Manulife Financial, U.S. Operations

Corporate Communications

Manulife Financial (now branded as John Hancock Financial in the U.S.) is an international insurance company and financial services provider headquartered in Toronto.

TORONTO

I had the great pleasure of living in Toronto for nine years, working in Manulife's home office. In mid-1994, I was selected to plan and lead communications for the transfer of U.S. participating insurance policies that were held in the Canadian parent to the company's U.S. subsidiary, Manulife Financial (USA).

(Now a publicly traded company, Manulife at the time was a mutual organization, which means that the company was privately owned by its policyholders. Moreover, a participating policy is an insurance contract that pays annual dividends to policyholders over the life of their policies.)

My activities over the two-and-a-half-year transfer of participating business initiative included communications planning, project management, and writing original content and assisting subject matter experts with content creation, all of which is outlined in the communications plan that follows.

BOSTON

In June 1995, I was one of the first two who were transferred from Toronto to Boston to open the company's National Sales and Marketing Office, our first corporate presence in the U.S., where we had 40 branch sales offices across the country. I established the Office of Public Affairs and Corporate Communications, including determining budgetary requirements, hiring staff, and contracting local vendors.

To address very poor results in 1995, I advocated for, and then wrote, a memorandum from the head of U.S. Operations, which is enclosed here. I adopted as my storyline the five-point corporate vision articulated in "Strategy for Success" by our new president and CEO.

To: Brian Buckles, Trudy Harcus, Kendall Kay, Martin Luz, John MacMillan, Kate McDonough, Shelly Meyers, Steve Rosen, Nancy Stewart, Rick Walker, Gail Wright

From: Peter Speliopoulos
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PROFS SPELIOPP

Date: August 24, 1994

Subject: Communication plan for the transfer of participating business to the U.S. subsidiary, Manulife Financial (USA)

Attached for your review and commentary is the first draft of the communication plan for the transfer of participating business to the U.S. subsidiary, Manulife Financial (USA).

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Executive Summary

Because of the size and scope of this project, this document won't be shelved once approved. Rather, my intention is that it evolve over the next couple of years as issues grow in profile. As a result, this planning document will keep pace with the project and serve as a road map for assessing success and failure, and most important of all, illuminate issues which must be addressed along the way.

The executive summary that follows presents an overview of the communication plan.

OVERVIEW

The transfer of the remaining U.S. business to the U.S. subsidiary is scheduled to commence on January 1, 1997. The business being transferred to the U.S. subsidiary includes: individual participating policies; individual term policies; group participating policies; and other odds and ends remaining in the parent.

Customers whose policies are transferred to the U.S. subsidiary will be treated as though their policies had never been transferred: policyholders will benefit from the fact that the subsidiary is financially sound in its own right with over US$10 billion in assets, placing it within the top 20 life insurers in North America; transferred policyholders will retain their voting rights in the parent; the U.S. subsidiary will continue to adhere to the parent's dividend-payment policies for transferred policies; the parent guarantees that it will remain liable for all policyholder claims; transferred policyholders will retain their rights regarding any actions having to do with the demutualization of the company.

AUDIENCE

There are many audiences for the transfer project. For the purposes of the transfer program, five audience segments have been identified: participating policyholders; senior management; our sales force; home office personnel; and opinion leaders.

The implications of the transfer project are vast, and the attendant communication issues both complex and far-reaching. Despite the many audiences for the transfer communication, it's important to be mindful of the core stakeholder: policyholders whose policies are being transferred to the U.S. subsidiary. Our communication goal isn't only to inform our participating policyholders, but also to leave the impression that we've informed them. There must be absolutely no doubt in their minds that we've gotten into their heads, anticipated their information needs, and provided them with the answers they need.

POSITIONING STATEMENT

Our goal is to create goodwill among our various stakeholder audiences. We are, therefore, positioning the transfer according to the benefits derived by our policyholders:

> For Manulife Financial's participating policyholders, the transfer will mean enhanced customer service. The company has taken careful and deliberate steps to strengthen its position in the United States by investing both dollars and employees. In addition to transferring all of the company's U.S. business to a U.S. subsidiary, these initiatives include opening a marketing and distribution office in Boston and reorganizing both its home office and field organizations to put them closer to the customer. Together, these actions are part of a deliberate, long-term strategy to put the company closer to its U.S. customers.

COMMUNICATION TACTICS

We'll use a combination of communication tools that work together to convey the company's message, to achieve our communication objectives, and to satisfy the information needs of our various audiences.

While the Canadian regulatory process dictates that we mail assumption certificates to policyholders whose business will be transferred, there's no legal obligation that we contact policyholders. However, I'm recommending an advance mailing — the centerpiece of the transfer communication program — to maintain our policy of open communication with our customers.

The transfer project provides an opportunity to illustrate our stability and reputation by talking about our track record and past successes. This opportunity will allow us to convince our customers that we mean what we say and that our actions match our talk: we have a good track record in the way we've treated our participating policyholders, as measured by A.M. Best's 10- and 20-year net payment indices; policyholders will benefit from the fact that the subsidiary is financially sound in its own right with over US$10 billion in assets, placing it within the top 20 life insurers in North America; transferred policyholders will retain their voting rights in the parent; the subsidiary will continue to adhere to the parent's dividend-payment policies for transferred policies; the parent guarantees that it will remain liable for all policyholder claims; transferred policyholders will retain their rights regarding any actions having to do with the demutualization of the company. All of these initiatives strengthen the company's image as a responsible, caring, and scrupulously honest company.

SIGNIFICANT EVENTS AND DATES

Inforce coverage review program	July 1994 until December 1995
Approval of communication plan	September 1994
Employee briefing in Update meeting, including both U.S. Individual and U.S. Group personnel	Late August 1995
Memorandum from Ken Beaugrand to all internal and external affiliated audiences, with copies to business heads	Early September 1995
Manulife News article	Early September 1995
Test communication with focus group	February 1996
Toll-free service hotline	Late April 1996 until March 1997
Direct mail program to participating policyholders, with copies to all internal and external affiliated audiences	Late April 1996
Press kit sent to industry and business media	Late April 1996
Informal, face-to-face communication with rating agencies	Late April 1996
New business letter	October 1, 1996
Tombstone advertisement in the *Canada Gazette* and *The Globe and Mail*	November 1, 1996
Positioning advertisement in the *National Underwriter* and *The Wall Street Journal*	November 1, 1996
Create financial strength and due care material for the Manulife Financial (USA)	December 1996
Transfer mailing to participating policyholders	January 1, 1997

CURRENT SITUATION

By identifying strengths, weaknesses, opportunities, and threats, this section enumerates the relevant environmental factors that affect our chances of success. But first I'll start with the question, "Where are we now and where are we going?"

THE NON-PARTICIPATING TRANSFER

All of the U.S. non-participating business was transferred to the wholly owned U.S. subsidiary, Manulife Financial (USA), early in 1994. At that time, the participating block of business was left in the parent because the feeling was that its transfer would have unduly complicated the transfer given its relatively small asset size.

There were few communication problems when the non-participating business was transferred. In fact, the toll-free service line received fewer than 10 questions relating to the transfer itself, and only four of those callers expressly objected to the transfer. Most of the 6,000 telephone calls were requests for service: cash values, address changes, beneficiary changes, and the like. We also received a number of callers saying, "I didn't know I had a Manulife policy." (Most of these came from group annuity customers. This unfortunate situation will be minimized because the systems people have figured out how to weed out group annuities. However, the problem of name recognition will remain, as was validated in recent focus groups.)

THE PARTICIPATING TRANSFER

Looking ahead, the transfer of our U.S. participating block of business will be far more complex than the transfer of the non-participating business. As a result, the communication process will be that much more difficult.

Our U.S. participating block of business, along with miscellaneous U.S. business that remains in the parent, will be transferred to the U.S. subsidiary on January 1, 1997. All business transferred to the U.S. subsidiary will be wholly owned by the parent, and the parent will back all business transferred to the subsidiary. Therefore, all policyholders in the U.S. subsidiary will continue to benefit equally from being a part of a company with the substantial size, security, and diversity of the consolidated parent. At this time, the assets of the parent and the associated subsidiaries, Manulife Financial, totals C$38.5 billion. The assets of Manulife Financial (USA) exceeds US$10 billion.

The business being transferred to the U.S. subsidiary includes: individual participating policies, which constitutes the bulk of the business; individual term policies; group participating policies; and other odds and ends remaining in the parent.

U.S. legislation places foreign insurance companies in a disadvantageous competitive position. As a result, the company's primary business objective for transferring the participating line to the U.S. subsidiary remains the same as when we transferred our non-participating business: namely, to place the company on a level footing with domestic companies from both a tax and regulatory perspective. As well, transferring the remaining blocks of U.S. business supports the corporate objective of creating largely standalone divisions that are accountable for their own financial results.

There's no legal requirement that the company notify policyholders in advance of the transfer. Nor are we required, in any state, to seek the express approval of policyholders prior to the transfer. However, I strongly recommend that we incur the substantial costs (both financial and manpower) of an early informational mailing to affected policyholders in order to remain consistent with our philosophy of open, fair communication with policyholders (see Communication Tactics for a more complete discussion).

While advance notification isn't mandated, the Canadian regulatory process dictates that we mail assumption certificates to policyholders whose business will be transferred. Among other things, the certificate of assumption will explicitly state that Manulife Financial, the parent, will remain liable for claims against the subsidiary. In the unlikely event of the insolvency of Manulife Financial (USA), the parent will be required to satisfy policyholder claims. (This relates to policies which are in force at the time of the transfer, and not to new business placed after the transfer.)

Withdrawing the rights of our U.S. participating policyholders would greatly disadvantage them. (It's a fine tribute to the company that we suntil put our participating policyholders first.) Together, these rights are significant: maintaining the policyholder's voting rights in the parent; maintaining the policyholder's rights on demutualization; maintaining the parent's dividend-payment policy.

The sections which follow identify the company's strengths, weaknesses, opportunities, and threats for the purpose of describing our capabilities and limitations in the marketplace, as well as giving us insights into opportunities upon which we can capitalize and threats against which we must defend.

STRENGTHS

What organizational strengths currently exist upon which we can build our communication strategy for the transfer program?

1. Manulife Financial has an excellent reputation in the marketplace for financial strength: the company is the largest life insurance carrier in Canada, is among the top 15 carriers in North America, has a strong capital base of C$38.5 billion, and has a strong, geographically diversified infrastructure. (While the company's perspective is that international diversification reduces risk to our policyholders, Moody's sees our geographic diversification as a weakness, opining that, while we are, in fact, internationally diversified, we have no clear dominance in any one market.)

2. Manulife Financial and its subsidiaries consistently receive excellent ratings for claims-paying ability from the major independent rating agencies: Standard & Poor's (AAA); Moody's Investment Services (Aa3); A.M. Best Company (A++); Duff & Phelps (AAA); Dominion Bond Rating Service (IC-1).

3. The company's wholly owned U.S. subsidiary, Manulife Financial (USA), is a strong entity in its own right with over US$10 billion in assets. In fact, the standalone company ranks among the top 20 life insurers in North America.

4. Manulife Financial has a singular focus on affluent Americans, and has more experience with this segment than any other financial institution. Moreover, the company is considered an expert in the affluent segment by both our own sales representatives and our competitors. Therefore, we're better able to service the needs of affluent policyholders, as well as their sales representatives. This point is especially important because the affluent segment typifies the participating policyholder whose business is being transferred to the U.S. subsidiary.

5. Manulife Financial has a large, stable block of participating business. This indicates at least a modest level of loyalty among our participating policyholders.

6. Recently, Manulife Financial has received positive publicity in both the U.S. trade and popular business press. This includes articles in *Accounting Today*, the *National Underwriter*, and two articles in *The Wall Street Journal*.

7. Despite reductions in the company's dividend scale in five of the last six years, Manulife Financial offers its participating policyholders strong historical dividend performance as measured by A.M. Best's 10- and 20-year net payment indices. (However, industry perceptions regarding our dividend scale, and competitor attacks, weaken this strength.)

8. Joe Belth fully supported the non-participating transfer of business, and it's reasonable to expect that he'll offer similar support for the participating transfer.

WEAKNESSES

From a communications perspective, what areas of weakness need improvement in order to successfully launch the participating transfer program?

1. Manulife Financial has a moderate level of exposure to mortgage loans and real estate. To be sure, this exposure, while moderate, weakens our message, particularly in light of the insolvency of Confederation Life.

2. Although Moody's recent opinion and rating on Manulife Financial clearly puts the company among the top life insurers in North America, this was the very first time the company received anything less than the top rating for claims-paying ability from an independent rating agency. Moody's opinion was that, while Manulife Financial is, indeed, globally diversified, the company doesn't dominate any territory in which we operate.

3. Although Manulife Financial has been recognized by A.M. Best for its strong 10- and 20-year net payments to policyholders, the perception in the marketplace is that dividend crediting rates on participating policies are especially low.

4. Manulife Financial doesn't have a high public profile, largely because we don't have a national advertising program. In fact, we aren't even well known by our own customers: in recent focus group sessions, some of our own customers didn't even know that they owned a Manulife policy.

5. We don't know our own affluent customers very well, despite the fact that we've catered to affluent Americans for over 30 years by pioneering innovative estate-planning products. We're just now starting to validate our assumptions through limited focus group studies.

COMMUNICATION OPPORTUNITIES

Based on the strengths listed above, what communication opportunities now exist?

1. We have an opportunity to show our U.S. customers that we've been listening to them. This is the perfect time to promote the fact that we care about America first, and that we're investing both dollars and employees in the U.S. to support our claims. Indeed, the transfer is one action among many which are designed to strengthen our position in the United States. These actions include opening a marketing and distribution office in Boston, realigning both our home office and field operations to better serve the needs of our U.S. customers. As a result of these initiatives, our customers will benefit from the proximity of our U.S. operations. U.S. policyholders will benefit from the company's standalone domestic operation because local presence will provide better access for our field associates and sales representatives. As well, the company's presence below the 49th parallel makes a difference to Americans, and this psychological advantage mustn't be ignored or diminished.

2. There's no legal obligation that we inform our policyholders of the transfer. We're doing so in keeping with our strategic policy of open communication with our customers. Regardless, there's no down side for our policyholders. They lose nothing as a result of the transfer. However, people tend to be distrustful of new, unproved business tactics. Add to this the fact that the popular business press has roundly condemned other companies who have transferred policies to subsidiaries.

   The transfer project provides an opportunity to illustrate our stability and reputation by talking about our track record and past successes. This opportunity will allow us to convince our customers that we mean what we say and that our actions match our talk: we have a good track record in the way we've treated our participating policyholders, as measured by A.M. Best's 10- and 20-year net payment indices; policyholders will benefit from the fact that the subsidiary is financially sound in its own right with over US$10 billion in assets, placing it among the top 20 life insurers in North America; transferred policyholders will retain their voting rights in the parent; the subsidiary will continue to adhere to the parent's dividend-payment policies for transferred policies; the parent guarantees that it will remain liable for all policyholder claims; transferred policyholders will retain their rights regarding any actions having to do with the demutualization of the company. All of these initiatives strengthen the company's image as a responsible, caring, and scrupulously honest company.

THREATS

What communication issues threaten the successful implementation of the transfer program?

1. Without a doubt, we can count on, and, indeed, should plan for, a certain amount of cynicism and paranoia about our motives for the transfer among our various audiences. As well, the issue of financial security will continually threaten the success of our communication efforts. And our positioning is further threatened by concerns raised in the popular business press over industry solvency, particularly as it relates to Canadian companies in light of the insolvency of Confederation Life. (In the past, our argument was that Canadian companies offered an extra layer of regulatory protection. Now, with the demise of Confederation Life, that argument is gone.) We, therefore, need to be cognizant of the mind set of our customers. After all, they'll be moved from a large company with over C$38.5 billion in assets to a much smaller company with US$10 billion in assets. While suntil financially strong, perception problems will linger.

2. The transfer of participating business introduces a whole set of regulatory, legal, and policyholder perception and rights issues that will complicate the transfer itself and the communication supporting it. This, of course, wasn't the case with the non-participating transfer earlier this year because non-participating clients don't have voting rights in the company.

3. The contractual guarantee to participating policyholders that their voting rights in the parent will be maintained is threatened because Ottawa has concerns over our approach. At this time, Ottawa favors a solution which gives policyholders a vote in the subsidiary rather than in the parent. If Ottawa prevails and we're forced to withdraw voting rights in the parent, this action could be the ground for a class action suit. In that case, we'd have to do all we could to convince policyholders that getting a vote in a wholly owned subsidiary is worth as much as a vote in the parent and is a equitable substitute. (Although inforce participating policyholders will retain their voting rights in the parent company, new customers will have no such rights. Instead, their voting rights will be limited to the U.S. subsidiary.)

4. Although the inforce coverage review program (which began on July 1, 1994 and will run through December 1995) will have ended some four months before the transfer mailing to policyholders, any ill will created will certainly taint the transfer communication. They've just calmed down from that shock, and we don't want to upset them further. This is particularly threatening because these people more readily rely on the advice of professional advisors like attorneys and accountants. As a result, it would be disastrous to spring something as contentious as this on them without fully explaining the implications. While our affluent participating customers are sophisticated in many areas of financial planning, they're generally not familiar with how life insurance products work and the role that life insurance plays in a sound financial plan. And after the shock of having to review their coverage under the specter of declining dividend crediting rates, they will, in all likelihood, review the transfer communication and discuss its implications with their advisors. As a result, we must be careful and thorough in our explanation. We must offer full, accurate disclosure on the matter so that we don't compound any anger stirred up as a result of the coverage review program.

5. In a home office environment which has already weathered its fair share of turmoil, the fact that employees situated in Toronto, but working for the subsidiary, will be employees of the U.S. subsidiary, threatens to further disrupt home office operations. There are two issues. First is the concern regarding how an employee moves from one company to another while employed by U.S. Operations. We mustn't overlook or diminish the importance of this issue. It's clearly a threat to the smooth operation of the home office. Second, and most important, it's inevitable that some employees will view the participating transfer of business as the second step toward relocating U.S. Operations to the United States (the first being the establishment of the Boston office). Although it's important that we not be ruled by the rumor mill, it's equally important that we be cognizant of this issue and actively put it to rest.

6. Despite the fact that Manulife Financial has, for the past 30 years, developed products (particularly the survivorship concept) for the affluent market, we really don't understand how affluent Americans think. We've only recently set out to validate our assumptions about this market segment. Moreover, although it's true that our closely affiliated MFPs are leaders in the industry, they don't work exclusively in the affluent market, with only about 20% of their business coming from this segment.

AUDIENCES

There are a great many stakeholder audiences whose information needs must be satisfied. The basis for segmenting the audiences is according to each group's primary information need. Each broad grouping outlined below has similar information needs. The objective of this segmentation exercise is to structure the transfer communication so that it is responsive to the needs of each group. For example, our participating policyholders are concerned with the affect that the transfer to a smaller company will have on their policies. They'll want to know what they're giving up and if their investment is suntil secure.

For the purposes of the transfer program, five audience segments have been identified: participating policyholders; senior management; our sales force; home office personnel; and opinion leaders.

The implications of the transfer project are vast, and the attendant communication issues both complex and far-reaching. However, despite the many audiences for the transfer communication, it's important to be mindful of the core stakeholder: policyholders whose policies are being transferred to the U.S. subsidiary.

Our communication goal (see End in Mind for a more complete discussion) isn't only to inform our participating policyholders, but also to leave the impression that we've informed them. There must be absolutely no doubt in their minds that we've gotten into their heads, anticipated their information needs, and provided them with the answers they need.

PROFILE OF THE PARTICIPATING POLICYHOLDER

Our participating policyholders typify the profile of the affluent American.

Manulife Financial has a singular focus on the insurance and business-planning needs of the affluent segment. America's affluent have complex financial- and estate-planning needs, and therefore, they readily rely on the advice of professional advisors, particularly attorneys and accountants. Moreover, many affluent customers are suspicious of advice from commission-based salespeople.

Our high-net-worth clients are generally married and over the age of 50. They have a net worth of at least $2 million. It's at this level of wealth that individuals clearly have the need and the financial resources to establish an estate plan. (Non-participating policyholders, on the other hand, tend to be younger and are more likely to be placed in the emerging affluent segment.) Our affluent participating policyholders purchased their policies because of the safety which traditional participating whole life contracts provide.

Although our affluent clientele is well-versed on financial matters, they have difficulty understanding insurance products and terminology. (This, of course, is through no fault of their own, since the industry, in general, and Manulife Financial, in particular, has done a poor job of educating policyholders. That said, however, U.S. Individual is going to great pains to rectify this problem by producing a series of consumer guides on numerous life insurance topics.)

Our affluent, participating policyholders are, for the most part, small-business owners and professionals. They possess a lot of business savvy, which wasn't necessarily gained through a formal education. These people tend to be industry leaders, fiscally responsible, technically adept, status seeking, conservative, and family oriented.

Affluent clients want to deal with a company which has a solid financial reputation. Their primary financial objective is to ensure that their spouses and children are provided for. And while this segment is sensitive to price, they, more than anything, want good value. To be sure, they value ethical, personalized service provided by insurance professionals. They rely on their insurance agent to explain how life insurance fits into their overall financial plans, and how life insurance products will help them create and preserve wealth.

The primary question that our participating policyholders will be asking is, "How does the transfer affect my policy?"

PROFILE OF SENIOR MANAGEMENT

This segment includes: Manulife Financial's Board of Directors; senior management from both the U.S. Individual and U.S. Group business units; and field management (region managers, business development managers, marketing managers, service and operations managers).

Senior management will be grappling with the company's image and employee morale: "How does the transfer affect the company's image in the insurance industry, the broad financial services industry, and among affluent buyers? How does the transfer affect employee motivation, morale, commitment, and productivity?"

PROFILE OF OUR SALES REPRESENTATIVES

This audience category includes Manulife Financial Partners, principals at investment and special-market firms, and producers who have a contract with the company. Their primary question will be, "How does the transfer affect the loyalty of our customers?" This question reveals an obvious ownership issue. Although the client is jointly serviced by the company and the sales representative, the issue remains.

PROFILE OF HOME OFFICE PERSONNEL

Home office personnel — in both U.S. Individual and U.S. Group — are increasingly agitated by the many changes in the Manulife work environment, as well as the changes which are taking place in North American business, where change is the sole constant. Therefore, they'll want to know, "How will the transfer of the remainder of the U.S. business to a standalone U.S. company affect my job?" There's a lot of cynicism in the home office ranks, and this can't be ignored. Indeed, it must be forthrightly addressed.

PROFILE OF OPINION LEADERS

This audience category includes: regulatory bodies; rating agencies; the insurance trade press; the popular business press; national dailies; regional dailies; industry associations; opinion leaders (including consumer advocates like Peter Katt and Joseph Belth); professional advisors (i.e., trust and estate attorneys, business attorneys, accountants, financial planners). What these groups have in common is that they have the ability to influence consumer buying decisions.

The business media, state regulators, and industry opinion leaders are increasingly on guard for unstable, unethical companies. Their vigil has been further heightened by the recent collapse of Confederation Life. Their jobs are to make sure that the interests of policyholders are protected. Their primary information need is, "Will the transfer adversely affect policyholders?" And because they carry a great deal of influence over public opinion, we must be certain that they are adequately informed, and when appropriate, consulted.

POSITIONING

This section is a narrative of how we want our message to be perceived by our customers. Through proper positioning, we'll be able to shape the perceptions of our customers regarding the transfer of our participating business.

Our goal is to create goodwill among our various stakeholder audiences. We are, therefore, positioning the transfer according to the benefits derived by our policyholders:

> For Manulife Financial's participating policyholders, the transfer will mean enhanced customer service. The company has taken careful and deliberate steps to strengthen its position in the United States by investing both dollars and employees. In addition to transferring all of the company's U.S. business to a U.S. subsidiary, these initiatives include opening a marketing and distribution office in Boston and reorganizing both its home office and field organizations to put them closer to the customer. Together, these actions are part of a deliberate, long-term strategy to put the company closer to its U.S. customers.

End in Mind

The end in mind describes the goal we've set for the transfer communication:

> Our communication goal — our end in mind — isn't only to inform our policyholders, but also to leave the impression that we've informed them. By creating the impression that we've fully informed our stakeholders, we make the communication that much more believable. In fact, believability is actually more important than truth. In order to achieve the perception of believability, the copy must convey the feeling that it's coming from a trusted friend. Ultimately, this will create the goodwill that we're after. We'll accomplish this by helping our participating policyholders to fully understand the terms of the transfer, and, most importantly, proving to them that they will, in no way, be losing anything as a result of the transfer. After reading the communication, our customers must be certain that our intention is to treat them as if they hadn't been transferred at all: voting rights in the parent are maintained and the obligations of the U.S. subsidiary are fully guaranteed by the parent.

TONE AND MANNER

This section describes the feel and character of the transfer communication:

1. We'll adopt a very matter-of-fact approach. At no time will we resort to a sales job. And there's no reason to — policyholders aren't losing a thing. We'll use an approach which appeals to the reader's sense of logic. In this logical appeal, we'll talk as though the transfer is the logical choice for our customers.

2. We'll do our best to anticipate the information needs of our customers. In this way, we'll thoroughly discuss the implications of the transfer and fully disclose the details of the transfer. We'll speak truthfully, forthrightly, and strictly adhere to the facts. We'll strive to be as open as possible, without, of course, revealing sensitive information.

3. Customers are distrustful of new, unproved business tactics. As a result, we'll strive to convince our customers that we mean what you say — that there's no down side. We'll do this by stressing our good track record regarding the equitable treatment of policyholders.

4. In dealing with all stakeholder audiences — particularly our participating customers — we'll present the image of a responsible, caring, and scrupulously honest company. Our tone must be proactive and ethical. After all, it's the public's perceptions that matter most, not the facts.

COMMUNICATION OBJECTIVES

Our objectives for this communication are:

1. To minimize disruption to new sales and the loss of existing customers and distributors as a result of the transfer.

2. To preserve the parent company's coveted image as responsible, ethical, and financially strong, stable, and secure, and transfer this image to the U.S. subsidiary.

3. To honestly and openly communicate the rationale for, and process of, the business transfer to all audiences, and ensure that our key messages are conveyed. In so doing, we'll minimize a backlash from industry critics, and minimize the fear that this action constitutes the first step toward demutualization.

4. To enlist our field associates as partners in, and advocates of, the transfer process. All personnel in the company, as well as our affiliated sales force, must be part of the service link. In the highly competitive environment in which we find ourselves, service is the best way to distinguish ourselves and remain above the fray. We'll need to assign a single person to deal with the press, have a written crisis management plan with specific talking points, and make sure that every employee has a copy of the plan and understands it.

5. To clarify the employment status of all home office employees. Two issues must be addressed: first, many employees already see the opening of the Boston office as the first step toward relocating U.S. Operations to the United States, despite our best efforts to quell this talk, and these same people will see the transfer of the remainder of our U.S. business as confirmation of this; second, because employees based in Toronto, but working for the American subsidiary, will be employees of the subsidiary, not the parent, we'll have to clarify how benefits are affected and how employees move from one company to another within the Manulife group of companies.

6. To satisfy new disclosure obligations and compliance requirements now that the parent is a public reporting company in Canada. Under the law, the transfer of participating business constitutes a "material" change.

7. To allay policyholder fears regarding the financial security of their policies. Such concerns arise from the fact that policies are being transferred from a large C$38.5 billion company to a much smaller US$10 billion company.

8. To thoroughly explain the company’s dividend-payment policy to policyholders. (The company’s dividend policy was stated for the first time in the 1993 annual report in anticipation of the transfer of our participating business.)

9. To provide a high degree of customer response for both transfer and unrelated service inquiries.

10. To capitalize on this opportunity to reinforce the customers’ buying decision and restate the benefits of doing business with Manulife Financial.

11. To limit the number of participating policyholders who want to retain their affiliation with the parent to a total of 25. (This is a realistic objective given that fewer than 10 policyholders chose to remain with the parent in the non-participating transfer.)

Communication Strategies

This section explains how we intend to meet our communication objectives. We will achieve our objectives by:

1. Setting our objectives from a customer service perspective, and providing thorough and courteous customer service to support the transfer communication process.

2. Initiating briefings of, and discussions with, a variety of constituents early in the process, and utilizing the lessons we learned during the transfer of our non-participating business.

3. Identifying the issues for each audience and addressing them on a timely basis, as well as developing and gaining early agreement on positioning and tone, and then ensuring that there's comprehensive support and understanding throughout the organization and with selected opinion leaders.

4. Identifying key spokespeople to handle media inquiries, creating a written crisis management plan with specific talking points, and making sure that every employee has a copy of the plan and understands it.

5. Identifying and publicly communicating milestones along the way to all field and home office associates. We mustn't wait until the process is complete to fill in company stakeholders.

6. Initiating early communication with all audiences, anticipating and answering their questions, and validating our responses before going public.

7. Positioning the transfer project in the context of the division's strategic intent: this action is one component of a planned strategy to strengthen the company's position in the United States.

8. Carefully controlling our message to distributors by making judicial use of advertising over publicity, much as we did with the well-received "Beyond Expectation" trade advertisement which supported the field reorganization. The reason for using advertising as part of the communication mix is that the sensitivity of the topic and the specificity of the wording requires that we carefully control the wording in order to communicate effectively. With advertising, we'll be able to control the content, style, and timing of our message to the industry. If, however, we were to rely exclusively on publicity, we'd lose the element of control.

9. Ignoring rumors. We can’t allow ourselves to play to the rumors that are sure to arise. Where possible, we need to address them, but we can’t allow the infamous Manulife rumor mill to dictate our actions and their timing.

COMMUNICATION TACTICS

This section details the specific tactics we'll use to achieve our strategies:

1. COMMUNICATION VEHICLE: Update meeting

   AUDIENCE: U.S. Individual and U.S. Group employees situated in Toronto

   TIMING: Late August 1995

   RATIONALE: The rationale for devoting a portion of an Update meeting to the transfer is that it supports the strategy of identifying and publicly communicating significant milestones. This forum will allow us to make home office employees aware of the transfer early in the process. Brian Buckles will take the podium for approximately 30 minutes to share transfer implementation steps and procedures. Brian's presentation will answer such questions as: What are the objectives of the program? What are the project plans? How will individuals be impacted? What are the methods and lines of communication? Most importantly, Brian will identify issues unique to this audience and discuss the implications of the transfer — particularly employment status. Following this Update session, Brian (or a designate) will take to the podium to address home office employees at least once a quarter.

   RESPONSIBILITY: Marna Gariepy, assisted by Peter Speliopoulos

   QUANTITY: Not applicable

   BUDGET: Not applicable

2. COMMUNICATION VEHICLE: Memorandum from Ken Beaugrand

   AUDIENCE: Internal and affiliated audiences, including region and sales offices (region managers, business development managers, marketing managers, and service and operations managers), Manulife Financial Partners, principals at investment and special-market firms, and home office employees (both U.S. Individual and U.S. Group), as well as the board of directors and business heads of Canada, the United Kingdom, Pacific Asia, Reinsurance, Real Estate, and Corporate

   TIMING: Early September 1995

RATIONALE: This tactic supports the need to identify the issues for each audience and address those issues on a timely basis, as well as communicate milestones as the project unfolds. Ken's memorandum will lay the groundwork for the transfer by communicating transfer essentials, outlining the transfer process, and identifying issues well in advance to allow adequate preparation so as to minimize disruptions to new sales. Appended to the memorandum will be an abbreviated communication plan so that employees thoroughly understand the issues and procedures of the transfer.

RESPONSIBILITY: Peter Speliopoulos

QUANTITY: 2,000

BUDGET: C$2,000

3. COMMUNICATION VEHICLE: *Manulife News* article

AUDIENCE: U.S. Individual and U.S. Group employees situated in Toronto, with some limited field distribution

TIMING: Early September 1995

RATIONALE: Immediately following the release of Ken Beaugrand's memorandum (see immediately above), an article will run in the *Manulife News* covering the transfer. This tactic supports the strategy of identifying issues for each audience and addressing them on a timely basis. The article will cover the people involved in the transfer in order to give the process a personality. As well, given the huge amount of work many will be asked to devote to the project beyond their normal everyday jobs, it makes good sense to identify and recognize team players at all levels of the organization, and not simply concentrate on the principals.

RESPONSIBILITY: Peter Speliopoulos

QUANTITY: Not applicable

BUDGET: Not applicable

4. COMMUNICATION VEHICLE: Solicit feedback from customers regarding transfer communication

AUDIENCE: Customer focus group

TIMING: February 1996

RATIONALE: The purpose of this tactic is to elicit response early in the game from a test group of no more than eight customers so that we can glean information about how well our message is received by our customers and their temperament and attitude upon receipt. I recommend that we pay each focus group participant a small fee of approximately $250. The focus group will provide us with the benefit of hearing how our customers immediately react to our message. Ideally, the testing will be conducted with a group of customers with characteristics that closely match that of our participating policyholders (see policyholder profile under Audiences). I propose that Gail Wright act as the team leader and ask questions and encourage the group to discuss different aspects of the message. This unstructured approach is particularly useful for exploratory research and can provide a broad range of information on the opinions, feelings, and motives of our customers — benefits that other available methods don't offer.

I prefer convening a focus group over other, more structured, methods, despite the additional cost of forming a focus group. (1) Using a telephone survey is one way to conduct a highly structured interview with customers. This method has the advantage that it's a quick and inexpensive way to gather information. However, this method won't allow us to adequately gain insight into how customers view both the method of communication and the message itself. (2) A direct mail questionnaire is another structured approach to gathering information. However, multiple choice and yes/no questionnaires aren't particularly well-suited to identifying and clarifying issues in any depth. (3) We could also use our own sales force to test our message. Because they're closer to the consumer than anyone else, they could provide us with valuable insights about our shared customers. While this would seem to be true, there's a lot of suspicion about our motives in talking directly to consumers. This suspicion would certainly cloud their opinions. Therefore, I feel that it's best to go directly to our policyholders in order to get insights into their reactions and perceptions. At this time, our sales force isn't an unbiased source of information.

RESPONSIBILITY: The focus group discussions will be moderated by Gail Wright, with the assistance of Peter Speliopoulos

QUANTITY: Not applicable

BUDGET: US$5,000

5. COMMUNICATION VEHICLE: Toll-free service hotline, available 24 hours a day, seven days a week

AUDIENCE: The service line will cater to all audiences.

TIMING: Late April 1996 through March 1997

RATIONALE: I'm proposing that we use a toll-free service hotline as an interactive medium for customer response to transfer and general service questions. The toll-free 800 number supports the strategy of providing thorough and courteous customer service for all of our stakeholder audiences. The 800 number will be used to build credibility with our many audiences by providing help, support, and information to all callers. It says, "We're ready to serve you." It gives the public instant access to people who can help them with questions about the transfer itself, or other service-related issues. Toll-free hotlines are used to build a relationship with the public.

A carefully written script will be utilized to get the most value out of the telemarketing service and, most importantly, to avoid angering or annoying our customers. Some elaborate scripts include answers to every objection a caller might mention. However, past experience has taught us that it would be best to favor an approach which uses the hotline to answer simple questions, while anything more difficult than a simple, one-sentence answer will be referred to an expert in home office.

The hotline will begin operation in April 1996, just prior to the customer mailing (see immediately below). However, the 800-number won't be our first line of defense. That job falls to the early announcement letter. If we've done a good job of anticipating and answering questions in our mailing to policyholders, then the hotline won't be the linchpin in the process. As we've been learning, outside vendors will never know our business as well as we. The details of the transfer are technical and legally sensitive. That's why we'll spend so much time and expense perfecting the mailing.

What telemarketing service should we employ for the transfer program? While I was very much disappointed with the service we got from S&P Data during the non-participating transfer of business, I'm inclined to go with them again. (The major problem with S&P Data — which isn't connected to Standard & Poor's — had to do with the promises they made, but didn't deliver on, particularly during the script-creation phase. This phase was particularly important because none of us had prior experience writing a telemarketing script. While we got no guidance from them in writing the script, their technological prowess was impressive, and it's on their technological expertise that I base my recommendation. In this area, they outshine all their competitors. As well, the proximity of S&P Data will allow us to better control the training and scripting by having someone on site during the critical first three weeks of the mailing.)

In addition, I'd like to put John MacMillan on contract to handle negotiations with S&P Data and act as liaison on matters such as systems implementation, training, scripting, and follow-up with customers.

RESPONSIBILITY: Peter Speliopoulos, with John MacMillan

QUANTITY: Not applicable

BUDGET: C$50,000, which includes the contract fee for John MacMillan

6. COMMUNICATION VEHICLE: Direct mail program to our participating policyholders

AUDIENCE: Affected policyholders, with copies to field management, Manulife Financial Partners, principals at investment and special-market firms, producers, and home office personnel

TIMING: Late April 1996

RATIONALE: This comprehensive early mailing to policyholders is undertaken in answer to our strategy of initiating early communication with the affected audiences. This mailing is the heart and soul of the transfer. The primary purpose of this mailing is to notify policyholders that their policies will be transferred to the U.S. subsidiary. This gives them a full eight months advance notice of the transfer.

The purpose of the early mailing is to: establish the credibility of the company; educate our customers and provide them with useful information about the transfer; mitigate any industry fallout; inform and support our sales representatives; and smooth the waters before the transfer itself, which follows by eight months.

We've all heard the cliché, "Perception is reality." It certainly holds true here. Despite the hefty cost of this undertaking, the rationale for the early mailing is quite simple. If our customers have an inaccurate or negative picture in their minds about the transfer, we'll be in big trouble. Once we've created that negative image, it'd awfully difficult to change their perceptions about us. Therefore, careful management of the perception which our customers have about the company, in general, and the transfer, in particular, is critical to our success.

While there's no legal requirement that we notify our policyholders of the transfer, we'll take this action in order to remain consistent with our philosophy of open communication with all stakeholders. The mailing, a full eight months before the transfer itself, will provide complete information on the transfer. The package will include: a letter from Ken Beaugrand which fully explains the reasons for, and the benefits of, the transfer; a comprehensive question-and-answer addendum; 1995 financial results for both Manulife Financial and Manulife Financial (USA); and product and service profiles for the subsidiary.

This vehicle will give us the opportunity to tell the whole story about the transfer. And we won't be restricted by space limitations. We'll be able to include as much detail about the transfer as we think is necessary, without increasing mailing costs. As well, the timing of the announcement is completely under our control, so we can gear up accordingly.

Particularly important is the question-and-answer piece. This format is the most accessible and lends itself to answering questions and satisfying information needs. But it won't be anything fancy. It's not meant to be a sales piece. It's informational, and in no way promotional or slick. What we want is an effective tool for building a good relationship with our customers. People hunger for information, and we can win a lot of people over just by providing this much-needed information. We'll be doing ourselves a big favor if we anticipate and answer questions which might arise. If the question-and-answer format does its job, the transfer mailing itself (on January 1, 1997) will be no big deal because we would've already dealt with the important issues.

One possible down side is that our customers could confuse this mailing with junk mail, and, as a result, won't bother reading it. This possibility shouldn't be dismissed out of hand because Manulife Financial doesn't have a high degree of name recognition, even among our own policyholders. We must, therefore, be aware of this and keep it in mind when we design the envelope. Fortunately, we've now done enough customer mailings so that we can conclude with some certainty that our corporate logo has gained some respectable level of recognition among our customers. But, again, this can't be assumed, given what we've learned in recent focus groups.

RESPONSIBILITY: Peter Speliopoulos looks after the communication side, and Rick Walker, the systems side

QUANTITY: 160,000

BUDGET: C$10,000 (note that this charge only covers the production side, not the systems and mailing charges, which are accounted for by Rick Walker)

7. COMMUNICATION VEHICLE: Press kit

AUDIENCE: Industry and business media

TIMING: Late April 1996

RATIONALE: The rationale for the press kit is that it will be one part of a two-pronged attempt to position the transfer in the context of the division's strategic intent to strengthen our position in the United States. The press package will emphasize Manulife Financial's commitment to the U.S. marketplace in an attempt to generate positive publicity for the transfer of business to the U.S. subsidiary. Positive publicity would be a persuasive weapon and can help shape public opinion and reverse negative attitudes, particularly among our own field management, who seem to be especially impressed by third-party coverage.

With the official opening of the Boston office early in 1995, we can use this event as the start of a long-term publicity campaign in which we highlight our commitment to the U.S. market. Nancy Stewart is already investigating ways to link the opening to a good deed in the community. This would also reinforce our words and prove that we're making a sincere commitment to the Boston community as a means of strengthening our reputation over the long run, which, let's face it, has been abysmal in the United States, despite the fact that over 50% of our sales come from this territory.

This image-building program will be a day-by-day, year-after-year process. Its goal is to create a positive impression of Manulife Financial (USA) in the minds of our various audiences. Our image-building public-relations program will do as much as anything else to determine what the public thinks of us, so we mustn't let this effort falter. With McDonough & Associates, we've begun to forge a strong, durable image. And McDonough will continue to keep their eyes open for appropriate opportunities to keep the company in the public's mind, often and consistently. McDonough has, during our very short association, started to build a base of good media relationships, which I'm certain will help us build our presence in the Boston area — and across the United States.

RESPONSIBILITY: McDonough & Associates, assisted by Brian Buckles, Nancy Stewart, and Peter Speliopoulos; Brian Buckles will act as the spokesperson who deals with the press

QUANTITY: Not applicable

BUDGET: US$5,000

8. COMMUNICATION VEHICLE: Informal, face-to-face communication with the rating agencies

AUDIENCE: Independent rating agencies: Standard & Poor's, Moody's, A.M. Best, Duff & Phelps, Dominion Bond Rating Service

TIMING: Late April 1996

RATIONALE: Careful control of the message and its consequences are paramount. Therefore, Cam Fraser should begin informal discussions with the rating agencies on a low-key basis. There are a lot of issues to be discussed — particularly because close to half of the parent's assets will reside in the United States — and, in this regard, the rating agencies may have some questions about how able we'd be in the future to get hold of the transferred surplus if we run into problems outside the United States.

RESPONSIBILITY: Cam Fraser

QUANTITY: Not applicable

BUDGET: Not applicable

9. COMMUNICATION VEHICLE: New business letter from Ken Beaugrand

AUDIENCE: All new business issued up to three months prior to the transfer

TIMING: October 1, 1996

RATIONALE: This letter will cover the same ground as the April 1996 letter which announced and detailed the transfer. Its purpose is to avert any surprises for customers who purchase a policy from the parent in the last few months of the year, only to find out a few months later that their policies were being transferred to the U.S. subsidiary. This letter, signed by Ken Beaugrand, will put prospective policyholders on notice that their policies will be transferred to a U.S. subsidiary. In this way, we'll avert any ill will, as well as minimize the chance of any lawsuits because of misrepresentation.

RESPONSIBILITY: Peter Speliopoulos

QUANTITY: Not applicable (originals will be provided to all region and sales offices for reproduction locally)

BUDGET: Not applicable

10. COMMUNICATION VEHICLE: Tombstone advertisement in *The Globe and Mail* and *Canada Gazette*

AUDIENCE: Placing this advertisement is a legal requirement imposed by Ottawa. The advertisement will only be applicable to U.S. policyholders residing in Canada, although we can expect Canadian policyholders to call with questions about their policies as well.

TIMING: November 1, 1996

RATIONALE: This legal notification is a requirement imposed by Ottawa. A "tombstone" advertisement is a casual reference to an advertisement which must meet specific legal requirements and regulations imposed on the industry (e.g., in this case the advertisement must follow certain guidelines outlined by Ottawa).

RESPONSIBILITY: Legal wording provided by Steve Rosen; design and placement arranged by Peter Speliopoulos

QUANTITY: Not applicable

BUDGET: US$5,000

11. COMMUNICATION VEHICLE: Positioning advertisement for placement in the *National Underwriter* and national editions of *The Wall Street Journal*

AUDIENCE: The general public and the financial-services industry

TIMING: November 1, 1996

RATIONALE: The rationale for placing a positioning advertisement is that this kind of advertisement adds value by concretizing the fact that the company is in the United States in a big way, and we're there to stay, with dollars and people. This advertising will be used to build awareness and influence attitudes about the image of the company among the general public and the financial-services industry. The advertisement will be written to be both persuasive and informational.

The advertisement will include the telephone number for the toll-free hotline, so those who have additional questions, or would like clarification on the issues, can give us a call. The link to the hotline provides a way of amplifying our message, and in this way, putting the public at ease: we've put ourselves in their shoes, and we've done our best to anticipate and answer their questions. If we've missed any questions or issues, we've provided a toll-free service hotline.

RESPONSIBILITY: Peter Speliopoulos

QUANTITY: Not applicable

BUDGET: US$15,000

12. COMMUNICATION VEHICLE: Financial strength and due care material about Manulife Financial (USA)

AUDIENCE: The general public and the financial-services industry

TIMING: December 1996

RATIONALE: Historically, we've done little more than publicize our financial results each year and provide field management with the material from the rating agencies at the time of the announcement. We need to assume a more proactive posture for Manulife Financial (USA). We need to determine what numbers our sales offices are using — or would use if they could get them. (The problem is that each rating agency uses a different set of numbers in their evaluation: some use the consolidated numbers, while others use the unconsolidated numbers.) We also need to evaluate how best to present the financials: do we continue to present data on a whole-company basis, or focus only on U.S. numbers? And most important of all, we need to develop some educational material around the numbers: where the numbers come from, what they mean, and the like. (Something as simple as assets is reported several different ways, depending on the rating agency.)

RESPONSIBILITY: Ray Britt, assisted by Steve Kurylo and Peter Speliopoulos

QUANTITY: 5,000

BUDGET: C$15,000 (covering design, type, and print)

13. COMMUNICATION VEHICLE: Transfer mailing to policyholders

AUDIENCE: Internal and affiliated audiences, including region and sales offices (region managers, business development managers, marketing managers, and service and operations managers), Manulife Financial Partners, principals at investment and special-market firms, and home office employees (both U.S. Individual and U.S. Group), as well as the board of directors and business heads of Canada, the United Kingdom, Pacific Asia, Reinsurance, Real Estate, and Corporate

TIMING: January 1, 1997

RATIONALE: The mailing will consist of a covering letter from Ken Beaugrand and the certificate of assumption. The Canadian regulatory process dictates that we mail assumption certificates to policyholders whose business will be transferred.

RESPONSIBILITY: Peter Speliopoulos looks after the communication side, and Rick Walker, the systems side

QUANTITY: 160,000

BUDGET: C$5,000 (note that this charge only covers the production side, not the systems and mailing charges, which are accounted for by Rick Walker)

COMMUNICATION TIMETABLE

This schedule provides field personnel with at least five working days to review transfer material before sales representatives receive it. In turn, MFPs, producers, and investment and special-market firms will have sufficient time to familiarize themselves with the information prior to its receipt by policyholders.

SIGNIFICANT EVENTS AND DATES

Inforce coverage review program	July 1994 until December 1995
Approval of communication plan	October 1994
Employee briefing in Update meeting, including both U.S. Individual and U.S. Group personnel	Late August 1995
Memorandum from Ken Beaugrand to all internal and external affiliated audiences, with copies to business heads	Early September 1995
Manulife News article	Early September, 1995
Test communication with focus group	February 1996
Toll-free service hotline	Late April 1996 until March 1997
Mailing to participating policyholders, with copies to all internal and external affiliated audiences	Late April 1996
Press kit sent to industry and business media	Late April 1996
Informal, face-to-face communication with rating agencies	Late April 1996
New business letter	October 1, 1996
Tombstone advertisement in the *Canada Gazette* and *The Globe and Mail*	November 1, 1996

Positioning advertisement in the *National Underwriter* and *The Wall Street Journal*	November 1, 1996
Create financial strength and due care material for the Manulife Financial (USA)	December 1996
Transfer mailing to participating policyholders	January 1, 1997

Canadian insurer opens Boston office

By Kimberly Blanton
GLOBE STAFF

Canada's biggest life insurance company said yesterday it is opening a Boston office to boost sales of policies in the competitive US market.

The Manufacturers Life Insurance Co.'s office on Tremont Street – the company's first headquarters for its US sales operation – will employ 50 people, many of them hired locally. That number is expected to grow in coming years, the company said.

The announcement follows Manufacturers Life's agreement to merge with another Canadian insurer, North American Life Assurance Co. The merger will create by far Canada's biggest insurance company, with about $34 billion in assets.

Peter Speliopoulos, Manufacturers' spokesman, said the Boston office was planned before the merger. The office is expected to improve the company's position in the United States against domestic insurers. One competitor is the giant Metropolitan Life Insurance Co., which said in August that it would acquire The New England, a longstanding Boston insurance company.

A Boston office "will strengthen our hand here at a time when competition is getting tougher and tougher," Speliopoulos said. "That's what drove the decision. You can't sit on the sidelines. You have to be here in the market."

Manufacturers and The New England both target their insurance products to wealthy individuals, and the Toronto-based company is a competitor to Metropolitan in what is known as survivors' insurance used in estate planning, he said. Nearly half of Manufacturers' revenues of $5.96 billion in 1994 were from US operations.

Financial industry mergers typically mean layoffs. Manufacturers said that it would not occur in the US operations of its newly merged company. "This is a move to strengthen the business in the US, and it will only grow here," Speliopoulos said.

January 8, 1996

To All Field and Home Office Associates:

As we move forward into a new year, the success of U.S. Operations requires the combined effort of each and every one of us. The year ahead will be challenging, and will put unusual demands on all of us, but through cooperation and collaboration, we will find great pride and satisfaction in resolving the difficult issues that confront us. It is, therefore, my pleasure to report on our accomplishments in 1995 and to look forward to the year ahead.

THE YEAR IN REVIEW

Looking back on 1995, the event which will have the most profound impact on our future is our merger with North American Life Assurance Company. With the approval of both regulators and policyholders, the operations merged on January 1, 1996. The combined entity—which retains the name Manulife Financial—not only solidifies Manulife Financial as the largest life insurance company in Canada, but also further strengthens our position as one of the largest life insurance companies in North America. In the United States, Manulife Financial already holds a significant share of the affluent individual life and small group pension markets. Through North American Security Life and its marketing affiliate Wood Logan Associates, U.S. Operations welcomes the significant enhancement to our annuity operations and the important addition of mutual funds to our product portfolio. Our focus in 1996 is to successfully integrate these operations, which will not be an insignificant task.

Manulife Financial's corporate vision, as published in *Strategy for Success* early last year, is to be "the most professional life insurance company in the world: providing the very best financial protection and investment management services tailored to customers in every market where we do business." All of us work together to bring this vision to life, not just by following words on a page, but by making five values an integral part of our professional lives. These values are: professionalism; real value to our customers; integrity; demonstrated financial strength; and employer of choice. Let us use these five values as benchmarks to review and evaluate the past year and to look forward to the year ahead.

PROFESSIONALISM

Over the past year, we added to the wealth of professionalism in the company for the benefit of our distributors and customers alike. In October, we officially opened our National Sales and Marketing office in Boston, Massachusetts. The Boston office enhances the company's commitment to the United States, particularly after over half of the company's U.S. assets were transferred from the parent to our standalone U.S. subsidiary, The Manufacturers Life Insurance Company (U.S.A.). The Boston office also makes the recruitment of top-quality American insurance professionals a viable option.

The U.S. senior management team is now in place. The United States business unit is comprised of four operating units: Individual Life, Pensions, Annuities, and Mutual Funds. The senior management team is made up of two executives from North American Security Life: Bill Atherton was appointed Vice President, Annuities, and John DesPrez was appointed Vice President, Mutual Funds. Ted Kilkuskie, Vice President, Individual Insurance, joined the company mid-year. And Bruce Gordon continues in his role as Vice President, Pensions, with the added responsibility for the New York subsidiary, First North American Life. All four senior executives currently reside in Boston or will be relocating to Boston in the new year in order to become more responsive to the needs of the U.S. market.

In addition, four new roles were created. Fred Gorbet, Senior Vice President, Operational Services, will be responsible for strategic planning, government relations, public affairs, human resources, information technology, and facilities. John Vrysen, Vice President and Chief Financial Officer, will be the executive officer responsible for the financials of the combined U.S. operation. And Jim Gallagher returns to Manulife Financial as Vice President, Legal Services. These three unit leaders came to us from North American Security Life. Richard Fung has taken on the role of Vice President, Inforce Management and Customer Value. In this Toronto-based position, Richard will develop strategic and administrative solutions for the management of our inforce business.

Management of the Individual Insurance unit has moved quickly to restore our estate planning franchise in the United States by strengthening our competitive position, addressing inforce performance, revitalizing the MFP program, and improving service standards. While none of us is satisfied with the sales results for the Individual Insurance unit in 1995, we can take some comfort from an impressive December (our best month in two years) and a significant growth in activity and inventory. These positive results came about because the building blocks have been put into place over the past year: we reviewed and improved several products in 1995, and they are all performing well. We will maintain this sales momentum in the new year as we improve the rest of our individual life product line and continue to review our inforce blocks.

The Pensions unit will focus on continuing the impressive, rapid growth of our 401(k) business—45 percent growth in 1994, and a growth rate close to 50 percent in 1995. The Pensions team will accomplish this continued growth by developing new distribution channels and further broadening our existing channels. They remain focused on the small to midsize 401(k) pension market with the objective of positioning Manulife Financial as the premier provider of high-value, high-service packages to intermediaries, plan sponsors, and plan participants.

In 1996, the Pensions area will keep state-of-the-art technology at the forefront with several new innovations. And to support the rapid growth of our pensions business, they will also continue to invest in their back office operations, both in home office and in the field. The need to obtain productivity gains, while improving the already high service standards, is an important element of the 1996 plan.

The Boston-based market research firm, DALBAR Inc., conducted independent national surveys of plan sponsors regarding their 401(k) providers. Their latest survey ranked Manulife Financial first in value for servicing companies with less than 100 employees and in the top five in value and quality for companies with up to 1,000 employees. The DALBAR survey further supports an earlier LIMRA survey in which third-party administrator firms gave Manulife Financial their highest satisfaction ratings among insurance companies.

Though its sales were down slightly in 1995, North American Security Life was able to maintain its market share during a very difficult year. Variable annuity sales totaled US$1.2 billion and mutual fund sales topped US$240 million. Despite challenges presented by the scrutiny of rating agencies on its parent, North American Life Assurance Company, sales were sufficient to maintain its variable annuity market share of 2.9 percent. And with assets under management of US$6 billion, North American Security Life remains among the top 10 variable annuity insurers in the United States.

On January 1, 1996, a new holding company, North American Wood Logan Holding Company, was created. The creation of the holding company allows us to combine the manufacturing and distribution arms of North American Security Life and Wood Logan Associates. This paves the way for a more consistent approach to sales, marketing, and service, and allows us to bring the objectives of our two companies into line.

Wood Logan is the reason that North American Security Life maintained its market share in 1995. In fact, Wood Logan is the most highly respected variable annuity marketer in the United States. While some organizations have more wholesalers, Wood Logan is second to none in terms of its years of experience, its distributor relationships, and its sales and training literature. It is a top-flight organization which is recognized by the stockbrokerage community as the best there is. Of particular interest is the well-respected Wood Logan Academy, an institution devoted exclusively to sales training and education.

Recently, North American Security Life went through the process of transforming its distribution management system to be channel specific in order to answer the special needs of each channel. Their sales force now consists of four channels: the wirehouse group, the financial planners group, the regional stockbrokerage firms group, and the banking group. Each of these four channel-specific groups will have all four North American Security Life products available to them: namely, mutual funds, a variable annuity product, a single-premium variable life product, and, to be introduced in 1996, a standalone fixed annuity.

Looking forward to 1996, the Annuities unit has as its goal to increase variable annuity sales to US$1.6 billion, and the Mutual Funds unit will work to increase its sales to US$300 million. Each area will achieve its goals by exploiting the synergies created by the merger: the merger with Manulife Financial gives North American Security Life excellent claims-paying-ability ratings, a complementary distribution system, and complementary products.

REAL VALUE TO OUR CUSTOMERS

In 1995, we took a number of steps to improve our products and services in order to ensure that our customers are receiving the very best solutions to their personal planning needs.

Two initiatives, in particular, typify our commitment to offering our customers long-term value. First, the Individual Insurance unit reviewed the pricing and dividend projections for the Survivorship Plus and Survivorship Life at 95 inforce blocks; as a result of the review, product performance, as measured by projected premium payments, was greatly improved. Second, our Pensions unit reduced their fees to customers by 16 percent at the beginning of 1995; in addition, three new outside funds were added in April and a Lifestyle portfolio of five funds was added in November.

Manulife Financial has an enviable record of providing excellent long-term value to our policyholders, and this tradition continued in 1995. For the third consecutive year, we held our dividend scale at 8.5 percent, with dividends paid to U.S. participating policyholders rising by 16 percent over 1994 to US$160 million, the largest dividend payout in our history. And again in 1995, Manulife Financial ranked among A.M. Best’s top-10 companies in the 10- and 20-year net payment comparisons, a widely accepted measure of a company’s ability to deliver value to policyholders over the long term.

In May, the first phase of Manulife’s Wellness Program was introduced. The program recognizes the importance of maintaining a healthy lifestyle by providing our customers with a confidential, easy-to-understand explanation of their laboratory results so they can get the most out of the laboratory testing process.

The Individual Insurance unit developed a number of new and improved products in 1995, all of which showed increases in sales over their predecessors: this included the launches of Premier Whole Life in April, Survivorship Life 1995 in June, UL 10 in August, and the five-year no-lapse guarantee on Horizon VUL in September. Going forward, most other individual life insurance products will be reviewed in 1996.

Over the past 30 years, consumers in the United States have slowly changed where they invest their money. The continuing trend is for baby boomers to choose mutual funds and variable annuities for their non-qualified retirement planning needs. This trend highlights an opportunity for Manulife Financial to augment our historical strength in the large case, estate planning marketplace with non-insurance accumulation vehicles. That opportunity, combined with the threat posed by regulatory and legislative changes, makes it prudent for us to continually evaluate new opportunities to strengthen our position in the U.S. marketplace. Mutual funds and investment-based products offer the potential and promise to be the direction of the future. The merger with North American Life adds needed experience in the mutual fund and variable annuity markets. North American Security Life's annuity and mutual fund offerings are welcome additions and nicely round out our product line. Distributors avidly sell North American Security Life's state-of-the-art products largely because of their prominent, world-class money managers and flexible purchase options.

INTEGRITY

Life insurance is often a complex and confusing investment for the purchaser. For this reason, Manulife Financial remains committed to educating current and prospective customers. Our Coverage Review Program was designed to help customers assess the impact of lower crediting rates on policy performance, and we remain a leader in candidly advising customers of the likelihood of dividend rate reductions so that they are able to set realistic expectations about the performance of their life insurance policies.

To this end, the new Inforce Management and Customer Value area will, throughout the year, systematically evaluate the performance of our inforce blocks in order to ensure that our customers continue to receive good, long-term value. They will proceed by weighing the expectations of our customers, on the one hand, and the effect of mortality, investment earnings, and expenses on profitability, on the other.

Also, we are pleased that a recent LIMRA survey performed for Manulife (*Quality Service in the Life Insurance Industry*, December, 1995) shows improved customer satisfaction with both Manulife Financial and our sales representatives.

DEMONSTRATED FINANCIAL STRENGTH

Our financial strength is of utmost importance to our distributors and customers alike. We continue to demonstrate our financial strength through our uncompromised claims-paying ability, healthy earnings, and superior performance results.

Reaffirming our position as one of America's strongest life insurance companies, Manulife Financial again in 1995 received excellent ratings from the leading independent rating agencies: A.M. Best (A++), Standard & Poor's (AA+), Moody's (Aa3), and Duff & Phelps (AAA). In December, Duff & Phelps reaffirmed the company's AAA rating, and only three weeks ago removed the parent and our two U.S. subsidiaries, The Manufacturers Life Insurance Company of America and The Manufacturers Life Insurance Company (U.S.A.), from Rating Watch—Developing. (Manulife Financial had been put on Rating Watch when the merger was announced because Duff & Phelps did not have a rating for North American Life Assurance Company; having completed the necessary due diligence on that company, Manulife Financial's rating was reaffirmed.)

In 1995, Manulife Financial also continued to deliver on our goal of producing strong financial results. Operating income for the company for the first nine months of 1995 was C$253 million (an increase of 13 percent over the same period in 1994). We can be proud that over half of the income was generated in the United States.

EMPLOYER OF CHOICE

Ultimately, our objective is to become *the* employer of choice—*the* place to work. Therefore, we take the morale and well-being of our employees very seriously. After all, our employees will determine our future success. The LIMRA service study mentioned earlier (*Quality Service in the Life Insurance Industry,* December, 1995) offers some valuable insights into employee satisfaction at Manulife Financial. It is interesting to note that 84 percent of the respondents get a feeling of accomplishment from their work. Indeed, 79 percent say that they are proud to work for Manulife Financial. Some numbers, though, are disappointing. For example, only 67 percent of the Manulife respondents regard their managers as good role models. Feedback from the LIMRA study provides us with a deeper understanding of what actions need to be taken in order for us to realize our objective of becoming *the* employer of choice. This is an issue which the new management team will be charged with addressing in 1996.

LOOKING FORWARD

The challenges ahead of us are great; however, tremendous opportunities await us, as well. At this point in our history, we have a choice: to merely wait and react, or to take a proactive stance. We, of course, have taken the latter course. Finalizing the merger with North American Life Assurance Company and aligning our operations is an important element of our mandate in 1996. So, too, are the many initiatives currently underway. The steps we are now taking will shape our company for years to come.

Our four business units (Individual Life Insurance, Pensions, Annuities, and Mutual Funds) operate in well-defined niche markets. In fact, we are held up as specialists in our chosen markets. We must continue to leverage this strength. In all four markets, there is a high degree of value placed on advice and education. Therefore, our strategy for enhancing the success of our United States business is to focus on leveraging our knowledge-based foundation. Let me share with you just a few of the exciting possibilities which lie ahead of us.

First, the Individual Life Insurance business unit has a powerful and compelling goal: to become the No. 1 provider of life insurance to America's affluent by the year 2000. To achieve this goal, we will differentiate ourselves in the high-net-worth market through a combination of superior products, market expertise, investment performance, marketing integrity, and customer focus. Product innovations and enhancements will continue to strengthen our hand. Providing a proactive advanced marketing service to our field offices and producers is a value-added *must* in a market which values the advice of experts. Reinvigorating our sales organization by demonstrating steady, intelligent improvement is critical for the success of our Individual Insurance team. The short-term goal of the Individual Insurance unit is to increase sales by 20 percent in 1996, while not compromising our traditional strength in service excellence to producers and our commitment to full disclosure at the point of sale.

Second, the Pensions business unit will continue to build on its successes by pressing ahead with its aggressive growth plan for the 401(k) marketplace, while at the same time maintaining its acclaimed service standards. Manulife Financial offers a quality 401(k) plan with brand name, external funds. The product itself has been carefully differentiated in the marketplace by providing plan participants with informative, customer-friendly communications material and by removing the administrative burden from the shoulders of plan sponsors. However, the Pensions area has no intention of resting in the new year. They are dynamically moving forward with plans to develop new channels of distribution and to generate more business from the third-party administrators with whom they currently have relationships.

Third, with the merger, Manulife Financial now owns First North American Life Assurance Company, which is licensed to do business in the state of New York. (Currently, First North American Life sells the same products sold by North American Security Life.) The implication for Manulife Financial is very powerful: we now have the opportunity to sell our own broad portfolio of estate, business, and retirement planning products in the third largest state in the nation (after California and Texas). New Yorkers also control nearly 40 percent of all wealth in the United States. And while we will continue to cultivate the high-end estate preservation marketplace, the merger also provides us with extraordinary opportunities for cross-selling and broadening our markets.

Fourth, changing business conditions in the United States, which are expected to dictate the industry's direction in the foreseeable future, require that we pay increasing attention to the company's public image and reputation. As a result, early in the new year, U.S. Operations will be mounting a national corporate branding campaign which will utilize public relations and national consumer and trade advertising. The purpose of this long-term initiative is to ward off further encroachment by competitors by clearly establishing Manulife Financial as *the company of choice* among distributors and their clients.

I want to thank you for your excellent work over the past year. As the insurance industry continues to consolidate, those companies which survive and will be successful must operate efficiently, must be financially sound, must be technologically superior, and must have strong distribution networks. We have all of these elements in place. This hardly means that we can breathe easy; but it does mean that we can move ahead with confidence in our ability to work together to achieve tremendous success.

I am excited by the developments of the past year and I look forward to working with you to maximize Manulife Financial's potential in the United States marketplace in 1996. I appreciate all of the support I have received in my first year in U.S. Operations. If you have any questions or concerns, please do not hesitate to call me at (617) 854-4303.

Best wishes,

John D. Richardson
Senior Vice President & General Manager
U.S. Operations