to you -- you've heard a lot about the attractions of China, and I guess I'll run through some of the bits and pieces that we like to talk about because of the opportunity we see. It's a -- the economy is growing very, very rapidly. They've had 10% growth virtually for the last 25 years. Today, China's the fourth largest economy in the world. Probably in the next year or two, they should pass Germany to become the third largest economy in the world.

They have an enormous number of middle-class customers. We reckon today that there's about 100 million middle-class people who are -- who we would designate as middle-class people -- as middle-class customers. The number of millionaires in China has grown to 400,000 today, up more than double from where it was only in 2001.

In fact, one of my favorite statistics is that there -- I've read reports where the number of new millionaires in China is -- for the last two years is greater than the number of new millionaires in the rest of the world combined. Today, there are 106 billionaires in China, second behind the United States.

The propensity to save, I think Chinese this similar drive in almost any market, but it's good to see it in a market that we're so -- that we're trying to build. Today, the savings rate for Chinese is 28.5%, comparing very favorable to the United States at about 1%.

We see the savings in our insurance policies. As you know, we sell -- we sell a lot of traditional life, a lot of savings-type policies. In the first two or three years of operation in China, the average first-year premium for us was about US$200. Today, it's about US$750, and it's a testament to how wealthy the Chinese are becoming and how much they save.

Rapid urbanization. When I first started working in China, and this is only 15 years ago, it was roughly 4 million -- 400 million people in the cities, 800 million people -- what they call [rural] or farmers, they were classified. Today, the number is about the same. Particularly in the 90s, you saw migration of about 250 million people moving into the cities.

I think in any country in the world, they always talk about the migration -- the Chinese communities. No more has that migration been apparent than in China. That is the great migration is within the country itself. Today, 102 cities in China with a population of 1 million or more. The United States would be about nine cities. It's expected that by the year 2030 that there will be 1 billion people living in cities in China.

I tell the story about Shenzhen. I -- some of you may have been to Shenzhen. It's the city across the border from Hong Kong. In 1976, about the time of the end of the cultural revolution, Shenzhen was a small backwater farming community. There was 30,000 registered residents of Shenzhen. According to the mayor, and I -- in a meeting a few months ago, they reckoned that the real number today is 12 million. That would make it the -- that would make it the fastest growing city in the history of mankind.

The concentration of assets, like we talked a bit about Japan, still there's lots of money being held in cash and deposits. This is very much the case in China. About 79% of all household wealth sits in cash and deposits, and there is -- like what you're seeing in Japan, there is a growing need for consumers to move away and diversify from cash.

The population. Today the population -- about 11% of the 1.3 billion people in China are over the age of 60. It's expected that this number, by 2050, will move to 31%. That would be about 500 million people above the age of 60.

The one-child policy is very much the driver for this rapidly aging population. Currently, the worker to retiree rate in China is about six to one. At about the timeframe I mentioned earlier, it would move to about two to one. So, there's enormous need for the Chinese to plan for their retirement. The pension shortfall today is RMB2.5 trillion. It's impossible to get an accurate estimate of where it'll be in -- as we enter the middle of the century.

So I guess to connect the dots on this -- on the screen, what you have is huge numbers of people becoming very, very wealthy in a very short space of time, all of whom have a natural tendency to save. All of who desperately need money to fund their own retirement, and they're all moving to cities where Manulife-Sinochem operate. It's a great opportunity.

It's a competitive market in China. I think I'm going to underscore that point before I talk much about the advantages that our Company has. When AIG entered the market in '92, they became the fourth insurance company to enter China. Today, there's 54 companies. There's probably another 15 or so companies in various stages of pre-operation.

Those will be -- while some of them are still the foreign invested that are keen to enter the China market, many of them and the most aggressive of them are local companies who are looking to build enormous amounts of top line growth. Currently, the size of the market makes it the third largest in Asia, about RMB500 billion in premium in 2007. 2008 will break 2007 numbers by quite a considerable margin as there's lots of money being put on deposit, called insurance, through banks.

The local companies still dominate the market. They're -- the big three cover about two-thirds of the market. The main reason they continue to dominate is because of their geographic expansion. When we talk about the provinces or the cities that we're in, the local companies are in every province, every city, every township, every village.

All of the big companies have enormous geographic reach, and that will still be their advantage for many years to come, but it's an advantage that we see will -- as we're allowed to expand, something that we'll be able to -- that foreign companies will be able to have -- be able to see that as an opportunity as well.

I can never do a presentation about China without this first bullet point. Sometimes, I do this just to make sure my colleagues in Toronto have a realistic expectation of China. The China opportunity, no matter what business you're in, is oversold in every boardroom. Companies go in. They look at the numbers of people, the wealth, and they think that if you plant a flag, business will grow. It's not the case.

It is a very complicated place to do business, but complicated in a different -- in ways that are very different from how many foreign -- western companies would do business. The regulatory environment, the public policy behind regulations, how regulations are implemented, there is enormous complexity. Certainly, the foreign ownership issue is a huge challenge. Companies have to figure out a way to cooperate with a Chinese partner.

While we've been extremely fortunate in this regard to have Sinochem as a partner, many of our competitors have had very big challenges. It's not a level playing field between foreign and domestic companies. Domestic companies -- new ones, are allowed to expand geographically, virtually as fast as they would like. That foreign-invested companies, we're allowed at most to add one to two provinces a year. So, the playing field still tilts, although I think it's becoming better.

The competition, the story is always in China a top line story, so you see very -- you see some irrational competition. We'll talk a lot about some of the products in China having low or no margin because companies are desperate to have the top line story. The biggest challenge that we face is talent, again an industry that's gone from four companies to 54 companies in 15 years. There's not that -- and the talent is enormously stretched.

While many of the companies pull resources from all over the region, and certainly China has taken resources out of all of the Chinese-speaking markets in Asia, there's still not enough talent to feed the growth opportunities, because not only do you have all these new companies, they're all -- we're all expanding geographically. We all have enormous talent. We all have enormous talent needs.

We talked a little bit about our geographic expansion. Basically, from the end of 2002, we were just a Shanghai company. From '96 to 2002, we weren't allowed to expand anywhere. On Christmas Day in 2002, we were given approval to open our first office -- our second office in Guangzhou. That was our first branch, if you will. It took another year and a half or so before we were able to open in Beijing.

Then, the WTO commitments came due. When China entered the WTO in December of 2001, part of their commitments was to open the market. Three years later, the foreign-invested companies could expand geographically. Since that time, for us, we've gone from three companies -- from three cities to 34 cities, and our growth -- as you can see from the chart, we would be the fastest growing in terms of geography of any of the companies in China, and we would have the widest footprint today.

Another element of the expansion for us, and I want to talk to you about this as we go through these slides, is satellite offices, and I'll explain to you what those are. When we open a new city, we take the approach that we will establish in one physical location so we can manage it much better. We're -- we have a very tight distribution management system. So any time our Company expands to a new city, there's only one location in that city.

But we feel that by the end of the second year, if the operation is in good shape, we will establish a second location in that city. You hear about the size of the Chinese cities, these cities being 5 million, 10 million people. A lot of that is to do with the way they gerrymander the cities. The Chinese gerrymander these huge geographies so that they can easily manage it. Their idea of building these very large cities is they -- the government can continue to manage them.

So, you have cities like Chongqing, which is now -- rivals Japan -- sorry, rivals Tokyo as the largest city in the world, but Chongqing is twice the size of Taiwan. It's an enormous city in terms of its geography. So as we get to a size, we felt the need for satellite offices, to open up multiple locations in the cities in which we've done well, and that's been a big part of our strategy going forward.

Today, we only have 11 satellite offices for all of our businesses in China. For all of the cities we operate, there are only 11 satellite offices. Most of them are in Shanghai. Over the next few years, we'll be planning to open 15 satellite offices per year.

I want to show you a little bit of what our footprint looks like and even about some of the population numbers that Bob referred to in his presentation. You could see we're licensed now in nine -- in the nine provinces, and you can start to see the timing. The most dramatic piece of looking at the timing is that from the start of 2006 to today, we've entered 25 cities. In other words, we have to start a business from scratch virtually each six to seven weeks. You can imagine the challenges.

The population that we can sell to today is just about 250 million, or about seven times the size of Canada. As you can also see from the chart, initially when we entered China, we focused our expansion efforts on the coastal provinces. We did this because these are the richest provinces in China.

As time has gone on, we've looked at the -- we've looked at opportunities beyond coastal China. Shaoxing, we've had a long history with and probably of the non-coastal provinces is the richest. Therefore, we've entered Shaoxing Province and Chongqing Province. Chongqing historically used to part of Shaoxing. If you combine Shaoxing and Chongqing together, it's about a population of about 130 million people or about -- as they used to like to say when we visited, one out of ever 50 people in the world lives in Shaoxing, China.

Our operating advantage, again Bob alluded to it in his presentation about the issue of how important it is to control the business. At the rate we're expanding at, if -- the risks are losing control are extremely high. Therefore, we have a -- we run everything in our business, every office, on a system. We run everything out of Shanghai.

All of the offices that we talked, the 34 offices in China, they're all run as sales offices. We don't have administration functions. We have -- virtually everybody in those provinces outside of Shanghai is sales related. The IT, the admin, marketing, finance, everything is run from Shanghai. The branches focus just on sales. This allows us to effectively be able to manage the quality of our business, manage its benches and be able to manage top and bottom line.

Each of our cities, and this is unique to Manulife-Sinochem, each of our cities runs on an expense breakeven [glide path]. Rather than opening cities and looking for gross numbers of agents or gross sales, we want every city to be able to earn profit on its own, and each manager has a guideline that they have to follow to be able to reach breakeven.

If it's a branch, meaning the headquarters of the province, [your city] -- the headquarters, they have four years to breakeven on an expense basis. Every city in the province thereafter has three years to breakeven. All of our managers are bonused overwhelmingly on being able to achieve their breakeven glide-path targets, rather than just gross sales.

We talked -- I want to talk a little bit about our talent development program, because I think that's been a cornerstone for the Company. About four or five years ago, when the WTO commitments became due and we were allowed to expand rapidly, we realized we didn't have the resources and we created a program where we had people at all times. Usually, the numbers would be 30 to 40 people at all times who were in a one-year training program getting ready to open the city.

Other parts of the organization, there'd be similar people who would be supporting that growth. That's allowed us today, of the -- I use here 39 cities that were either -- that 34 that we're operating, licensed for, and another five that are in pre-op. Of those 39 cities today, they're run on the ground by a local Mainland Chinese.

Our growth and distribution, today about 9,500 probably moving to about 10,000 by the end of this month, if you could -- as you look at the chart, you see a growth rate over the last four years -- again I used from the WTO timeline that allowed us to expand at about 32%. You now see actually in terms of percentage growth, we're growing faster today, even though our base is larger.

I think that'll probably continue because we're in so many cities now and each city we're getting growth in. We would recruit now about 1,000 new agents every single month. Of those, we would retain -- at a 12-month basis, we would retain around 400 or so. But, the number -- the 1,000 a month number will only continue to grow over the next few years.

We're launching bancassurance later this year. This is a business we've been very cautious about getting into. I'll talk about it a little bit later in the presentation. A lot of the numbers in the bancassurance business are -- there's a lot of distortion in China because due to the bancassurance business, but we feel because of our unique position, the size of our Company, our contacts with various government bodies, we can create some bancassurance products that are profitable.

We certainly believe our connections with various banks and governments that -- and local, provincial, city entities that control those banks will allow us to be able to effectively distribute.

We are also in the process of building a dedicated group distribution team. We've had a group license for about three years. We feel that it's --most of the business has been sold through our agency. We're now -- in addition to our agencies selling group, we will build a dedicated group sales team.

I like to talk a lot about the quality of our business in China, because I think that's been the unique -- been one of the -- the unique factor for Manulife-Sinochem. Certainly, you know a lot, we're a -- we dominate as a tight agency, but the quality of business is very unusual.

On a 13-month case count basis, we would be about -- we would have a persistency rate of about 92%. On a premium basis, it's actually quite a bit higher. On a 25-month basis, we're about 85% persistency. Not only does this make us the highest company in China by a fair measure, it actually makes us amongst the highest companies for Manulife in Asia.

Our competitors, we reckon because statistics are hard to come be that persistency rates are about 70% with many of the companies having persistency rates of less than 50%, including foreign-invested.

I talked a bit about the expense breakeven glide path. Really today, about 75% of our cities are on that glide path, and we see that very strong indication about the quality of business. Even with our competitors being allowed to expand more quickly geographically, I mean that local competitors, our growth in in-force since 2000 is 33% compared to the market 26%.

We're profitable on a Canadian GAAP basis. We've been so since 2003, our seventh year of operation. And most importantly, for being able to do business in China and being able to grow, we have no insurance regulatory violations.

In slide six, I talked a lot about the challenges that the companies face doing business in China. I'd like to talk about why I think our Company will end up a winner. We have uniquely good government relations. I think part of it is because of our long history in China, that our management team has held together so well and because part of our culture is always to work with the Chinese Government. That's the reason we're allowed to expand. That's part of the reason why we don't have any violations.

We have a great partner. There is -- Manulife and Sinochem do see eye to eye, work extremely well together and work very closely. I think this is unique in our industry. Management team, many years together and very, very -- very well tied in. We focus on quality of business. We look at growth in in-force. The top line story in China is very easy to create.

With so many agents, so many bank relationships, you can create a top line story without having great quality of business. That's not our company. Our Company will focus on the quality of business at every turn. We are a very disciplined operating business in a market that is not very disciplined. I think that's a unique advantage that we have, and we standardize everything with great passion. Every single element of our business that we can, we standardize it so every office always feels like each other.

Our five-year targets, I think these are pretty -- these are, I think, pretty exciting. Within the next five years, we will be operating in 75 to 100 cities. I think if we can continue to get the government relations piece right, it will be closer to 100 than 75. The satellite initiative is going extremely well, and for us to also have a similar number of satellite offices is highly likely.

We will have in five years more than 30,000 agents. To be sure, we will have more than 30,000 agents if we're allowed to expand to 100 cities. As the order of magnitude, I guess the Asia division of Manulife today probably has about 30,000 agents including China. If -- going forward, to be able to match that number I think is a very good objective for us, but frankly I think we can do even better than that.

We will have a diversified distribution. We are very aggressively looking at the bank opportunities, but we will do it in a way where they're selling products that meet our goals.

Beyond MSL, Manulife has ambitions in China. We see Wealth Management as a great opportunity. All you had to do was go back to the numbers that I presented on the third slide and see how wealthy the Chinese are becoming. We have a great franchise we can leverage from in MSL, but I think now is the time to look at Wealth Management opportunities. We are in the process of negotiating for -- to establish an asset management company in China. I think over the long term, this could be a huge business for us.

The Pension business, we see as a great long-term opportunity. There was -- today, China's had some challenges meeting their WTO pension commitments. But going forward, eventually they'll sort this out, and we believe that the pension opportunity in China is great. Certainly, Manulife's experience in North America and in Hong Kong, building on that for our Pension business to create that in China, given the retirement needs, the numbers of people that we've talked about earlier creates a huge opportunity for us.

There's also a broad range of investment opportunities that we've so far maybe didn't pursue as aggressively as we could have. Working with the Chinese Government, there are opportunities, whether -- in each province, each city, and we believe that because of our relationships, our position in the market and so forth, we can create some very attractive investment opportunities for the Manulife group.

I want to move on to Taiwan, and I'm going to go through Taiwan a little bit faster. Taiwan is a developed economy. I -- it's the fifth largest per capita GDP in Asia. They have a long insurance history. In terms of insurance penetration rates, Taiwan would be among the highest in the world. There are, however, also similarities to China, high personal savings rates. Very similar to the Chinese, the Mainland Chinese, the savings rates are about 30%. It's also an aging population, much like China.

There is -- I think there'll be some unique opportunities, maybe like what we saw in Japan eight, nine years ago where the industry will have to consolidate. As you know in Taiwan, they also have a negative spread issue, and right now the government, as they look at Taiwan moving to international accounting standards, will have to deal with that issue and that may create opportunities. For our -- for the record for Manulife, we don't have the negative spread issue.

The most attractive piece for me, as somebody who spent 20 years on both sides of the street, I think is the improved relationship with China. In the 20 years I've lived in Asia, the opportunities between both sides were, at best, frosty. I think with the change in the government that you saw earlier this year, the Taiwanese will take steps towards China. From the Chinese perspective, they're -- they've been open for a long time. It's in Taiwan's court to make -- to move the process closer together, and I think they'll have to do that.

Opportunities and challenges. On the life insurance side, we're a high-quality company. Our -- by using the Taiwan RBC ratio, we're above 300%, which is among the highest in the market. We're a leader in product innovation. We were the first company to bring investment-linked products into Taiwan.

We did that in 1991 because we saw some of the issues that were happening throughout the industry, how the negative spread was hurting markets, and we were able to convince the Taiwan regulators that they needed to move away from high guaranty products. In doing that, we began the first company to sell investment-linked business. We're now also the first company to sell the GMWB VA product, which has sold quite well for us.

Recently, you may have seen in the press we acquired an asset management company in Taiwan. We bought a company called Fuhwa Asset Management. We see the Wealth Management space as a great opportunity in Taiwan. Currently, there's about US$160 billion of assets under management in Taiwan in that area. We think this is an ideal opportunity for Manulife. We bought the company. It has about 1.3 billion of assets under management, and we were able to own it 100%.

The company that we own, and the deal should close at the end of October, has -- is one of very few companies to have discretionary mandates from all four of the state pension schemes, and we have 20 retail third-party distribution relationships. A bit about the Life Company. I think it's grown quite well. If you look at it since 2002, we see a growth rate of a little over 30% in terms of agents, around 20% in terms of sales.

Our five-year goals for Taiwan. Continue to build our agency, we believe that we can bring up -- create an agency of about 2,500, maybe more so to sort of challenge the Hong Kong agency side. We have today ten bank distributors. We think, like Japan, going through a wider platform to be able to bring in more bank distributors will be to our advantage. We will continue to look at other distribution opportunities as we expand.

On the asset management side, we're going to sell -- we're going to sell those products through our existing agency. Those agents will have to be properly licensed to be able to distribute that, but we'll -- we will look to -- as part of professionalizing our agency, we will allow them to sell assets -- to sell that type of business as well. We're going to bring the Manulife global investment management experience to Taiwan in the -- as we grow the AMCO, and we'll leverage strong discretionary third-party distribution relationships.

That's my presentation for today. I'd be delighted to take any questions.

China & Taiwan – Marc Sterling – Q&A

John Reucassel: Thanks, Marc. Let me just -- on China, can you first talk about the product predominantly that you're selling and opportunity for expansion of product? And second, the margins that you're getting in that market, and maybe you can compare it to what markets should we be looking at? What are the most comparable margins that you're getting?

Marc Sterling: Oh. I -- it's different than -- it would be different from Taiwan. The margins are much greater, but I wouldn't know compared to the other markets in Asia for margins. So Cindy, would it -- for the other developing markets, would it be similar to like in Indonesia? For the life product, you're asking?

Cindy Forbes: Yes. The margins in North Asia are a little bit lower than what we would see in ASEAN, but still very healthy, but a little bit less than you would see in say some of the other developing markets.

John Reucassel: I mean, just in terms of product though, is it strictly -- what type of product are you selling there?

Marc Sterling: Oh, we're overwhelmingly par. Overwhelmingly traditional life, par business, 20-year contracts.

John Reucassel: And opportunity to expand that.

Marc Sterling: Oh, absolutely. That's -- it's a great business for us to be in. It's a -- those products have good margins in it, and you'll see enormous expansion just because of all of the new geographies.

As we looked at all those cities that we're starting, Shanghai is a fairly mature market, and we have about 3,000 agents there. But all the other cities are all less than two years old virtually, and you're seeing all those cities, they'll be different scale to Shanghai to be sure, but all those cities will start to bubble up and become very significant. And certainly our -- particularly in those cities that are more, let's say developing markets, we'd want to be selling the life insurance product because that's more profitable.

I think you'll see Shanghai, Beijing, Shenzhen, the more developed markets, they'll move to the wealth -- they'll move to wealth business earlier. But, places like Shaoxing and so forth will be selling traditional life products there for quite a while.

John Reucassel: And just lastly, you gave us some interesting stats in terms of agent retention. How would that compare to your competitors?

Marc Sterling: It's a very interesting stat. We follow it very closely. Our agent retention numbers on a 12-month basis are about 35%, 36%. It's hard to compare to competitors. We think it's better, but I'll tell you why it's hard to compare to competitors.

We have an automatic termination system. If you don't fulfill contract -- if you don't fulfill your contract requirements on a rolling three-month basis, you're terminated, meaning we terminate agents every single month. Virtually none of our competitors have that type of termination system. It's much more a lax system.

At best, we see things like every three months, every quarter, they make terminations. Ours is on a monthly basis. So when you see agent retention numbers, I can easily boost agent retention numbers. I simply don't fire anybody. That's not our case. Our system fires people. Therefore, it's -- when you see our numbers of agents, those are real agents.

John Reucassel: Just back to the cities and the -- and I guess if I look on your slide eight here, you guys said in the past that Shanghai is profitable, and I guess on your glide path here, Guangzhou is now profitable. Is that a fair statement?

Marc Sterling: They're all at different parts of the glide path. They have targets each year, so what I look at is whether the city is on the breakeven glide path for that year. It doesn't also have to be, yes -- after three years, yes. That would be profitable. Or sorry, after four years, that was a branch headquarters. But -- sorry, it's or expense breakeven.

But, the key is that we mark the cities on a monthly basis. They follow their breakeven. It's not just at the end of each 12 months, but they're tracked on a monthly basis to be on their expense breakeven.

John Reucassel: Okay. So, is Guangzhou expense break-even?

Marc Sterling: I think Guangzhou is marginally. Beijing is not for historical reasons, mostly because office space in Beijing is so expensive. But if you look at the cities after that, virtually all are except for like three, off the top of my head. And if you asked me to name them, it'd be -- I'd have to look at [them].

John Reucassel: And the 70% you said were on the glide path --.

Marc Sterling: Yes.

John Reucassel: Is that by population or by city?

Marc Sterling: That's by city. By individual city.

John Reucassel: And would it be safe to assume that --?

Marc Sterling: So, better than seven out of ten would be on the glide path.

John Reucassel: And would it be safe to assume that people that, let's say, that aren't on the glide path tend to be the larger cities just because it can be more -- ?

Marc Sterling: No. The glide path, basically you're looking at two issues. You're looking at the expenses and the sales. So, you could -- it's harder to be on the glide path in a city where the rentals are very high or the salaries are very high, but if you don't get the -- if you don't get your sales in, you certainly won't make it either.

John Reucassel: Okay.

Marc Sterling: So, there are one, maybe two, cities that on the expense side are absolutely fine, but their sales are slow.

John Reucassel: Okay. And just the last two questions, you have said in the past that the profits out of Shanghai are sufficient to meet growth opportunity you have in China. Does that remain the case?

Marc Sterling: So far, so good. So far, so good, but we would certainly -- as the business grows, we're looking at the capital plans for the future and working the Sinochem on these.

John Reucassel: Okay. So -- and just the last question on Taiwan, you said you don't have a negative spread.

Marc Sterling: We don't. We dealt with that years ago.

John Reucassel: Yes, I understand. But, are -- have spreads gotten worse over the last few years or --?

Marc Sterling: For the industry?

John Reucassel: For you.

Marc Sterling: Oh, for us? No, because we stopped selling the -- in the 90s, when companies were selling the 8% guaranty block, the truth is we were -- we didn't grow. We were a tiny company. In 2001 when we -- it was very fortunate, I got it in 2000 after having worked with Craig and others in Japan in buying Daihyaku, so we could see the negative spread issue.

Warn the regulators that they were going to face Japan-type issues. But the next thing we did after warning them was we -- is we worked like heck to lobby them to allow us to sell investment-linked, and that's really all we've sold since that time.

John Reucassel: I'm sorry, the last question. Just on the capital, are the capital -- regulatory capital requirements in China similar to those that are in Hong Kong? Or how -- for your -- I guess with the par business, it's not -- but, I'm just trying to figure, because I know the capital requirements in Hong Kong are quite favorable. How would they compare in China?

Marc Sterling: Again, I don't know the capital requirements in Hong Kong as a China guy, but Cindy --?

Cindy Forbes: They would be similar. They're not -- Hong Kong and China are not that different. Eric?

Eric Berg: It sounds -- pardon me. It sounds like two of the statistics mark that you have cited, the number of cities in which you operate and the number of agents that you have, while --

Marc Sterling: The number of --

Eric Berg: Can you hear me? No?

Marc Sterling: Yes. Number of cities and what?

Eric Berg: Number of cities and number of agents. It sounds like those statistics while helpful are really only a starting point for thinking about what's really going on with you and your competitors, and that these statistics could be misleading in the sense that I'm just guessing you could have flag-planting going on, lots of cities not doing very much. My question is, for those of -- for those people like yourself who really know what's going on in China, what are the statistics that you look at that are more meaningful and that really tell the reader about the success of the operation?

Marc Sterling: Growth in in-force business. Look at that. We make profit from our growth in in-force. Our new business costs us money. Look at the growth in in-force. If you see a consistently good story in the business and that growth in in-force, not just in terms of premium because you can have very high top line numbers in China, but in terms of policies, if that growth in in-force is good, then that's a healthy company.

We could grow our Company faster. I know how to create agency compensation that can show a big boom in premium numbers, but as long as that -- that boom will grow as long as the guaranty underneath that, those agent contracts, is in place. But once that happens, all sorts of problems. So look at consistent growth in in-force business.

You're right to some extent about both the agents and the new cities. I think the new cities -- it's a -- the regulator will only license you if you're running a healthy business, if they perceive it. Your partner will only allow you to expand if they think the value of the company is increasing. So, the new cities have some use. We don't just flag-plant because each city we have to apply and with the regulator, we have to work with our partner to get into. And most importantly, we have to have the management talent to be able to run that city.

The agent number is misleading. Having numbers of agency -- large numbers of -- that's a cost. Right? The -- we have to house them. We have to train them. We have to manage them. So, what's meaningful is large number of agents who are productive. You can easily have large numbers of agents who aren't productive. If I -- if this month, I decided for the rest of the year I was going to stop terminating my agents, no one could fail my system, I would just continue to recruit with no termination. I'd add 1,000 a month, but I would make the problem much worse.

Eric Berg: Just one follow-up, why wouldn't growth in premiums -- explain why wouldn't growth in premiums also be a good measure? You said growth in in-force.

Marc Sterling: Growth in in-force. I think growth in new business is, but it has to be -- you have to look at the quality of the new business. I think it is. Don't get me wrong. We have a healthy growth in new business also over the last few years, also 30-some percent. But, I also want to make sure that that business sticks.

I don't want a -- just a top line story, because that's not going to -- that's not going to build the profits in our Company that you're looking for, and that's not going to build the profits in the company that Manulife is looking for or my Chinese partner.

Doug Young: Two quick questions for you, the first, you mentioned that it's -- among the challenges in China, it's not a level playing field between the domestics and the foreign companies. I guess in your mind, what are the two or three big things that you do to compensate from that, either -- you went through a lot on the operation side, and maybe on marketing? In your mind, are there two or there big things you've got to do? Or, is that just a fact of life you live with?

Marc Sterling: First, it really is a fact of life that you live with. I mean, I'd be naive to tell you otherwise. The first thing and the most important thing you do, you work with regulators. You don't -- you don't avoid, discount any of that. What you do is day to day. You work with the regulators. You make sure they understand your company, make sure that they're comfortable allowing you to expand.

I used to like to tell the story, Michael Wilson, who was on our Board for many years is now the Ambassador to the United States from Canada. We were talking about the regulatory issues in China, and this was five years ago, and he said, how often do you meet with regulators, Marc? I said, I don't really know throughout the Company. But I said, I'll have somebody check. And they checked. They said, over the course of a month, in a typical day, we met with the regulators seven, eight times, in different parts of China where we were in a meeting with them, were communicating with them.

And so, I sent Mike a note back, and it was -- and I said, virtually every hour of every day. That was five years ago. Today the answer is, at all times there are Manulife-Sinochem people meeting with regulators. There's never a moment when we're not, and typically huge numbers of doing it with significant numbers of government officials.

Doug Young: And the second question is you mentioned AIG was sort of the first mover in '92 into the region. That's also a company that's had some fairly high-profile challenges and management changes. And is any of that hitting the radar screen or changing the competitive landscape at all?

Marc Sterling: I think -- probably the regulator would know these issues that AIG's having. They would -- and I don't how they're reacting with AIG on those issues. Day to day, the customer may not -- wouldn't see that. They'd be less -- although we try to explain things like AAA rating, they may be less cognizant of what that really means. It's still the case that while these things may be happening for various other companies, it's how we run the Company on the ground in China that's going to be success or failure.

Any more questions? Thank you.

Amir Gorgi: Okay. So, thanks, Marc. That brings us to lunch. Lunch will be held two doors down in the East Room where you will have an opportunity to dine with our executives. I'm currently showing a time of 11:50, and we can resume at 1 p.m. local time.

ASEAN Operations – Philip Hampden-Smith - Presentation

Amir Gorgi: Okay. So, welcome back. I hope everyone enjoyed lunch and had an opportunity to meet and talk to some of our executives today. Our next speaker is Philip Hampden-Smith, Executive Vice President and General Manager of our South East Asia Operations. Philip heads Manulife's six operations in the Asian area, namely Singapore, Indonesia, Malaysia, Thailand, Philippines and Vietnam. Philip?

Philip Hampden-Smith: Thank you, good afternoon. It's always very difficult speaking after lunch, but let me just introduce myself a little bit for those who don't know me. I've been at Manulife now for about 13 years, but I've spent the bulk of my working life in Asia. I've just actually come back from a couple of days vacation in Laos where I was celebrating my 50th birthday. And so, I'd like to also extend the same congratulations to Eric, I think he's 50 today. He doesn't look a day over 50. By the way, Eric, you look great.

I'm here today to talk about a market that a lot of people don't talk about and that's ASEAN. And it's a market of close to 600 million people covering ten countries. And I'm going to be trying to get you a little bit excited about some of our businesses there and tell you why we understand the markets the way we do and what opportunities that gives us as a company.

First of all, just some bare bones about the performance of our operations in ASEAN. You've got to remember these markets really are emerging. Five, six, seven years ago almost nobody in these territories really had any scale at all.

Manulife has been in some of these markets for many, many years, but it's only really in the last seven or eight years that they've been counted in terms of real numbers. And you can see that we're getting significant growth in terms of income, in terms of premiums and also in terms of the growth of assets under management.

Now by nature, because these markets are new, they are very volatile. So it's very difficult to get any linear correlation to sometimes the effort you're putting in and that will continue for a long time. So you can see that the work that we're putting in is beginning to produce some interesting and very positive results, although, as I said, they are volatile.

But as these markets develop, you'll see greater predictability in terms of our earnings, predictability in terms of the growth of premiums et cetera. And we believe that our experience in these markets, and our ability to understand and interpret the opportunities is going to make

Manulife very successful going forward. And that's really what I want to try and get you excited about today.

In terms of the contribution to our total Asia division, the contribution to earnings is still relatively small, although fast growing. But as I said in my quote, these markets are really misunderstood by many people and some people know very little about them at all. We feel we have the experience on the ground and the ability to interpret how these markets are going to develop and where best to put the assets at our disposal.

In terms of earnings growth, obviously you'd expect to see some pretty spectacular numbers but also you've got to offset this again, as I said, there's volatility and also the need to invest in some of these markets. And you'll see from my presentation, we talk a great deal about what we're doing to expand our presence, particularly in terms of distribution, but at the same to consolidate the gains we're making in terms of the businesses we have.

And there are really two types of markets I guess. They're the three large ones in the ASEAN block, which for us they're Indonesia, the Philippines and Singapore. And then there are three very small markets in terms of contribution to our bottom line and these are Thailand, Vietnam and Malaysia.

But I'll talk a little bit later about Indonesia in particular, because we believe there's a fantastic growth story there for us. We're also talking a little bit about Vietnam as well because that's going to lag behind Indonesia because it's a newer market, but again, it has the demographic capability. And we have, I think, the credibility in the market and the assets at our disposal to make that produce some very big numbers in years to come.

So really, the story is about there are three businesses contributing significantly to the ASEAN piece at the moment, another three that are just coming on stream. And of those three, in particular I'll be highlighting Vietnam a wee bit later on.

I've got three slides just to talk a little bit about the markets. Some of these things are, I guess, pretty obvious, but I'd like to expand on them a little bit. In terms of these economies, they all have strong GDP growth, but they also have huge challenges as well. Managing to these challenges is extremely difficult.

But Manulife, I think, because of the way in which we run our operations, because of the accountability, the structure we put in place -- I think and because of our financial discipline and I guess our long track record in some of these markets, I think we can manage these differences a little bit better than many others. Certainly that's been our experience in places lie Indonesia, where during the financial crisis, Manulife made significant gains in the marketplace compared to a lot of other companies, including local companies who struggled with some of the basics of their own markets.

Very high savings ratios, again this is the story pretty much throughout Asia, but in ASEAN that's coupled obviously with very low taxes. And we have a rapidly emerging middle class. To give you an idea, when I moved to Indonesia in early 1999, the Indonesian market had a population of around about 230 million people. At that time, we estimated that only about 20 million people in Indonesia could afford to buy the kinds of products that we were able to sell.

So you had a large market in terms of numbers on paper, but the reality was our market was roughly 10% of that. Over the last ten years we've seen our market, that's the market of people who can afford to buy our products and services, expand to probably somewhere in the region of 60 million or 70 million people. And so, there's a rapidly emerging middle class with a lot of needs which are fairly new to them, and therefore a lot of opportunity for us to sell them products and sell them services.

And of course there is, by definition, a very low penetration rate. So often we're the first on the doorstep for many of our customers. So whether we deal through the banks or through our agency forces, very often we are the first financial institution, particularly the first foreign institution, international, multinational that they've ever dealt with.

And in terms of Wealth Management, obviously a lot of people are making a lot of money very quickly in Asia and they're beginning to realize now that not only is there money to be made, but there's money to be preserved as well. And increasingly, we feel that's a fantastic dynamic for us to take advantage of in terms of the Wealth Management story and I'll be talking a little bit about that. I know Bob touched on that this morning as being a very important part of our new architecture going forward.

Some demographics here. I guess the main point to note is there are almost 600 million people in ASEAN. Probably only about 100 million, 120 million of those would realistically be our target market, but that number is growing very rapidly. But importantly, we have significant population growth.

And probably most importantly, for me in terms of managing the businesses and looking at the opportunity, the most important thing is the opportunity for a very long-term customer relationship. Our markets are very young, extremely young with the exception of Singapore. And the opportunity to be first in a client's mind to provide them with sort of early dawn products is a very important one and one that we certainly are very cognizant of.

And it shapes a lot of what we do in terms of our products and services and also shapes the kind of people we also recruit. If you look at somewhere like Singapore, for example, we have a very young agency force. That's because our clients are young and the opportunities are young. And [this year], if you look at some of our other markets in places like Vietnam, again you'll see that our distribution in some ways mirrors that peer group, our customers.

The other great thing for us, it's a great story for us, is that, although Wealth Management and wealth preservation going forward is a huge story and opportunity for us, at the same time we still have this huge current of need for basic insurance. That's the bread and butter still of our business and I'll be showing you how that's reflected in our sales numbers in a little while.

So, there's a great opportunity not just for the new Wealth Management brand, but also in selling our day-to-day standard profitable -- the stuff that we make a lot of money on in terms of our bottom line.

The ASEAN footprint, I hope you can see this slide here. As I said, there are ten countries in ASEAN, four of them we don't operate in for various obvious reasons. Burma you can understand why. Cambodia is very small. Brunei also very small. And I've just come back from Laos, and I can assure you we won't be setting up any operations in Laos for some time. I counted on Sunday morning four cars driving down the main street of Luang Prabang in one hour. These markets are very tiny.

But in the other markets that we operate in, the ones where we do have a presence, we've got rapidly developing cities and infrastructures. You've got economies that, although challenging at times, issues like inflation, issues like the rule of law from time to time, although you have these challenges, what you do have are significant demographic positives that are in our favor. You've got an ability to make money very, very quickly, and most importantly, the need for a company like ourselves to provide services that usually they can't get from most other companies.

Now, in terms of the executive team I have, you can't do anything without good people. And this is very, very true of ASEAN, particularly given the challenges that we have. These are not easy businesses to manage, these are not easy environments to operate in. And the story here I guess is that between these people on the board here we have more than 125 years of experience working in these markets or in the Asian market.

And we have quite a mixture of personnel as well. I have a Malaysian, I have a Singaporean, I have a Hong Konger, I have an Indian. I'm ashamed to say I have three Brits, but I'm delighted to say I have one Canadian. So in terms of the diversity of the management team, it's an interesting mix of people, experiences.

But they key similarity between all of the people on that board is they've spent a lot of time in our market and that does count for something. That counts for a great deal in terms of how we look at our business and how we understand and interpret the opportunities and the market. And the skills needed in running an emerging company are in some ways very different to the skills needed in managing a company that is already established. It requires perhaps a different view of things and we feel, in the management team we have there, we have buckets of experience.

In terms of the core strategy and implementation, again this mirrors I think Bob's slide earlier on, with one addition. Clearly, I haven't really mentioned much about our agency today because many of you who've attended these sessions in the past will have heard us talk a lot about agency. But we haven't forgotten our agency.

Our agency is still the core distribution for us and will remain so for some time. And it gives us the stability that we need in these emerging markets. It's a distribution we can control, it's a distribution we understand and it's a distribution that is very loyal to us.

And I was talking to one of our competitors not that long ago and asked them what their plans were for the next three or four years, and they said, our plan is actually to backfill. This is a company that has quite a lot of exposure to third-party distribution, but they feel they are very fragile and very open to attack because they don't have a core agency, a core bespoke distribution network as we do.

And so, I feel the way in which we've built our businesses, based on a solid foundation, is much less fragile than the colleague I was speaking to and gives us, I think, a platform on which to work from. We also have people that we can take out of agency and put into our alternative distribution who are able to make that transformation and give us [instant] management teams.

So obviously diversifying our distribution channels is very key to us, and I'll be talking a little bit about that later. But in terms of diversifying distribution, I think you have to be realistic. These markets are still in some ways not ready for some of the activities that would be commonplace in more developed markets. So for example, in a number of the ASEAN markets to find an independent broker would be quite difficult, certainly to find a good one.

And the banks in some markets are only just coming on stream in terms of realizing the potential of their customer bases and the potential for growth that they have through selling products and services that a company like Manulife can provide. So diversifying distribution channels is clearly an important part of what we do, but we can only run as fast as our future partners can run. And that is what we are certainly doing.

And we are in many ways leading them to water, because a big part of what we do is to challenge our potential partners and make them realize the opportunity. Often they haven't really understood the opportunity. And we do that by using examples of existing relationships that we have and show them what we've managed to achieve with some of their competitors. And this is one of the ways in which we entice people or entice organizations to work for us.

Expanding Wealth Management and high net worth businesses is, I think as you've heard from some others, is a very key part of our structure and the opportunity going forward. And as I said, the issue of preserving wealth, not just growing but preserving wealth in Asia, particularly to the next generation, is becoming a big talking point.

And lastly, I guess the fourth point which is enhancing product leadership and innovation, that's really one of the ways how we're going to do this. Because clearly, with your own agency force product is not quite as important as it is when you're using third parties. So, managing that relationship with a third party through your products and through the way you support that third part is very important to us. And innovation in being first in plays its part for us as well.

So opportunities and challenges, Manulife has a lot of strengths, as I've said. For me though, the two most important would be our reputation in the marketplace. In these markets, which are very volatile and in which you've seen a number of very well-known names in our business come in and come out in very quick time, Manulife's name carries a great deal of weight.

And so, our reputation in the marketplace is something that we spend a lot of time preserving, but also a lot of time talking about and advertising, particularly our reputation in terms of providing success stories through the very difficult times.

The other thing that relieves of that is our acumen in terms of the way in which we manage our operations financially. You know, I always think that the reasons why good names in Asia fail is because they often try to go from A to Z very, very quickly by missing out all the parts in between. They don't stop at all the stations.

Manulife runs its business in Indonesia as if it was running its business in Toronto. It does -- it goes through all the stages, it goes through all the checks and balances. It does not take shortcuts. And the reason why you see companies failing is not because they're bad companies, but because they've often taken shortcuts to get to where they can, because they can.

And that goes back to the types of people that we have running the companies for us and managing our businesses. They're people who understand the need for us to go through due process and to understand that these are important stepping stones in terms of building our business.

A lot of challenges, very obvious. You'll all be aware we've got massive inflation issues in places like Vietnam. And for governments to get to grips -- get their arms around some of these issues is extremely difficult, but they will.

In terms of opportunities, well lots of them. I put down four, but I could put down 40. But the key thing here I think, again, the big opportunity I see is Wealth Management for us. It's a huge chance to very quickly grow our business, and also it's a business that has a very high profile in our market. So the chance of being part of that in the early stages is very important.

And I'll tell a little story. In Indonesia in 1999, which is pretty much the heart of the financial crisis there, we decided to launch a mutual fund company. We decided to launch it because we had to have some local investment expertise on the ground to manage some of the investment issues that Indonesia had at the time. And as GM, I needed to pay for those assets on the ground.

And we thought it would be a good opportunity to launch a mutual fund company at a time when the market was, I think, IDR17,000 to the dollar and when the Indonesian market was really bombed out. And I remember sitting in front of an audience of journalists, and one of the Indonesian journalists stood up and said that he thought we were crazy and he was going to write that in the newspaper the next day.

Whether he did or not I can't remember, but the bottom line is now we have a thriving fund management business in Indonesia. We did enter at the very worst possible time. We gained a lot of kudos from that. We actually brought in a lot of customers from companies who were exiting the market, and we now have a franchise in Indonesia that is one of the top franchises in terms of Wealth Management in that marketplace.

And, it's added a new dimension to our business and a new dimension to the way in which our distribution looks upon us. For example, with our agency, if they want to leave Manulife and go to a competitor, the one thing they lose when they do that is they lose their Wealth Management license, because we are the only insurer in Indonesia that has its own Wealth Management company. And so, they have to kind of step down a gear rather than stepping up a gear to leave us. And so, there's all sorts of cross relationships that make having a business like that as part of our umbrella very, very important to us.

Some new things that are happening, including the growth of the Muslim market. This is very small. You probably read a lot more about Takaful and Syariah funds and things than there actually are on the ground, but we believe that they have their place and certainly it's something that we are looking at. And we have Syariah funds, for example, in Indonesia, although they are a very small part of our business and a very small part of the marketplace.

A bit of a snapshot of our market, we have roughly 2.3 million customers in ASEAN, which is quite a lot of customers in a fairly short period of time. We have 14,000 sales people supported by a fairly experienced operational team.

And we also have growing AUM. It's fairly small at the moment, but we enjoy fairly large margins in most of our markets, not all, but in most of our markets. And we have a very broad geographical penetration, not just in terms of the six countries we're in, but also in terms of where we are in those six countries. And I'll talk about Indonesia as an example in a short while.

In terms of building business value, we concentrate not just on the top line, but we really are concentrating on building the long-term franchise -- long-term value of the business. This is for us very, very important and something we never lose site of.

And in terms of business opportunities, I've said we're diversifying into other channels, but those other channels themselves are also diversifying. So in terms of bancassurance, for example, the way in which the banks are looking now at their own customers allows us to diversify, within the bank channel, into the segmentations that they themselves recognize.

And we are recognized as an acquirer in the market. We've acquired over the last six or seven years ten or 11 businesses in places like the Philippines and Indonesia. And while these are not big businesses, they usually happily bolt-on. We've got them for almost nothing because they're usually from companies exiting the marketplace.

And also it gives us a lot of [shoot-off], we get a lot of positive vibes, it shows a lot of commitment to the market, and again, enhances our reputation further. So all these things add together to make us enjoy a particularly strong status and reputation in our marketplaces.

In terms of new business growth, on the insurance side you can see we're having some fantastic growth this year. And that's because of the challenges in the Wealth Management market and a lot of our distributions, in the short term, are moving back to -- and it's our ability again to manage the distribution model, we're able to move them back into selling insurance. And you can see where we're seeing the benefits of that.

And in addition to that, it's not just the sale that's important to us, we're seeing significant persistency gains in most of our markets. In places like the Philippines our persistency rates would be significantly better than the market average. And in terms of productivity of our agents, and I'll touch on that in a while, you'll see that's something we're spending a lot of time doing. So it's not just a question of quantity, for us it's always a question of quality backed up by quantity, but quality first.

Wealth Management business is really, I guess, focused around two main markets for us, which is Indonesia and Singapore. And both of those, in the last three or four months, certainly have faced their challenges. The Indonesia market, like a lot of others in the region, the equity market has suffered significantly and that's where the bulk of our sales come from.

And in Singapore there's been one or two structural changes to the way in which the mandatory Provident Funds can invest. Again, that's had impact on our market. But again, we see these as relatively short-term influences and in the longer term, as I said, the Wealth Management opportunity for us in ASEAN is immense.

This is Indonesia, and I don't know whether anybody here has visited the place. Some of you may have been to Bali. But Indonesia is very culturally diverse and it's a massive country, it's about 3,000/3,500 kilometers from east to west and about 1,500 kilometers from north to south. It's a very large archipelago and these are main islands. We are completely diversified across the geography of Indonesia.

And, why is that important? That is because Indonesia is a collection of islands and a collection of businesses. Although you'll see it stated as one country, it is in many ways a collection of countries and economies tied together by one political framework.

In terms of our product range, we offer pretty much everything in Indonesia that our Hong Kong business offers. So, it's very diversified in terms of products that we sell and the services that we provide. And we are a market leader in pretty much everything we do. And we're also getting to one or two new business areas like third-party fund management, where we're managing on-balance-sheet assets of some of our large corporate pension clients.

In terms of distribution, we're fully diversified in Indonesia. We have a very solid agency force there, which we've had been building for many, many years. Over the last three years, we have grown our alternative capability, and we now have probably the most diversified bancassurance network of any of our competitors in Indonesia. And we also have our in-house sales people dealing with employee benefits and that side of the business as well, so we have a particularly diversified distribution and one that is extremely flexible.

In terms of our business, when you look at the numbers for these markets, they don't really tell the whole story. If you were to combine our mutual fund company with our life company, we would have roughly a 28% market share by premium. I say that because most of our competitors would sell single-premium products through their insurance company. We happen to choose to sell it through our mutual fund company.

So having a 20% or 30% market share in a marketplace like Indonesia puts us in a very strong position to develop our businesses. And obviously, some of our other businesses around our core individual insurance is still relatively small, but the opportunity to grow these and to feed off each other is massive.

Vietnam is now one of what I'd call our developing markets, whereas in Indonesia we've got to the stage now where our expectations now, year-on year, are very high for that. Vietnam, we still have some way to go and this is a new business for us, relatively. And it's been a market that's had a lot of challenges, a lot of ups and downs over the last five or six years and we have not been immune from those. But the difference is, I think, is that we have managed our way through this very carefully and just as we're managing our way through the hyperinflation that's existing in Vietnam at the moment.

We rank third in the country in terms of premiums. And we also recently launched a fund company in Indonesia. Now again, the numbers don't mean very much, but in terms of positioning ourselves for the future and showing a commitment to the regulator and to the Central Bank this is a very important move for us.

So again, it's an early starter type of positioning for us. There is a great opportunity in Vietnam as they privatize the state assets over the next 15, 20 years for companies like Manulife to benefit from new investments in the marketplace. And we -- the business we have there on the investment side, I think, is going to be very interesting to watch over the next, certainly five, six, seven years, and we have great expectations for that part of the Company.

In terms of the distribution we don't have thousands of offices around the country, and the reason for that is it's different from Indonesia. In Vietnam the population is still very rural, whereas in Indonesia you have a lot of [cities]. So we basically concentrate our assets around managing 12 branches throughout the country.

And one of our difficulties and challenges has been how do we get to the rural population and one of the ways we get to the rural populations is that we look for alternative distribution that gives that to us without the overhead, and that's what we're doing in terms of talking to the Vietnamese Post Office at the moment.
And we're having discussions with them, we've signed an MOU and this is for us to look at a way in which we can distribute some very simple products through their Post Office franchise throughout the rural areas which consists of about 8,000 [outlets]. And this, if it works, it would overcome a lot of the problems that we foresee in terms of reaching that customer base.

We're also looking at other alternatives, opportunities like bancassurance. We have, and again, this is very early days, but we have a call center, [pilot and] running with the largest privately owned bank in Vietnam at the moment. And again, because of the earliness of the market the opportunities for this are very evident.

We have, I think, in the pilot scheme we're running we have ten telemarketers, in the first month they sold 400 cases. Now, for ten people to achieve that in any developed market would be very difficult, even half of [this] market. But in terms of the customer base, in fact, they've never been approached. By in large they've never been approached to buy products like this.

So the opportunities -- the old-fashioned opportunities for developing distribution, the old-fashioned things like telesales et cetera, in places like Vietnam, present a massive opportunity for an organization like ours that has some experience in dealing with this aspect of the business.

And so you've got these two markets, Indonesia on the one hand where we have some pretty high, short-term and long-term expectations, that that is a market that really could contribute significantly towards the total Asia piece of our operations over the next three or four years. And then, you have on the other hand a country like Vietnam, which is a bit more longer term, but nevertheless has the demographics and the opportunity and we have the positioning, more importantly, to fill ourselves up there very nicely.

In terms of our product strategy, I mentioned that for many years, I guess most of our products were very, very vanilla, and that's because we did most of our sales through our own tied distribution. But obviously as time has marched on, we've had to be more expansive, more innovative, and we're spending a lot more time now on thinking about how we can be different, or how we can perhaps use some common themes and differentiate ourselves very slightly in terms of maybe how we support those themes.

And this is something that we're investing a lot of time and money on, and if I look at places like Singapore, which had almost no product capability four or five years ago because it wasn't really needed at that time, I look at what we have today, it's a significantly different picture. And this is because we're seeing now some of the very small niche markets developing into niche markets that are actually tangible and we're able to go for.

And we're also seeing in markets like Singapore and perhaps Malaysia, the more developed markets, the growth in terms of independent brokers. And again, to develop that kind of market, you have to have a different capability than the one that you would have to just service your traditional agency force. So aligning our project strategy to the -- our new paradigm, if you like, is very important to us, and we're spending a lot of time on and it gives us a lot of time to think.

So in terms of some cutting-edge products, obviously we've -- we try and not reinvent the wheel. We try and introduce what we can, idea that have worked in other parts of the Manulife franchise, maybe adapt them slightly to the marketplace, maybe build some support systems around them that make them a little bit easier to sell because these markets are less developed.

And you can see, we -- we're the first company to launch a VA in Singapore, both in U.S. dollars and in Singapore dollars, and we've recently launched the first VA in Malaysia too. Again, we're not talking about the numbers you would hear from Craig, but again for us it's a positioning opportunity and a chance to be first and a chance to create new relationships. So for example in Malaysia and in Singapore, it's opened up new bancassurance relationships for us and consolidated existing ones.

In terms of -- and don't ask me to pronounce the Vietnamese name there, but in terms of our other market, we also are a leading edge in Vietnam. We were one of the first people to launch investment-linked products. In Indonesia, I've told you about Manulife Asset Management Indonesia, our funds company, and again we've really focused there on how we diversify our product type, and we've had some very successful fund launches over the last couple of years.

And in a place like Singapore where it's not just about products, but it's particularly about how you sell that product and how you develop the relationships with the clients on just this -- particularly the regulator, the MAS in Singapore, we spent a lot of money and a lot of time, put a lot of thought into developing a system to basically support our advice process.

And our PlanRight -- our PlanRight method -- our PlanRight process is something that we have developed in Singapore, but we see as being something we can ship out to -- in modules out to our operations as they become more sophisticated.

So all of these things, all of these ideas, have been begged or borrowed or stolen from other parts of Manulife, perhaps repackaged, developed slightly to acknowledge local differences. But within ASEAN themselves, the next stage is to then move those ideas that may work in Singapore, export them somewhere like the Philippines as that market develops itself.

Now, in terms of wealth strategy, this is very, very early days for us, and I've tried to illustrate it here in terms of this -- the tick boxes. But, you can see that by the first quarter of '09, we will have asset management capabilities in all of our ASEAN operations, and that differentiates us from most of our competitors automatically. So, we're ahead of the curve in pretty much all those markets.

In terms of -- this is the MFC GIM. This is where we sell -- we have a third-party sales capability. Again, that's an opportunity that we're also running alongside our [AMCOs]. And in terms of the retail market, or the wholesale retail market, you can see we're also in the progress of rolling out mutual funds as well in the operations.

And these -- this opportunity is not just an external opportunity. We have, obviously, the chance to sell to new customers, to develop new relationships, but also in terms of our existing assets that we manage, it allows us to manage these more smoothly. So, asset liability, matching this kind of stuff, is much more fluent with our own asset management companies. And getting known for investments is opening up things like third-party mandates for us in places like Indonesia that would never have happened two or three years ago.

So, this is a very, very important part of our strategy, something that's very, very new, and you're not going to see huge numbers appearing over the next couple of years. But over the long term, I think this is going to be a massive footprint for us in these territories and a big differentiator for us in terms of how people perceive us as a company.

So, one of the problems we've had often in the past is we've been perceived as just an insurance company. And now, what we'll be -- being perceived as the years roll by as much more than just an insurance company, but as a company that can also manage your money, preserve your money and open up new opportunities for customers, and as I said, engage our distribution in such a way that it makes it very difficult for them to disconnect from us and go to the competition who don't have this capability, that's a very important defensive part of this strategy.

Now, we talked a lot about alternative, just a quick slide on agency, but you can see that we don't have massive agent growth. The agency distribution in the ASEAN piece grew like crazy in the early 2000s. And then over the last three or four years, there have been a lot of challenges. Manulife didn't grow like crazy. We have been growing consistently, and we've been spending a lot of time instead investing in how we make our agents more productive and more active.

So, you'll see a lot of numbers thrown out in the marketplace, there are 50,000 agents, 60,000 agents, whatever. But, the issue is, is how many of those people actually sell? Are they an overhead, or are they a benefit? And we -- when we talk about agency, we see it as a net contributor to the business, and so we focus on the blue column there, which is the active agents.

And for us, active agents are people who sell business on a regular basis and meet our minimum standards, and we work instead on how to make these active agents more productive. And you can see, I've picked two markets there at random. I picked a more developed one and a less developed one, but both show the same characteristics.

In Singapore, which is a highly developed market by ASEAN standards in terms of agency, you can see we've grown our productivity by over 20% over the last three years, and the number would be similarly -- probably even greater over the last five years.

And in Vietnam, which is a new market I just talked about, again similar story, we're investing a lot of money in how to make our existing agency more productive. And that is how you squeeze growth out of your distribution.

And more importantly, what you do is you make your agents more successful. You make them wealthier, richer. You make them think very positively about Manulife. If they work for Manulife and they're earning more money than their colleagues working for XYZ Company, they feel good about that, and ultimately that allows us to retain these people and hopefully attract the better quality agents where we're allowed to from other companies to join Manulife in strictly management.

So again, there's an offensive side to this productivity strategy and also a defensive aspect, but we see this growth in productivity to be a very, very important tool for us going forward.

Now in terms of diversification, you can see the change here. Look at the pie charts at the top. In 2005, you can see that bancassurance really was a very small piece of what we do -- what we did then. And you can now that there's been a significant change in three years, and that's been down to the effort we've put into basically diversifying our product, as I said, selling to the banks the opportunity they perhaps don't know they have, and this is an ongoing work in progress. We have a long way to go.

We have roughly just under 20 bancassurance relationships currently in ASEAN, and that number will increase significantly over the next two or three years. There's a long, long list of banks who we'd like to do business with who we don't yet. We have to persuade them that we're the Company they should be working with.

And we're also looking at different types of relationships. We have the straightforward marketing agreements where we sell maybe one or two products. We also have more -- much more tight, structured opportunities, and I'll talk about China Bank in the Philippines in a minute, which is a new venture that we launched tail-end of last year.

And again, this is a different model, so we're trying a number of different bancassurance models, and that ability to move from model to model, not to be typecast, I think is very important in these markets because people need you to be flexible. You need to be seen to be flexible and knowledgeable in terms of different shapes and sizes.

In terms of brokerage, the brokerage market in this part of the world, in the ASEAN piece, is very small, but it is developing in some markets more quickly than others. It's in some places developing off the back of agency and others developing off of some of the consultants in the Group business.

But nevertheless, it's a new part of a new space, and it's a space we want to play in. And I think also, it gives us the opportunity to be current because these guys are very demanding. It helps us discipline ourselves in terms of the types of products and services that we have. So, you can see distribution diversification is very important to us and not something we're just talking about but something we're actually doing.

New initiatives, I mentioned the Post Office in Vietnam just because it's an interesting one for us. This is very, very early days, but if it does fly, if it does work for us and we see no reason why it shouldn't, then it solves our problem of how to hit the rural customers in Vietnam. And we're running a pilot center year, and I guess if you're here in a year's time or so, maybe we can talk about this a bit more.

In terms of telemarketing, we look at -- we're looking at telemarketing in certain markets where we feel that this has not been done, or if it has been done, it's not been done properly. Instead, in places like Vietnam and Thailand, we're piloting these schemes, and we're having some success in this.

And again, we hope this will be part of a relationship, not just the relationship with a bank. So, the idea of doing telemarketing, for example, with ACB Bank is to get us through the door to show them, if you like, that their customers are willing to buy our products, even remotely. And you can imagine how much more easy it would be if they didn't have to buy them remotely.

So, the idea is to draw the bank in -- into the idea and get the understanding that their customers out there do really want to buy these products. So, telemarketing serves two purposes. One, it gets us business in the short term. But two, it proves the point to the bank that there is an opportunity out there that if they miss, they'll kick themselves.

I mentioned the Philippines and the different bancassurance models that we have. As I said, we can move from the straight marketing-type agreement to a -- basically a full-blown joint venture here, and this is something that we've been working on the Philippines for some time. China Bank is known as probably the most professional bank in the Philippines. It's not the largest, but it's certainly one of the ones with the best reputation in the marketplace.

And this venture is -- it's a life insurance company on its own. It has its own license. It doesn't have the overheads of a traditional life insurance company because basically, the operational side is supported by Manulife Philippines. So, what it is effectively is a distribution company that pumps products through the bank branches of China Bank, and they -- China Bank's plans are to have about 300 branches by 2010. They have about 200 or so at the moment, and we will have somebody, or more than one person, in pretty much every single one of these branches by the end of this year.

And the important thing about this bank strategically to us as well is that the family that owns this bank also owns two other banks, and if you put those two banks together with this existing bank, then it becomes first -- second largest bank in the Philippines. And the banks at the moment are run separately because of the family arrangement, but that could change.

And so, this is a great opportunity for us, not just to create value within this Company, but also if we do a good job and we can show that China Bank -- show China Bank that this franchise is something that they could spread to their other banks. Then, we have a very, very interesting business model here to complement our existing Manulife Life Insurance Company.

So, get this straight. In the Philippines now, we have two life insurance companies. We have Manulife Philippines, which we own 100%, and we have Manulife China Bank Life -- and sorry about the mouthful, but the regulator insisted we put life first and life at the end, so we have two lives there.

And -- but that is a 95% owned venture and something that's fairly new but something that will be very interesting to watch and will complement our existing business. We hope that over -- that by 2010, it will be contributing about 15% of our top line in terms of overall -- the overall Philippines business.

Some of our key distribution partners in ASEAN, obviously there's some names you know, some names you don't. The point of this slide is just to show you that we don't just stick to the HSBCs of this world, et cetera. We are developing relationships with the local organizations, and that's really I guess where the future is, in places like Indonesia and Malaysia, et cetera, having multiple bank partners. It's something that I think the market is beginning to accept and something that we think is the right way to go about things.

So, why will we win? Well clearly, we're very well positioned to capitalize on the market opportunity. As you'll have heard from everybody else and you'll hear it from me, it is not just a top line strategy. It's a bottom line strategy too. Backfilling your businesses and making sure that it's not just a short-term gain with some long-term pain is very, very important for us, and so the way we run our businesses in the Philippines and Indonesia is exactly like we run our business in Hong Kong in terms of making sure there's some strength and depth there.

One of the biggest challenges we always come across is getting good quality management. It's not something that's very easy to overcome, but we're constantly trying to work on that because that is a problem, but it's fortunately a problem for everybody. But again, reputationally, the better reputation you enjoy, the more easy it is to attract the better quality people.

And developing local talent is a key part of what we do, although not very easy, and we haven't had a huge amount of success of -- in that in the past, but I think now we're beginning to have people within the organization's local talent, who've been with the Company for some time. And out of this cadre of people, we will find the future leaders of our operations in ASEAN.

We have a very strong agency franchise. We don't have to backfill like some of our competitors. It is a platform we can leverage off, and it's one that we understand and we can manage through good times and bad times. We have, as you've seen, a rapidly growing distribution -- a rapidly growing sort of variety of distribution channels, and that's very important to us. And I guess that over the next four or five years, you'll see more like a 50/50 split in terms of our traditional distribution [on] new distribution.

Wealth Management is a key to our strategy and we're, as I said earlier, a recognized acquirer. There will be a lot of fallout I'm sure over the next couple of years, again, with this latest crisis, and chances are our phone will ring before most other people if they're exiting the market. That's always been the case for now, and I'm sure it'll be the case going forward.

Financial discipline, we have -- we put a lot of effort, a lot of time into managing the financial side of our businesses and trying to understand the volatility and what makes the business tick. It's not very easy. It's sometimes very confusing, but I think we have a pretty good handle on it, and it's something that again we pride ourselves in.

And, I guess most importantly, is execution savvy. I think the management team within Manulife understand the markets. They understand what makes them tick. They have -- they've made a lot of mistakes. We've all made a lot of mistakes over the years, so hopefully we've, I think, learned a lot of lessons from those. We've been around the houses a lot, and I think we do know how to execute the strategy. It doesn't mean it's always going to work, but I think we've -- we're probably better identifying the things that are going to work than many other people.

And so being able to execute what you plan, I think, is a very important part of our lives today, and I think that's to me the key to the success of our business. And I think that's where I end, so thank you very much indeed for listening.

ASEAN Operations – Philip Hampden-Smith – Q&A

John Reucassel: Just I noticed in the presentation on Japan and in China and in Taiwan and I'm sure in Hong Kong, talked about competition, but you didn't really talk about competition in your slides. Could you -- I mean, does it depend on the market? What is the competition like? Are your markets just too early in the development stage for much competition?

Philip Hampden-Smith: There is -- it's a good -- there is competition, and that competition in terms of names comes from both multinationals and from local companies. But, the competition is changing a little bit.

The make-up of these markets is changing, and what you're seeing is a -- not surprisingly, is a concentration of competitors, somewhere like Indonesia where only five years ago, you had 60 life insurance companies, you have more like about 40 or so -- 40 or so now. And probably, there's only space for maybe ten or 12. And so, you're going to see the nature of the competition change over time.

Most of the local competitors, by any of your standards or my standards, would be hard-pushed to find how they [existed] in business from time to time. There are one or two good local competitors. They obviously enjoy, in some cases, some privileges over foreign entrants. But by and large, competition isn't the key thing for us.

It's there, but we don't spend too much time, apart from in certain product spaces in certain geographies like Singapore looking at the competition, we spend more time in assessing how we can develop the space that we already have created. I guess that's probably one of the reasons why --.

John Reucassel: Okay. Just -- what -- obviously, that helps on pricing, so I guess any comment on margins within the group? Would you take sales strain on some of your like --?

Philip Hampden-Smith: We do take sales strain in some of the markets. In somewhere like Singapore, the margins are much, much slimmer than in a place like Indonesia. In Indonesia, we enjoy extremely good margins, and the Philippines, pretty good margins also. We don't take the strain there.

In Indonesia, we also have levelized commission there, for example, for our agents, so we don't have the situation where you have a very heavy strain in terms of commissions on the first year. So, these kinds of things are advantageous -- Vietnam too, advantageous to us. So generally, yes, we'd enjoy some good margin, but not all of the time. And it sometimes obviously depends on not just the market, but the particular product space that you're operating in.

John Reucassel: And just last, the -- you talked -- the decline in the growth in the agency force, was that a conscious decision to focus on productivity? Or, was there just too much competition --

Philip Hampden-Smith: It's -- yes.

John Reucassel: Among need to hire all these agents that you just said are --?

Philip Hampden-Smith: Okay. There's two parts to this. First of all, if you look at ASEAN, you had this huge burst of agent recruitment late 90s, early 2000, particularly in places like Vietnam, and in most places we didn't take part in that because we've always been productivity-centric, I guess, and quality-centric.

But, what you're seeing now in some of the markets is a drifting off of agency in terms of the total market. So in places like Singapore, for example, you're seeing less agents operating in the markets, the tight agents than you were seeing three or four years ago.

Having said that, if you look at our agency force, we're still growing it in Singapore. But, we're not growing it very rapidly. We're not talking about 20% growth a year. We're talking about much lower rates of growth, but we're making that up in terms of productivity gains. And that really, I think, is again the focus on quality for us.

The other issue we have is that -- is that our expectations of our agents, I guess, and the way we run our agency is -- and you'll have heard from people like Marc, is perhaps slightly different. They're are different models, and our model is very much around helping the agent to build a long-term franchise and not just him being a salesman or woman, because if you do that then you develop -- you develop a -- some loyalty and some long-termism in terms of ways these people think about their business.

Asians don't generally think that way, and you have to create an environment in which they're forced to. And so, that's something that we spend a lot of time trying to do. We don't always succeed, but that's really the core of how we're trying to grow that part of the distribution.

Okay, thank you.

Amir Gorgi: Okay, thanks Philip. That leads us to our last break, so we will reconvene in 15 minutes.

Hong Kong – Michael Huddart - Presentation

Amir Gorgi: Okay. So, welcome back. Our next speaker is Michael Huddart, Executive Vice President and General Manager of our Hong Kong Operations. Michael?

Michael Huddart: Good afternoon, everyone, and I'm pleased to have the opportunity to tell you more about the Hong Kong operation. Roughly five years ago, I became the General Manager of the Hong Kong operation and it was a job I dreamed of having when almost 20 years ago I was with Manulife Indonesia, and I was fortunate enough to get the job.

In those days Manulife Hong Kong completely dominated the region, it was really such a large part of the region. And Manulife has done a great job at diversifying its businesses across the region, and particularly with Japan being a very large business for ASEAN and China and Taiwan also being significant. But Hong Kong is still the flagship of Manulife in Asia and it has enabled the aggressive expansion across the region because of its strength there, and it's still my dream job.

I'm very proud of what we have achieved over the last five years. We have benefited and continue to benefit from the successful strategy of diversifying our business into the Wealth Management space, but also into the Mandatory Provident Fund space. Now I should explain the Mandatory Provident Fund. In about 1999 the government of Hong Kong decided to set up a compulsory pension system called the Mandatory Provident Fund system or the MPF system, but outsourced it to the private sector.

So the private sector computed to be a part of that system. One bank actually beats us, but we were second in that market, and beat all our life insurance competitors. So, we have a very large position in this Mandatory Provident Fund space, and I think total assets in that space for the moment are about 32 billion.

Now, the successful strategy of diversification has driven growth in earnings, growth in premiums and deposits and growth in funds under management. You also see from this slide that 2007 net income was fantastic. But of course, that was helped by the incredible Hang Seng Index last year, and this year you'll see on the graph it's a little bit more challenging with the Hang Seng not doing so well.

In fact, the Hang Seng started 2007 at less than 20,000 around about the third to fourth quarter ended up over 30,000, and a couple of days ago was back under 20,000 again, but I think probably recovered a bit with the Fannie and Freddie news in North America. But positively, despite the challenging environment in 2007, premiums and deposits continued to grow.

Now Bob in his slides mentioned that Asia is a significant part of global earnings, but you can also see from this slide that Hong Kong is a significant part of global earnings on its own, being 10% in 2007. And this is the result of 111 year commitment to Hong Kong. Manulife actually went to Hong Kong before it went to the U.S., [unusual] in its history.

The second chart shows how successful we have been in diversifying our businesses as well with -- you can see roughly not quite a third/third/third but pretty close to a perfect split. Now last time when I presented in this same room, I think, two years ago, I said then that we were very pleased with the diversification of our businesses, that the key for us there was to diversify our distribution channels. And I'll talk to you more about that.

And as I say on this slide, we do remain focused on driving prudent and sustainable growth through product innovation and distribution expansion. The distribution expansion is an important part as we go forward.

Now Hong Kong is a highly competitive market, with 47 companies. But it has benefited from the domination of the major multinationals with sound risk management practices and good product profitability. We're seeing very significant changes in distribution. About five years ago it was 70% agency, 20% bank, 10% other and now it's 40% agency, 40% bank and 20% other.

So, we're seeing big changes. But interestingly, agency sales continued to grow during that period, which suggests the banks more cannibalized their own bank deposits than took market from existing companies. We've also seen big changes in product mix. The unit-linked space has grown over the last five years from about 27% of sales to 61% of sales.

And looking at the general economy we've seen very strong growth supported by Hong Kong's special relationship with China. Growth tempered a little bit this year, I think it's 4.2% for June, coming down off the sixes, but we still see it as very strong growth. And the strong economy, the emergence of distribution and new markets will benefit Manulife as we move forward, particularly with our very diverse business of Wealth Management and MPF businesses, as well as a very strong Insurance business.

Now, Hong Kong's got a small but affluent population and that's what's been fueling the industry growth. Hong Kong is third in Asia for gross net income per capita at around about US$31,600. They've got the highest density in Asia for households with more than US$1 million, actually about 600,000 households at the moment that will grow to about 1 million households within ten years.

The other thing with Hong Kong is it's aging very rapidly, significantly driven by a very low birth rate in Hong Kong. And the dependency ratio in Hong Kong is going to change from about six to one now, to about three to one over the next 20 years.

Now the government's aware of this. You can see the government's put money into the MPF system, created the MPF system, which is driving retirement savings. We're also seeing the government now put a lot of work into healthcare reform. There's a consultation paper out at the moment on healthcare reform, because they're worried that utilization rates increase with age and they won't be able to afford the excellent healthcare system they have now.

So the management team in Hong Kong, I won't go into great detail, I'll just say that it's global. We've got two from Canada, one from Australia, one from Singapore, a couple of locals and myself. I've been in seven countries during my career. What we get is the combination of global expertise and local management expertise. We believe this will enable us to have a progressive strategy that will have the best of both worlds and enable us to move forward.

Now, agency sales are about 75% of total sales there. And we're very proud of our agency in Hong Kong. It's recognized by our peers as one of, if not the most professional agency in Hong Kong. And it will continue to grow through recruitment and through increases in productivity. And we plan to get those increases in productivity through building a stronger financial planning framework, supported by training, our product, but importantly also, tools. For financial planning nowadays you have to have technology because it's complex putting together a financial plan for someone's life.

We want to grow non-agency as well. And I said last time, two years ago, that we would be doing a lot there and we have made large progress. Five years ago non-agency sales were about 3% of total new premiums, now about 25% of total new premiums, so we really have made good inroads there. We will continue, of course, to invest in our Wealth Management and MPF businesses, we see them as the future. As the population gets older they're going to increasingly want to invest their money over time in, either through their Wealth Management accounts or through their pension accounts.

And our brand in Hong Kong is fantastic. We're second, prompted or unprompted, in terms of brand surveys. Our brand is seen as a good brand, people trust us. Our Chinese name is excellent, it means sort of big money, so it's a really good Chinese brand. And our AAA rating helps a lot as well.

Of course, the other thing that's really powerful about our franchise there is we got 1.4 million customers. To put that in perspective, that's 20% of Hong Kong's total population and 40% of the working population. So, we see that as a fantastic asset for the future, and a large percentage of our up-sells cross-sells -- a large percentage of our sales are up-sells cross-sells from that space from that space.

Now, with leading positions in all key markets MPF continues to grow and it grows partly because we've got a very strong net cash flow. On here we show 16.5% market share by AUM, but we'd be over 20% by net cash flow. The reason for that is we've been very good at getting the money when people change jobs. When they change jobs they have to decide whether to keep their money in their existing plan or move it to a new plan.

We're very good at persuading the customer to make the decision that's best for Manulife. And that's really driven off the fact that our agency became so good at MPF early on and continue to leverage that skill to bring in money for Manulife.

We've done very well in the single premium unit linked space. And I should explain that single premium unit links in Hong Kong is called a 101 product. It's really mutual funds within a wrap plus an additional 1% insurance. So it's really mutual funds in a wrap. And we've been hugely successful.

I think, that is very important. If you look at the many markets that develop overseas, the wrap is very important in terms of moving forward, because using a wrap around mutual funds you can give people a good view of their total consolidated portfolio and allow them to move between funds without switching fees.

And during all these we've maintained our market share in insurance while we've expanded into new markets. The last one on here, the Group Medical, this is a small and sometimes overly competitive business. But it is important because we have medical reform around the corner in Hong Kong. And what this market share gives is a very strong foundation as that business does start to grow.

And you can see from this chart we've got a comprehensive range of savings and protection products to meet all the needs of our customers. I won't go through each product but we are positioned well as financial planning develops in Hong Kong. Financial planning is sort of at the early stages, but is developing.

On the Pensions business, there's two parts to it. Pre to the mandatory system there was a system called [Also] and we had strong market share in that business as well and we've got strong market share in the MPF business. Now that business is increasingly becoming retail because people are moving their money. As the plan gets more mature and people change jobs, the amount of money that they move is larger and they're making decisions more like a retail investor than what we started with, which was mainly getting corporations to sign up.

Now, looking at our products, we have a great history of innovation. One part that isn't on here, Matrix, which was a very respectable universal life product we launched last year. It was just voted by Benchmark Magazine as the best value product of its time. But we've got many other examples of innovation. Our critical illness product -- this one had a feature where if they have a critical illness but they survive, it doesn't stop them getting future cover.

But our previous version, we gave people a second opinion. If they got cancer, they would get a chance to get a second opinion in the U.S., so maybe able go to John Hopkins Hospital and get a second opinion. And that proved very popular because we had a real example of an agent who got cancer, was told they had about a 90% chance of dying in Hong Kong. She actually used the Critical Illness benefit to go to the U.S. and got told she had a 90% chance of surviving. And that person is still alive today. So that story was very powerful in the marketing of that product.

We launched a Healthcare Fund onto the MPF platform, and the previous year we launched the China Value Fund, which is one of our most popular retail funds onto that platform. Because as I said, people that are moving their money from plan to plan are increasingly making a retail-type decision.

And I guess the biggest innovation was we were the first company to bring variable annuities to Hong Kong, and we have created a completely new class of products that did not exist prior to us bringing that product to Hong Kong. And we will continue to be a product leader supported by a strong risk management expertise needed to develop complex products. So we see that as a major advantage that we can develop products that many other companies in Hong Kong cannot develop.

Now, our agency number hit an all-time in June that has actually increased again since then, and it was up about 6.5% year on year. Now, since 2002 we've grown the agency about 16% in agency numbers, while the industry has been flat to down over that period. In fact, our share of the total agents in the market has gone up from about 10.5% to [12.4%]. Now, this is done through a strong recruitment culture while maintaining tight contract maintenance requirements to maintain quality.

Now moving forward, we want to maintain that recruitment culture, but increasingly focus on the education level of the people we recruit, because we do think financial planning needs a new set of skills and education helps in learning those skills.

And the reason we believe in financial planning so much is because we believe customers really want to get advice now with so many products on offer, and we want to get that larger share of wallet. We want to be able to talk to them about saying, don't invest in bank deposits, put your money in a balanced portfolio.

Now as I state, our strategy is to broaden our distribution and the primary channels for broadening distribution are the banks, the brokers and the independent financial agencies. I'm going to take you to the next chart which shows you some of the partnerships we've developed. We did our first bank relationship, actually, in 2005 with CITIC Ka Wah Bank, the one at the top, so we've made real progress.

Now banks who are selling insurance can only deal with two insurance companies, so it makes it highly competitive. Every insurance company wants to be one of the two partners on their shelf. But banks can sell any number of mutual funds, so the mutual funds space is a lot more open. And there's an additional way to work with banks, which is some of the banks or the private banking space of the retail banks, they have a brokerage arrangement in place. And we can work through a broker to get to their client base.

Now with all the banks in this chart together, we got about 625 branches in Hong Kong selling Manulife products of one sort or another. And that includes a recent one, which is Bank of China, which has 325 branches. That's very recent, so we don't know yet what the success is, but I'm very optimistic because they have such a large presence in Hong Kong.

The brokerage IFA] space in Hong Kong, for many years it was quite difficult, tended to go up and down, stayed around the 10% level it was sporadic with lots of different problems, but recently we have seen growth. And I mentioned in the change of distribution it's up from about 10% of sales in the market, to about 20% of sales in the market over the last few years. So, we are starting to see that.

Now, at the moment we're mainly selling high commission long-term products based on having a lot funds on their platform. I don't see these products as particularly good for the customer, so it's not a space we're competing aggressively in. But talking with these institutions, I'm starting to see changes that they found that type of product really only sells to the below mass affluent and the low mass affluent population.

So they're looking to find ways to get more into the high mass affluent and the high net worth people and looking for new choices. So, our strategy will be to provide them with a good fund platform, a good product with reasonable commission and to provide support. The IFAs are particularly going to need support in terms of compliance and other things and we can try and be their partner in that.

Now, Individual is our core business, 600,000 customers, many of them have been with the Company [for] years. I was talking to the most senior government guy the other day and he was saying he'd been a Manulife customer for 30 years. So we've got a lot of people who have been with Manulife a long time and love the Company. And they're a great asset to the Company.

In terms of our key strengths, I think it's our ability to be a product leader. We've shown over and over again we can deliver a first-to-market. The main challenge, as always, is beating the competition. But I'm confident, because of our strength, our changing distribution, which creates opportunity as well as challenges.

So the bank's expanding creates some challenges, but it also creates some opportunities because it's a new distribution channel for us, that we will succeed. As I mentioned, a large percentage of our sales reps sell cross-sell, and we believe we can get more value out of our customer base through targeted marketing campaigns, again supported by technology. Everything there [is based] on technology support.

Now, Pension is a scale business and we have successfully achieved scale. As I mentioned, about 16.5% market share of assets, over 20% of net cash flow. And early on we did invest a lot in systems, including imaging of work flow. So a piece of paper comes into the office, it gets imaged and then put in the box and sent away so that no paper is going around the office. So we've got very efficient operations and we're consistently recognized by many publications for our service excellence in the Pension space.

Our main challenge at the moment is there's a lot of pressure from the media and from the government to reduce fees. The industry has gone a little way to do that, reducing fees on some of the low interest rate funds. But we see an opportunity to get competitive advantage by taking some proactive action.

We don't want to be forced to do things, we want to do some fee reductions. We're going to launch some new funds later in the year, and we're going to combine that with a strategy to be proactive in terms of fees and get some headlines for it. One of the reasons for doing that is we believe over time it will force the industry consolidation, which will benefit us. Already, the heavy regulation which forces tough administration requirements should be pushing consolidation, so we think the industry will consolidate over time.

Now, the main opportunities moving forward, the main one is a thing called member choice. The government has announced from about 2010 members can move part of their money from one provider to another provider. We're good at getting the money when people change jobs, we should be good at getting that money as well.

And the other opportunity we see is this medical reform. People do want choice. They can see the government system at the very least is going to require longer waiting times for elective surgery. They want the choice to go into a private hospital. We're already seeing dramatic increases in the sales in medical insurance products. Even if medical reform takes us two years, just talking about it will drive sales so we're very positive on that area.

In the Wealth Management space many competitors just put out a huge array of mirror funds, some of them having like 200 funds on their platform. We see that as fairly low value-added for the customer. Me personally, I don't want to be told I can pick any one of 200 funds, I want some guidance on which fund to pick.

I think the strength of our approach is through a quantitative and qualitative analysis. We're looking to take best-of-class funds in each class, so that we can give some advise to the customer to say we really believe this is a good fund for them to buy. We're really benefiting, because in the U.S. they have a group called Investment Management Services that picks the funds for the 401(k) business, U.S. variable annuity business, the U.S. mutual fund business, we're using that same group.

So, we believe, using that global expertise to help us pick managers and pick funds is a very powerful story as Wealth Management continues to grow. Wealth Management up until now in Hong Kong has mainly been hot funds, but we increasingly -- or we believe that we're going to see many more people building portfolios, looking to invest more of their assets, not just their sort of highly discretionary assets into funds and will want advise about risk and return.

I think this is going to be even more so because of the tough times they're going through now. People saw some of these hot funds not do so well in the last year and will be more open to talking about that. And if we develop the right financial planning framework to support all our distribution partners we can really take a lead in this.

We also see variable annuity as an ideal product for Hong Kong, particularly for the Baby Boomers. We believe that we're going to continue to launch that space. We've got some great ideas in terms of products in the U.S. and Canada, and of course, in Japan as well now, so we see that as a good space. Personally, I think it's great that you can buy a product with high equity participation for [heavy] variable guarantees that will provide an income for life. So, I see that as being a good thing and definitely fits the financial planning model.

So in summary, we believe that our core strategy is sound. We have built three significant businesses, all with strong market positions. We will continue to grow agency, we will continue to build our non-agency distribution and we see the future as bright. Our brand is strong and our loyal customer base is our greatest asset. So we do not plan to change our core strategy, we see the core strategy as sound.

The outlook for Hong Kong and the industry continues to be positive, despite the ups and downs of the Hang Seng this year. Hong Kong does continue to benefit from its strong relationship with China and that will continue forever in my view. And as the population gets older and richer, Manulife is well placed to help them build and protect their assets.

The growth areas we see are around building assets for retirement and helping our customers have worry-free retirement. We can manage the longevity risk through the variable annuities, we can handle their medical protection and we can build deeper fund platforms to support their accumulation of assets.

So in this environment, we see our competitive advantages as being our combined local and global experience. And I talked about the diversity of the management team, access to global resources, and I mentioned that we use the U.S. investment management services to help us pick funds.

The quality of our agency, which I truly believe is the best agency in Hong Kong, and our advanced product development capability to support all channels, and I gave you many examples of the innovations that we have done. Therefore, we are confident that Manulife Hong Kong will go from strength to strength in the Insurance, Wealth Management and Employee Benefit businesses.

Thank you. So, open to questions.

Hong Kong – Michael Huddart – Q&A

Doug Young: Just flipping to your slide eight, you've done a good job building the market share on the Wealth Management side, but it looks like the market share ranking has slipped in individual insurance, and I'm just wondering if you can provide any color as to what was happening in that market.

Michael Huddart: Yes, that was primarily distribution changes, the banks -- the banks have grown significantly as I mentioned, from 70/20/10 position to 70% agency to about 40% agency, 40% bank over that period.

So that's -- but they've done that by, in many cases, by cannibalizing their own deposit base because they actually have fee income instead of interest based spreads. So they've created a whole new market. So all the traditional insurance players have been squeezed a little bit because of that change.

Doug Young: And with that, I mean, has the margins changed drastically as that shift has happened?

Michael Huddart: It hasn't changed so much yet. Because the -- it was dominated by HSBC and Hang Seng which were -- they formed their own life company, so they sort of maintained similar pricing to everyone else.

The only other really big relationship was a Standard Chartered one with Prudential. And everyone didn't really work a margin, they work more on expanding their distribution. In the next phase, there's some risk that margins will get squeezed a bit because everyone wants to be the partner of the -- of different banks, and so will try to put out special offers.
But they will probably be more campaign based. They'll retain the underlying profitability, but campaign a product for awhile and be willing to give up some margin for awhile to increase sales through one channel for some period of time.

Doug Young: Okay. And then just on the mandatory providence signing, you talked about how Manulife is good at getting money when people shift jobs. Why is Manulife better than the other firms when that happens?

Michael Huddart: We -- I think because we started well. The -- firstly, we do have 16.5% of the market in terms of assets, and we were particularly strong in the small to medium employer space where you're going to get a lot of movement. And people working for the big companies are going to stay -- probably stay, longer than in the small to medium. Small to medium in many cases is hairdressers or restaurants, whatever.

So we have -- we are very strong in that space. Our agency started -- well we trained them well, so to get those employees in and they just continue to use those strengths to do that. Also, I think the other companies -- some of our competitors were slow to realize how important this money moving around would be. And they're starting to -- some of them are starting to realize now that they should have started earlier, trying to get that money. They were a bit lazy in terms of retaining that money to themselves.

Doug Young: Thank you.

John Reucassel: Just a -- just on the -- when was the VA launched? Sorry. What -- was that in the last year or so?

Michael Huddart: VA was launched the year -- in the previous year. So, 2007.

John Reucassel: And so, how has it been accepted and what channels are you selling it through?

Michael Huddart: We're sold it through agency and through three or four banks. It was reasonably well accepted. It's -- the retirement planning industry in Hong Kong is still developing. People know they're getting older, but they aren't thinking about their retirement quite in the same way as they would, say, in Australia or Canada. So, I think it's going to take awhile to get real traction. But we've been recently satisfied with our sales so far.

John Reucassel: Okay. And when you look at distribution, we come two years from now -- had the 40/40/20 split, what is it going to be?

Michael Huddart: I think the independent space may grow a bit. You think markets at this stage of development you tend to find independent starts to take off a little bit. So, I see some growth in that area.

In terms of the split between banks and agency, I'm not sure, to be honest. It's hard to predict. The banks have the advantage of they've got a customer they know, their total relationship with their customer. So those are really the top banks. The small banks may only have a secondary or tertiary relationship with their customer. So that -- but, increasingly the banks are going electronic.

And when you go electronic, you don't have that face-to-face contact with the customers. So some of the things that they're doing are working against being successful in the insurance sector, as well as --. I'm not sure. I could see the banks and agencies running neck and neck for quite a long time, but independent may be growing marginally over the next couple of years.

John Reucassel: I guess just back to the rank on individual insurance.

Michael Huddart: Yes.

John Reucassel: Have you performed any worse or better than other [by] captive -- primary captive players or can you just --?

Michael Huddart: Again, AIA have -- who are the other big captives. They've had similar issues to us. The other companies are hard to compare. They're more diversified in terms of distribution channels. I mentioned, Prudential Standard Chartered, it's a significant channel for them, that one.

John Reucassel: Okay. And just last -- the Individual Life business, you looked outside the banks. Has it been contracting or growing? I'm just trying to --.

Michael Huddart: The Individual Life business was fairly flat for awhile, but this year showing seeing strong signs of growth again. I think, partly because Wealth Management is harder this year. But we've seen the best year for insurance for a long time.

John Reucassel: If I can remember correctly, this, a few years ago, I thought it was the case that your predecessor took the position that agency distribution was so ingrained in Southeast Asian society, in China and in Hong Kong, that we were going to see it forever, you said, and independent distribution was very small.

So I'm very surprised to see that it has grown as fast as it has and my question is, why has that happened? And what have been the implications of the growth of this alternative distribution, for profitability?

Michael Huddart: The -- I mean I talked about the banks, the banks obviously decided to move from fee-based income and so they've got aggressive in that area. In terms of independent distribution, there were a couple of outfits that set up that became quite large quite quickly. They recruited similar to an agency.

So they recruited aggressively. And to do that, they wanted to sell a fairly high commission product, so that it would help fuel their growth. In many cases, the commission being larger than the premium in the first year to help fuel their growth and they were successful doing that. They've got to some scale and now they've got to work out what the future holds for them.

In terms of those products, have you talked to -- we're not really selling their products. It's not -- we are selling -- we believe the market's going to change and we want to be their long-term partner. And so, we're talking to them about -- we've mainly been working in the broker space rather than the IFA space with those large companies, but are the companies making as much money on those product? I doubt it.

The -- they're probably -- if you price them using the same assumptions, they would look great. But, in a space where you're selling long term commitments to mutual funds through a variable contract, you might find that your consistency is not quite as good in the long term. So maybe they have sacrificed some margin on those products. But we don't have their product pricing to know that for sure, or know what that experience has been for sure.

John Reucassel: What I'm really asking about is this profit margin issue -- is just sort of a general question. As agency, as captive has become less important, one's suspicion would be that this is profitability because you're not controlling your distribution.

Michael Huddart: Yes.

John Reucassel: But I don't know whether that's --?

Michael Huddart: No, distribution costs through all channels are roughly the same at the moment. So, no, it hasn't materially changed. Whether it will in the future, as it gets more competitive, I don't know. But at the moment, they haven't had a big impact. They -- our distribution costs per channel are relatively similar. And products are basically the same, in general at the moment through the different channels.

Closing Remarks – Bob Cook - Presentation

Amir Gorgi: Okay, thanks Michael. During the break we handed out some surveys. Those of you joining us via webcast will receive similar surveys upon completion of the webcast. Please take the time to provide us with some feedback on the day and help us shape our future investor days.

We encourage you to submit your completed surveys to any of our Manulife staff here today upon exiting the room. Those of you on the webcast, you can complete the survey online.

So that brings us to our final session. I'm going to ask you to come back to the podium and provide some closing remarks and address any final questions that you may have. Bob?

Robert Cook: Thank you, Amir. I'm going to be very brief in my closing remarks and as I said, I'm prepared to take any final kind of wrap-up questions that you've got. I guess as I listened to the various presentations over the course of the day, I thought that the -- maybe the best way to wrap this up is to comment on what I think the keys to winning are in Asia.

And the first thing I would site for you is the first key to winning is to win the war for talent. When I came to Asia from North America, I was used to talking a lot about the war for talent. So what I guess I would say now to my colleagues back home is that basically you're just fighting a little street fight. The real war is taking place in Asia.

And there are many, many examples of what that is and in Hong Kong, Michael has to deal with a situation where standard employees turnover rates in Hong Kong are like 25%. This is a staggering number relative to other markets around the world.

I guess I'm also struck by the example of China. I think the single biggest barrier to success in China -- in any industry, not just the life insurance industry, not just financial services. The single biggest barrier in any industry is acquiring the range and depth, particularly of middle management talent to run your operations on a smooth basis.

Last year, at Investor Day in Toronto, I told you the story of how we started our operation in China. And we started our operation in China by pulling people of Chinese background from nine different Manulife countries around the world and infused them in the start up of that organization.

I guess another story I would tell you now, just to -- because I'm not sure you all heard it -- Mark mentioned it briefly in his remarks, but he kind of went over it quite quickly. But I think it's a very important point, is that of the 30-odd entities that we are operating in China right now, the local management, the city level management, 75% of those cities are now led by Mainland Chinese people the we have developed internally in our organization.

So, I think that's an example where we have identified a way to win the war for talent against our competitors by coming up with the systems and processes and training mechanisms to train and develop people ourselves to feed the needs for talent that we have in order to achieve our ambitions for growth. So winning the war for talent, I think, is the first key to winning in Asia.

The second key to winning in Asia is, frankly, the same thing that we tell you about how we choose to win in the U.S. and in Canada, which is to remember that it is all about distribution. I'm an old product guy, but I must admit, it is all about distribution.

Some of you wrote reports a year or so ago when we announced the fact that we were not selected as one of the first four companies to distribute variable annuities through the Post Office here in Japan and you wrote reports about how unfortunate this was and what a set back this was for us, and how this was going to be difficult to overcome and continue to fuel our growth in Asia.

Well, I think you heard a tremendous story today about how our management team in Japan dealt with that set back. We dealt with that set back by dramatically expanding our distribution into regional banks by building an entirely new channel [to] the MGA channel, to exploit the corporate market by building a wide range of wholesaling strength and so on an so forth.

I think you heard the stories from Philip about ASEAN, for example, in Indonesia, where the cultural barriers in our organization that are now enabling us to sell beyond traditional life insurance through agents, that we're now able to sell a wide range of products through a wide range of channels. We made the changes necessary in order to do that. So, I think that our organization has recognized that it is all about distribution and that is the key to winning in Asia.

And the third thing I would highlight for you, as the key to winning in Asia, is that I think we at Manulife recognize that it is not all about the top line. There are a lot of good top line stories in Asia. Our competitors can tell you some good top line stories. Then as Mark mentioned, in the question period, to his presentation, we know how to engineer for a good top-line story whether through growth in number of agents that we could report to you or the growth in new business premiums.

But that's not how we choose to run our organization. We choose to run our organization as one that tries to deliver both top line and bottom line, as an organization that is run with the same kind of financial discipline here in Asia as we run it elsewhere the world. As an organization, that puts more emphasis on the quality of business than do most of our competitors, and as an organization that believes more in execution than it does in strategy.

I mentioned in my opening remarks that our track record of growth in Asia is driven by four factors. And, I indicated to you at that time that I felt that all four of those factors would be key components to maintaining that track record of 30-plus percent growth in the future. And I just -- I do want to reiterate that point to you.

I think that delivering on that kind of performance in the future will require us to continue to be very good at organic growth. The -- I think that is probably the most well known and well recognized of the forces that will lead to growth in the future, because it's driven by favorable demographics, strong economies and low insurance penetration.

I also talked to you about how business development will continue to be one of the forces that lead to continuing growth for us in the future. And we've talked to you, throughout the day, about our increasing development of a wide range of channels, of distribution, I think Philip, in his remarks, talked to you about the wide range of -- you can call them experiments today, but some of these experiments have got to pay off. The examples he showed you from Vietnam and other places.

I think we talked to you, throughout the day, about the development of our portfolio of asset management companies and capabilities that we have been building very rapidly over the last couple of years, and have now given us a tremendous tool to leverage going forward in building our Wealth Management businesses.

The third force for growth in our history and will continue to be a force for growth in our future is merger and acquisitions. We have a very good track record of that in Asia. We are a good integrator. And there is, in a variety of markets right now in Asia, a number of forces are at play that we believe will lead to consolidation in various markets and we intend to be a participant in that, we will, as we are everywhere else in the world, be a disciplined buyer. But I can certainly see that as part of our future.

And finally, territory expansion has been part of our history. And there are clearly, although it does not include Laos, I would agree with Philip, there are clearly some markets that we are not present in Asia, but we have a watching brief, research brief and they are certainly possibilities. They are opportunities for us in the future if the circumstances are right.

So the bottom line is, I said to you, that we would like you to compare us to the other North American and Europe giants, who have Asia strategies and we hope that we've done a good job today of convincing you that we are going to do the best job of delivering on those strategies.

So thank you very much, and I'd be happy to answer any wrap-up questions that you have.

Closing Remarks – Bob Cook – Q&A

Doug Young: Hi. Just, I guess, on your last point, Bob. What -- if we can talk about the markets that you're not in, which markets do you think pose the best opportunity for Manulife?

And second, in terms of market, you've given us some drivers that are going to keep growth in the 30% range. I mean, for you, which is the most important component to that?

Robert Cook: Well, I don't know if I can answer the last question. I think that to deliver that kind of growth rate consistently over a ten-year period, we need some contribution from all four of those forces. And, I think that's probably the best answer I can give you on that.

In terms of the markets that we're not in, I mean, the obvious ones that everyone talks about are India and Korea. We used to be in Korea. We exited Korea seven or eight years ago. And the Korean industry at that time was -- had a number of difficulties has, in some respects, improved itself non-stop since then. And under the right circumstances, I think that the -- it is a well developed economy and one where we think we could bring both our product expertise and our distribution expertise to bear on that.

Now right now, there are no new licenses being granted in Korea, but there is some hints that that might change in the future. India, you know our position, in the past, has been a concern about being unwilling to enter that market when ownership [limits] are restricted to 26%.

We are not prepared to simply be a strategic investor in a life insurance company. We believe that the intellectual capital we bring to bear should be rewarded at a much greater rate than that. There are various rumors about possible changes in those regulations going forward, and that's one of the reasons why we keep a very close watch on that market and are prepared to move if the circumstances become more attractive to us.

Doug Young: Thank you.

Eric Berg: Bob, both in your opening remarks and now you've distinguished business development from organic growth. Could you clarify the distinction?

Robert Cook: I call organic growth doing more of the things you've been doing in the past and I call business development doing new things. So they could be new channels, they could be new product categories and lines of business.

So for example, if a market's successful entering the Pension business in China, I would consider that a business development strategy as opposed to an organic growth strategy.

If there's nothing else, I'll turn it back over to Amir.

Amir Gorgi: Thank you, everyone, for joining us today.