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Sun Life Financial, Inc. (SLF)

Q3 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Dan, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sun Life Financial Q3 2017 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Greg Dilworth, Vice President of Investor Relations, you may begin your conference.

Gregory A. Dilworth

Vice President-Investor Relations, Sun Life Financial, Inc.

Thank you, Dan. And good morning, everyone. Welcome to Sun Life Financial's earnings conference call for the third quarter of 2017. Our earnings release and the slides for today's call are available on the Investor Relations section of our website at sunlife.com.

We will begin today's presentation with an overview of our third quarter results by Dean Connor, President and Chief Executive Officer of Sun Life Financial. Following Dean's remarks, Kevin Strain, Executive Vice President and Chief Financial Officer, will present the third quarter financial results. After the prepared remarks, we will move to the question-and-answer portion of the call. Other members of management will also be available to answer your questions this morning.

Turning to slide 2, I draw your attention to the cautionary language regarding the use of forward-looking statements and non-IFRS financial measures, which form part of this morning's remarks. As noted in the slide, forward-looking statements may be rendered inaccurate by subsequent events.

And, with that, I'll now turn things over to Dean.

Dean A. Connor

President, Chief Executive Officer & Director, Sun Life Financial, Inc.

Thanks, Greg, and good morning, everyone. Turning to slide 4, the company reported strong earnings for the quarter with good results across all four pillars of growth. Underlying earnings for the quarter were CAD 643 million with an underlying ROE of 12.7%. Year-to-date, underlying earnings are up 7% over prior year, and the dividend is up 8% over prior year. We were also pleased to announce a 5% increase in the quarterly common share dividend.

Sales results were mixed with some businesses reporting strong growth over prior year and others with declines. Year-to-date, insurance sales are up 15% over prior year; wealth sales are up 9%; and VNB, a key to future earnings growth, is up 12%. Capital remains a key strength as we adhere to our disciplined approach to capital allocation, including strategic investments in our business and share repurchases in the quarter.

The investments we've been making in the business over the past several years are showing results. At Sun Life Global Investments in Canada, we now have over 600,000 clients, CAD 19 billion in assets under management, and this year we crossed over into positive net income. Between SLGI mutual funds and our Sun Life GIFs segregated funds, we generated more than CAD 2 billion in net sales in the first nine months of 2017. And with our recently announced acquisition of Excel Funds, CAD 700 million emerging market mutual fund business in Canada, will soon be providing clients and their advisors with even more leading funds to choose from.

In Defined Benefit Solutions, we're a market leader and have generated more than CAD 1 billion in group annuity sales in each of the past three years and are tracking well to that level this year. These pension risk transfers solve a serious client problem and generate healthy expected returns, reflecting in part the customized nature of many of these solutions.

In U.S. Group Benefits, our continued focus on AEB integration, expense management and good execution on pricing and renewal is working. And we delivered another quarter of margin expansion. We announced a milestone in the integration of the acquired Group Benefits business with the launch of the Sun Life Dental Network. According to the September 2017 data from the Ignition Group, our new network is the largest in the U.S. with approximately 125,000 dentists in the system.

Turning to Asia, we closed the acquisition of FWD's Mandatory Provident Fund business in Hong Kong and signed a 15-year distribution agreement. This transaction will accelerate our already strong growth in the Hong Kong MPF market where our net sales of CAD 827 million for the first nine months of the year were up over 60% compared to last year, pushing us to a top-five position based on AUM.

In India, Aditya Birla Sun Life Asset Management is the fourth largest mutual fund provider with CAD 45 billion of AUM and net flows of CAD 3.4 billion year-to-date. Both top-line and bottom-line are growing quickly in a market that benefits from triple leverage, and that is strong economic growth, a rapidly growing middle-class, and a shift from gold and real estate as the primary stores of value to financial assets like mutual funds.

At our Investor Day last March, we talked about making a step change to significantly improve the client experience. That's about being proactive, about being easier to do business with and resolving client problems faster and better. It means obsessing about understanding our clients, getting closer to them and improving the client experience. And we've been making good strides across all four pillars.

In Canada, we announced Ella, an interactive digital coach that helps clients fully utilize their benefit and pension plans. Ella is the personification and voice activation of the digital benefits assistant that we rolled out last year. It's technology that pings and nudges clients towards better outcomes with their benefits.

We also launched Sun Life Go, our streamlined life insurance experience. With Sun Life Go, you can buy up to CAD 1 million of life insurance on your mobile device or computer. We now ask you 12 underwriting questions, down from 90, and the process takes as little as 10 minutes. So we made good progress on our client strategy, supported by investments in digital data and analytics capabilities throughout the company.

That said, this is a step change and we are upping the pace. We will recognize a restructuring charge in the fourth quarter of CAD 30 million to CAD 45 million after-tax. And these savings will be reinvested into new jobs and capabilities that support the client experience, including new service models, process automation, and our ongoing digital transformation.

In the U.S., we partnered with Pareto Captive Services to offer a group stop-loss captive program designed to reduce health claims volatility for smaller self-funded employers or for fully-insured employers who are transitioning to self-funding. This partnership draws on our expertise in stop-loss to drive value for clients for the growing U.S. self-insured health plan market.

In Asset Management, a large number of clients continue to seek alpha generation. And here we are delivering strong long-term investment returns. At MFS, 84%, 82% and 95% of fund assets were in the top half of their Lipper categories over three, five and 10-year periods respectively, and net outflows improved to $2.7 billion in the third quarter. Sun Life Investment Management is also delivering strong investment returns for clients, and that's driving strong net inflows, CAD 1.5 billion for the quarter.

As we move through eight-plus years of a bull market, we think active management will be imperative to help clients succeed across a full market cycle. And we're well positioned to help our clients, and in many cases, we are invested right alongside them. The asset management industry is working towards January 1 compliance with MiFID II in Europe, which is the new directive that requires among other things explicit payment for third-party investment research.

MFS has made the decision to assume research costs for all clients in its fixed income and equity portfolios globally. MFS's global investment platform is built on the principle of close collaboration among members of its investment team, including the sharing of research and investment ideas.

So, applying a global approach enables MFS to treat clients equitably around the world. And this is a good example of the benefits of scale. With $474 billion in assets under management, MFS has built a strong internal research function and relies less on external research so the cost to selectively purchase that external research will have a minimal impact on margins overall.

Still on the theme of clients for life, in Asia, we're simplifying the language we use with clients. We're also accessing new clients and making it easier to buy life insurance through telco distribution. In Malaysia, our partnership with the country's fastest growing mobile operator, U Mobile, is off to a good start. This month will be the first to offer life insurance for the underserved mass market via a telecom provider. U Mobile's 5 million customers can apply for, subscribe and manage their life insurance coverage with us entirely on their mobile phone.

So, to wrap up, we made good progress over the first nine months of 2017. We've continued our track record of investing for future growth that supports our medium-term financial objectives of fundamentally changing the client experience today.

And with that, I'll now turn the call over to Kevin Strain, who will take us through the financials.

Kevin D. Strain

Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.

Thank you, Dean, and good morning, everyone. Turning to slide 6, we take a look at some of the financial results from the third quarter of 2017. Our reported net income for the quarter was CAD 817 million, up from CAD 737 million in the third quarter last year.

Underlying net income was CAD 643 million, including a CAD 22 million unfavorable impact from the currency movements when compared to the third quarter of last year. Underlying results in the quarter reflected favorable mortality experience, growth in fee income on our wealth businesses, and strong new business gains, which was partially offset by lower gains from investing activity on insurance contract liabilities.

Third quarter adjusted premiums and deposits were CAD 42.3 billion, up 3% from the third quarter of 2016. And assets under management at the end of the quarter were CAD 934 billion. We maintain a strong capital position with a minimum contributing cap – continuing capital and surplus requirement ratio for Sun Life Assurance Company of Canada of 232%.

The MCCSR for the holding company, Sun Life Financial, Inc., was also strong at 252%. The higher ratio at SLF level largely reflects the excess cash of CAD 1.5 billion held by SLF, Inc. Our leverage ratio of 22.5% remains below our long-term target of 25%. We're continuing to progress towards the implementation of the new Life Insurance Capital Adequacy Test, LICAT capital regime, that will be effective on January 1, 2018. We expect the final guidance to be issued this month, and we're confident in our overall capital position as we prepare for the implementation.

Turning to slide 7, we provide details of underlying net income by business group for the quarter. We saw year-over-your underlying earnings growth in three of our four pillars, SLF U.S., SLF Asia, and Asset Management; and solid results in SLF Canada against a high level of earnings in the prior year. In SLF Canada, underlying net income of CAD 222 million reflected growth in fee income of our wealth businesses, strong new business gains in group retirement services and individual insurance through improved profit – improved product profitability, offset by lower investing gains and unfavorable disability claims experienced in Group Benefits.

In SLF U.S., underlying net income was up 19% from the third quarter of 2016, reflecting improved underwriting experience in Group Benefits, as our pricing actions, investments and claims management, and expense initiatives continue to improve profitability. Favorable experience in the acquired group business also contributed to the results, as our acquisition of Assurant Employee Benefits business continues to be on plan. This was partially offset by the unfavorable lapse in policyholder behavior experience in our In-force Management and International businesses.

In SLF Asset Management, MFS continues to show strong underlying net income growth, up 10% over the same quarter last year. Higher average net assets, income on seed capital and expense management improved the pre-tax operating profit margin to 41% from 38% in the prior year. MFS net outflows were $2.7 billion, an improvement from outflows experienced in the first two quarters of 2017. At Sun Life Investment Management, we had net inflows of CAD 1.5 billion and generated net income of CAD 5 million.

In Asia, underlying net income increased by CAD 10 million over last year on strong growth in our wealth businesses, led by growth in our MPF business in Hong Kong and our Indian asset management company and realized gains on the sale of AFS assets.

Turning to slide 8, we provide detail on our sources of earnings presentation. Expected profit of CAD 724 million increased by CAD 12 million from the same period last year, with business growth across SLF Asset Management and SLF Canada that was partially offset by unfavorable impact of currency movements of CAD 15 million. We had strong new business gains this quarter of CAD 7 million, an improvement of CAD 28 million over the same period last year. New business gains were driven by SLF Canada and a more profitable mix of business in both Group Retirement Services and individual insurance.

Experienced gains of CAD 207 million for the quarter primarily reflect the net favorable market impact from changes in equity market and interest rates. Mortality, credit investing activity also had positive contribution to earnings in the quarter, while lapse, policyholder behavior and expenses had an unfavorable impact.

The net impact of our third quarter review of actuarial methods and assumption changes contributed CAD 93 million pre-tax net income. This quarter's review included the assessment of many assumptions across a large number of products, businesses and geographies. Updates to mortality and morbidity assumptions based on industry data and recent experience was the largest positive contributor. Investment returns had a net favorable impact from changes in the provisions for investment risk and other investment assumptions. That was partially offset by the impact of the 10 basis points reduction to the ultimate reinvestment rate.

We strengthened reserves assumptions in the areas of expense and lapsation, the majority of which related to Canadian individual insurance and some of our closed blocks of business. Other, which amounted to negative CAD 69 million in the source of earnings disclosure, includes the fair value adjustments of MFS shares based payment awards, pre-tax integration costs and the impact of hedges in SLF Canada that do not qualify for hedge accounting.

Earnings on surplus of CAD 102 million was CAD 24 million lower than third quarter last year, reflecting lower available-for-sale gains. And our effective tax rate on reported net income in the third quarter was 19.7%. On an underlying basis – on an underlying net income basis, the tax rate for the quarter was 23.5%, slightly above our stated range of 18% to 22%. The year-to-date effective tax rate on underlying net income is 20.1%, which puts us in the middle of our stated range.

Slide 9 shows sales results across our insurance and wealth businesses. Total insurance sales were down 9% and 6% on a constant currency basis. The lower sales were primarily in SLF U.S. from continued pricing discipline and fewer large case sales in the employee benefits and stop-loss and lower sales in individual insurance in SLF Canada.

Total wealth sales of CAD 35.8 billion were up 2% over the prior year. On a constant currency basis, wealth sales were higher by 5%. Wealth sales increased in SLF Canada and SLF Asia. In Canada, sales were higher in Group Retirement Services, and we had continued growth to SLGI mutual funds and our Sun Life GIFs segregated funds. In Asia, we had strong sales in our Indian joint venture asset management company, our asset management company in the Philippines, and our growing pensions business in Hong Kong.

So, to conclude, we achieved strong results this quarter and continue to see good momentum in our businesses. We are positioned well from a capital perspective, as we prepare for the implementation of LICAT and our earnings for the nine months of 2017 demonstrate the strong execution we have on meeting our medium-term financial objectives.

With that, I'll turn the call over to Greg to begin the Q&A portion of the call.

Gregory A. Dilworth

Vice President-Investor Relations, Sun Life Financial, Inc.

Thank you, Kevin. To help ensure that all of our participants have an opportunity to ask questions on today's call. I would ask each of you to please limit yourself to one or two questions and then to re-queue with any additional questions.

With that, I'll now ask Dan to please poll the participants for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Nick Stogdill with Credit Suisse. Please go ahead.

Nick Stogdill
Analyst, Credit Suisse

Q

Hi, good morning. On the new business gains this quarter, obviously a good result, outperforming your target range I think of $10 million to $20 million of strain per quarter. Maybe you could just address the sustainability of the better strain. I know there's product opportunity in Canada and the DB gains. And do you feel if you're in a position to continue delivering ahead of those targets?

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.

A

So the majority of the new business gain did come through Canada and is coming through our GRS business and in particular our Defined Benefit Solution business had a very strong quarter. Individual insurance, I'll let Kevin talk a little bit more about that as well, but the individual insurance business reflected changes we've made on mix and pricing and growth there.

Kevin P. Dougherty
President-Sun Life Financial Canada, Sun Life Financial, Inc.

A

It's Kevin Dougherty. I'll just add a couple of comments. When we re-launched our life insurance product line in January for the tax changes, we went through really a total redesign of the product rather than just tweaking it for the tax changes. And as a result, it's now producing these kinds of new business gains, which is related to interest rates as well. But it's a much more profitable product than we had in market previously.

Nick Stogdill
Analyst, Credit Suisse

Q

Okay. Thank you. So, higher run rate in Canada given those changes. My second question, Dean, you highlighted some of the interesting dynamics going on in India, the strong growth, the emerging middle class. Maybe if you could just broadly speak about the opportunities there, both organic and inorganic? And on the inorganic side, what are the biggest challenges in this market? Is it valuation, lack of opportunities? Does the JV structure and the ownership restrictions complicate acquisitions? Thank you.

Dean A. Connor
President, Chief Executive Officer & Director, Sun Life Financial, Inc.

A

Thanks, Nick. Well, first of all, the opportunities are significant for organic growth. The – in the insurance business, the penetration rates are very low in India. And as more and more people move into the middle class, the opportunity to deliver more to more people is very significant.

One of the interesting things about the Indian market, in a way, it had so far to come from behind that it's in some ways leapfrogged other markets in terms of technology and the process for selling life insurance. So that's – there's a sort of a productivity aspect to the Indian market that is a positive. So we see a lot of opportunity for further growth on the insurance.

On the wealth side, think of this that the mutual fund assets AUM as a percentage of GDP in the United States are over 90%; here in Canada, it's 65%; in India, it's 7%. So I think – I mean, just a tremendous upside potential again as that market grows. So our challenge on the organic growth side, on the insurance side, is building distribution capability both through agency. We've got a very strong agency. We've got 409 branches across India. And so growth in agency is important. Bancassurance is an opportunity, and frankly, it's an area where the insurance business is under-represented. And as we look ahead, we're looking for opportunities.

We have some bank arrangements, but we'd like to have more. One of the positive opportunities there is the government has changed the rules to encourage banks to have more than one bank distribution partner. And so companies that don't have a bank as a partner, and that would be our company, are actively engaged with banks, talking about future bank distribution opportunities.

On the inorganic side, valuation is a challenge. It's a challenge frankly in all of the markets, not just India, not just Asia, but in all markets. But it's one – I think we've demonstrated disciplined approach, and there are deals to be done and we're out there talking to people actively looking for them. So I'll leave it at that.

Nick Stogdill
Analyst, Credit Suisse

Q

Thank you.

Operator: Your next question comes from the line of Gabriel Dechaine with National Bank Financial. Please go ahead.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Good morning. Just a couple of questions here. MFS, the margins were up nicely there. You did talk about some seed gain there – seeded some funds. Can you quantify those? And then I guess something not as nitty-gritty, but the gross flows on the institutional side over CAD 7 billion. I haven't seen that in three years pretty much. What's going on there? Which mandates are winning some flows for you? And then I got a follow-up on the group business.

Michael William Roberge
Chief Executive Officer and President-MFS Investment Management, Sun Life Financial, Inc.

A

Hey, good morning. This is Mike Roberge. I would just say on the margin in Q3, like you've seen in other years, there is some seasonality to Q3 margin just given that spend comes down during the summer months, so that would be a piece of it. Seed gains and FX gains were about a 0.5 point of the margin during that. And so there was some seasonal one-time component to the margin.

But clearly, as A&A has gone up pretty dramatically both this year as well as year-over-year and we've had very good expense control as we've controlled discretionary expenditures, you've seen that come through in the margin. That obviously would be impacted if the margin goes – if the market goes the other way. But at these asset levels, it's clear leverage in the model relative to how we're operating the expenditure line.

In terms of the institutional business, it's pretty broad. A variety of strategies. We've seen some fixed income. We've seen some broader equity strategies as well. We've had some blended research wins. So it's pretty broad. It isn't anything specific to a particular category.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Okay. The group business, I'm going to go both sides of the border here. It looks like we've got another good quarter from the U.S. So the repricing is certainly taking hold there in the stop-loss and I guess the disability lines. Is there more upside there?

And then in Canada, I mean, it's – I guess you had some unfavorable morbidity experience in Group Benefits. Is this a one quarter thing? It's like – group is a great business and all, but it's also a bit of a whack-a-mole arena and then you got to go through a repricing process. I'm just hoping that's not what we're going to have to see in Canada here.

Daniel Richard Fishbein
President-Sun Life Financial U.S., Sun Life Financial, Inc.

A

Yeah. This is Dan Fishbein. Good morning. I'll take the U.S. side of the border part of that question. Obviously, we had a good quarter in the U.S. for Group Benefits. We're making some significant progress with the initiatives we've outlined previously; pricing, renewals, claim management, expense management. And as you've noted, we saw significant improvement in the stop-loss results. We also saw some improvement in mortality, perhaps a reversion of some adverse experience we had seen earlier in the year, and good long-term visibility experience.

I would say not to focus too much on a standalone quarter, more look at the year-to-date or the last four quarters results and thinking about where we are, there are naturally some fluctuations quarter-to-quarter. But overall, the trend is in the right direction, and we feel good about the momentum.

Kevin P. Dougherty
President-Sun Life Financial Canada, Sun Life Financial, Inc.

A

Hi, Gabriel. It's Kevin Dougherty speaking. So, yeah, in Q3, we saw really a spike in new claims incidence in the disability business. I would say it's – the spike was there, but in the normal range. And we saw the spike kind of go the opposite way earlier in the year. And so if you looked at sort of new claims incidence rates in the group business in Canada, year-to-date they're just right on expected levels. So this really doesn't have anything to do with pricing. We remain extremely disciplined on pricing. So it's just I think in a range of normal volatility in claims incidence.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Okay. That's good to hear. But there is something else?

Kevin P. Dougherty
President-Sun Life Financial Canada, Sun Life Financial, Inc.

A

Just note that overall in Canada, underlying earnings are up 11% year-to-date.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Okay. All right, guys. Have a good weekend.

Dean A. Connor
President, Chief Executive Officer & Director, Sun Life Financial, Inc.

A

Thanks, Gabriel.

Operator: Your next question comes from the line of Humphrey Lee with Dowling & Partners. Please go ahead.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Good morning, and thank you for taking my question. Just two follow-up questions for Dan. In U.S. Group Benefits, I hear that there is definitely a favorable mortality in the quarter and then LTD and stop-loss were also favorable. But specifically on stop-loss, how were the underwriting results compared to the last couple of quarters? And where do you think in terms of [indiscernible] (27:12) those kind of 2016 vintages claims. Are they now or over now in the third quarter or should we still expect there could be some deterioration in the fourth quarter from those 2016 blocks?

Daniel Richard Fishbein
President-Sun Life Financial U.S., Sun Life Financial, Inc.

A

So Humphrey, in the third quarter, that's the first quarter of the year where we start to see a majority of the claims come from the 2017 benefit year and instead of 2016. About 66% of our claims in the third quarter, in fact, were from the current benefit year. And that's estimated to rise to about 85% in the fourth quarter. So part of what we think we're seeing here is the impact of the rate increases that we put through over the past 12 months on that block of business. Now we're starting to see that in the loss ratio results that emerge in the third quarter and that would continue in the fourth quarter.

I would caution that stop-loss is – as a business, is a relatively small number of very large claims. So there can be some month-to-month and quarter-to-quarter volatility there. So while we think this is absolutely heading in the right direction, it may not be a perfectly linear path.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

And then when you look at the after-tax margin in the quarter, especially on a trailing 12-month basis, I think it's kind of just shy of your 5% to 6% target. Do you think this is kind of little bit of running ahead of your expectation or are we just kind of getting closer to your target level at this point?

Daniel Richard Fishbein
President-Sun Life Financial U.S., Sun Life Financial, Inc.

A

Well, Humphrey, great question. I think we're – we will be disclosing more formally our group margins starting with the fourth quarter. But I can give you a little bit of information on that here. The way we think about that is the most indicative of our results is a – is to look at that on a trailing 12-month basis, using underlying earnings.

So our overall Group benefits margin on that basis through the third quarter over the last four quarters is now 4.5%. If you look back at the same period last year, that same metric would have been – that's up about 90 basis points since a year ago. So we're definitely making progress on pace with what we've talked about. You may recall, at Investor Day, we talked about – as you're mentioning getting to 5% to 6%, we think we're very much on a path to get there. But I would look at that trailing 12 months. 4.5% is probably most indicative right now.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

So just to clarify, so are you suggesting that a lot of the – the heavy lifting, the repricing, the repositioning are mostly done, so we should expect kind of a continued improvement in getting to the 5% to 6% for 2018?

Daniel Richard Fishbein
President-Sun Life Financial U.S., Sun Life Financial, Inc.
A

So our repricing of the different blocks of business has been happening in different time periods. As you know, over the past few years, we've been repricing the disability business, and we've seen quite significant improvement there. More recently, we made some changes to pricing to the group life business. And then, as you know, on the – over the past 12 months, which – for the stop-loss business, we repriced that entire block. That, of course, is a business that renews every year.

In the stop-loss business, it does take a little while for the impact to fully show up. As I mentioned earlier, we started seeing it in the third quarter. We'll see more of that in the fourth quarter. We also are seeing current renewals heading into next year, also trending quite favorably.

On the disability business, we've now repriced over 90% of that business. But again, there is some delay factor there, as you see those results, they'll continue to emerge into next year. So I would say we're largely done with the biggest of the repricing activities. But there's still some ways to go before you see the full impact of all of those efforts.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC
Q

So I guess the 4.5% for the trading 12-month this quarter would maybe just a little bit – you have a little bit favorable result spanning your way, but overall, still kind of towards the – still on a good trajectory. Is that fair?

Daniel Richard Fishbein
President-Sun Life Financial U.S., Sun Life Financial, Inc.
A

Yes. I'd say we're – the 5% to 6% that we've talked about is still very much our objective, and we're confident we'll get there.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC
Q

Okay. Thank you.

Operator: Your next question comes from the line of Steve Theriault with Eight Capital. Please go ahead.

Steve Theriault
Analyst, Eight Capital
Q

Thanks very much. A couple for me. Just a follow-up, Dan, on the Group Benefits line of questioning. And it's hard to tell. Is expected profit growing in Group Benefits? Some of the stuff we're talking about today is, I think, more in the experience line and the In-force is down a little, I think, year-on-year in U.S. dollar terms. So it's hard to tell. But can you talk a bit just how expected profits trending and how you think that looks going forward?

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.
A

Steve, it's Kevin Strain. I'm going to start with a broader comment on expected profit, including the U.S. business, and then maybe let Dan dive a bit deeper on that. But if you look at expected profit on a constant currency basis, we grew 4% and that was driven by Canada and our – Canada and our wealth and asset management businesses. There was – if you exclude the negative CAD 19 million year-over-year impact in corporate, sort of looking at the growth and overall in our businesses, the expected profit grew 6.5%.

For corporate, what we do is we charge planned expenses to expected profit. And these grew as a result of our move to One York and some of our corporate projects. So it's more of a – sort of a planning number that comes through there. So we also had repricing of our stop-loss business in the U.S. And in 2017, for this year, this repricing is coming through experience gained and would have been approximately CAD 7 million in the quarter if you were thinking about expected profit.

So the – you have a couple of things that are – that are happening. You've got the currency – the repricing that's coming through experience this year that are affecting it. And then the overall is impacted by the corporate cost.

Daniel Richard Fishbein A
President-Sun Life Financial U.S., Sun Life Financial, Inc.

Can I – Kevin, I would just add to that. Recall that in the U.S. we do have two run-off businesses. So you see some of the impact of that in there. And as you noted, the stop-loss gets reset annually. We – in the numbers that you see in front of you, there is an increase in expected profit in the group life and disability business.

Steve Theriault Q
Analyst, Eight Capital

Okay. And for Kevin, you mentioned CAD 7 million. Was that CAD 7 million some sort of equivalent experience gain number that would migrate to expected profit next year? So I missed that. I didn't quite ...

Kevin D. Strain A
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.

Yes, that's correct, Steve. That – that would – in next year's results, that would be showing as expected profit.

Steve Theriault Q
Analyst, Eight Capital

Okay. Thanks for that. Second item, on Asia – if we turn to Asia for a second, so for Claude, you've been in the seat now a little bit. I was hoping you could talk a bit to how you see profitability playing out over the next – over the next year or two versus the – the ROE in that division has been 7.5% to 8.5% for the last couple of years. What do you see in terms of levers there? Should we see ROE heading steadily higher in 2018, in 2019, as you think ahead?

Claude A. Accum A
President, Sun Life Financial, Inc.

Hi. It's Claude Accum here. Can you hear me, Steve? I'm calling in from Hong Kong.

Steve Theriault Q
Analyst, Eight Capital

Yes.

Claude A. Accum
President, Sun Life Financial, Inc.

A

The way I think about it is – I'd first start with – and Dean talked about the underpenetrated client base in Asia. We have 16 million clients, and our first goal is grow that at 15% per annum, I think that opportunity we've proven, we can do it in the past. And it's still available to us. So we'll grow the client base at 15% per annum.

If you throw inflation on top of that, that will get to your sales growth rate. So if inflation is on the order of 2% to 3%, we should be able to grow sales on the order of 17% or higher per annum. And then that should translate into an income growth rate. That could be north of 17%. It could drive in your expense gap down in getting efficiencies. And then you also need to think about whether you're financing your own growth.

In Asia, we're doing a lot of financing of our own growth. We're trying to grow agency at 20% per annum in certain businesses such as in Indonesia, building a new agency in Malaysia, trying to get 5 million customers from 2.5 million customers in the Philippines, and trying to digitize our platforms in seven countries. So when you overlay the investment, it will drag that earnings growth rate down from 7% down to probably something in the 10% to 15% range. But I think we have an opportunity, and we're confident that Asia will deliver some nice earnings growth into the future.

Steve Theriault
Analyst, Eight Capital

Q

And not to be too fussed about the ROE because there's a lot of allocation there, but would you expect that to translate into either a leveraged or an unleveraged ROE that's heading higher or because of the way you're funding it not necessarily?

Claude A. Accum
President, Sun Life Financial, Inc.

A

When we look at it on the current unlevered basis – and we do a planning over five years. It goes up. It doesn't go up a full point each year, but it goes up about 0.7% each year. So even on an unlevered basis, that will continue to improve on the path that we're on, financing our own growth. And if we have an opportunity to work with corporate on perhaps moving to levered basis, it would lift up more than a point just from that change.

Steve Theriault
Analyst, Eight Capital

Q

Okay. That's super helpful. Thanks for that color. And just before – one last quick thing for me, if I could. Just, Kevin, on that first question, did you flag the CAD 10 million to CAD 20 million – Kevin Strain, CAD 10 million to CAD 20 million is the right sort of straight number to be thinking about going forward? I was thinking, with the DB solution being a CAD 1 billion plus the last few years in that restructuring of the Canadian product that might be under revision, but please – if you'd give some clarity there.

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.

A

Yes. Thanks, Steve, and thanks for bringing that up. I should have started with that answer. Yes. We're expecting to be in the same range, and you have to look at, as Claude was talking about, sales growth in Asia, which has strain in offsetting some of those types of things. So we expect to be in that same range of CAD 10 million to CAD 20 million.

Steve Theriault
Analyst, Eight Capital

Q

Thanks for the time.

Operator: Your next question comes from the line of Meny Grauman with Cormark Securities. Please go ahead.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Good morning. A question about the assumption review. The investment trends in particular benefit, which is also the pricing. Wondering if you could just clarify in particular regarding the reduction provision for investment risk in Canada and what drove that, and if it's related to the coming LICAT changes, that would be helpful.

Kevin Morrissey
Senior Vice President & Chief Actuary, Sun Life Financial, Inc.

A

Well, thanks, Meny. Yes. Good morning. This is Kevin Morrissey. The investment changes that we had that were plus CAD 62 million in the quarter, that was after absorbing the URR update, which was a 10 -basis point reduction. That was in line with our expectation.

The largest source of gain was from a reduction in the investment risk PfAD in a Canadian individual life insurance block of business. This was part of our annual stress-testing of risk in this block, and it was a reduction to the investment risk PfAD on a closed block of policies where the earnings go to the shareholders. We also had a number of other smaller gains. One in particular, I'll call out, is related to the annual review of the credit assumptions. So that's credit spreads.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Is there anything here that was driven by planning ahead for LICAT or no?

Kevin Morrissey
Senior Vice President & Chief Actuary, Sun Life Financial, Inc.

A

No, nothing was related to LICAT. As you're probably aware, we manage our interest rate risk primarily on an economic basis, and we've had a history of closely managing our investment rate risk in largely across our blocks of business in all of our geographies. So there was – there was no repositioning as a result of LICAT.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Okay. And then if I could just ask a question on MFS, just big picture. I think it was touched upon a little bit, but there's definitely been some talk more recently now about people saying – talking about active management and it's coming back. I think the head of JPMorgan's wealth unit, in particular, made a point of that. I'm wondering from where you're sitting, do you see any of that? Do you see a change happening in terms of active versus passive and that story we've been talking a lot about?

Michael William Roberge
Chief Executive Officer and President-MFS Investment Management, Sun Life Financial, Inc.

A

If you look at performance, it has been a better year for relative to the benchmark. So I don't know if they were referring to that necessarily. From a flows perspective, you certainly haven't seen it show up in the distribution channel, which is U.S. retail, which has been the most impacted by that. So performance has improved. Historically, flows follow performance. So we're hopeful as we look into next years, you do see some normalization in that big movement of money that we've seen into passive.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Thank you.

Operator: And your next question comes from the line of Tom MacKinnon with BMO Capital. Please go ahead.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

Yes. Thanks very much. Good morning. Just a question with respect to MFS. Given the disclosure, we can't duplicate the MFS margin. But what we can do in trying to forecast MFS earnings is really just to simply forecast revenue, which is the fee income, and total operating expenses, excluding share-based comp.

So you made a comment about the leverage in the model. So I was wondering if you might be able to provide us – so hypothetically, if we had average assets go up 6% year-over-year, what would the revenue go up? I assume it'd have to be a little bit less than that given that's been the trend. And then what would the total operating expenses go up, excluding share-based comp? Just to give us a better handle as to how to look at the leveragability in this model.

Michael William Roberge
Chief Executive Officer and President-MFS Investment Management, Sun Life Financial, Inc.

A

Yeah. I mean it's tough question to answer because we do have – some of the distribution expenses are asset base. So there is a component of the expenditure base, which is asset base, compensation is impacted as well by an increase in the margin.

So I'm not going to define what that is. The average fee rate is about 49 basis points on the book of business, and there are some components of the expenditure base that will move as well as the assets rise. But clearly, if you control discretionary expenses, you're going to get pretty good operating leverage in the model. And that's what you see come through in this quarter.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

Yes. Year-over-year if we look at the operating expenses, excluding share-based comp, they were only just up modestly. But if I look at the two prior quarters, they were up probably on average about 3%. Is this an anomaly in this quarter or should we probably be looking at something in the 3%-ish range assuming we have reasonably good markets?

Michael William Roberge
Chief Executive Officer and President-MFS Investment Management, Sun Life Financial, Inc.

A

Yeah. You really got to look year-over-year to look at quarters because compensation gives ...

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

That's what I'm doing. I'm looking year-over-year.

Michael William Roberge
Chief Executive Officer and President-MFS Investment Management, Sun Life Financial, Inc.

A

Well, no, but you have to look at the quarters year-over-year. So if you look at the quarters to themselves year-over-year, what you'll see is margins will be a little bit softer, particular in 2Q. You get some leverage because of seasonality and less comp in the third quarter. And I think what I would say about us year-over-year is we've had a significant increase in A&A over that period of time. What really drove a lot of the leverage year-on-year is we were very careful about controlling discretionary expenditures. So there are some one-times in FX and seed gains. We've been very careful even as the markets gone up to control discretionary expenditures and you've seen some of that come through in margin.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

Okay. All right. Well, that's good. So I guess we'll just keep looking at maybe the year-to-date way of looking at it as the best and try to imply that in looking at growth in MFS going forward. Would that be safe to say?

Michael William Roberge
Chief Executive Officer and President-MFS Investment Management, Sun Life Financial, Inc.

A

Again, it's hard for me to give you an answer only because there will be investments that we have going on at certain times. And so we don't think about it as we're going to spend this percentage of the revenue increase because the challenge with it is A&A is very much impacted by the market. And we don't know what the market is going to do. So we've got an expenditure base, which we manage. We try to manage relatively well. And the market is going to do what it's going to do. So it's very difficult for us to try and target what we want our margin to be.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

All right. I remember before there was talk about margins being in the mid to high-30s. Is there anything that you can provide in terms of an update on that guidance?

Michael William Roberge
Chief Executive Officer and President-MFS Investment Management, Sun Life Financial, Inc.

A

Yeah, I think – I would just say it's very dependent on the markets. We've seen a big ramp in the market. It wouldn't have been our expectation a year ago given whether it'd be Brexit or the Trump election here in the U.S. that the market would have done as well as it has, but it did. And so we've seen a big ramp in the market. We've kept our expenditure base pretty well contained, given the negative organic flows that we've seen. And so while we can really control the expense base and the market will do what it's going to do and that'll impact our revenues. And so the one surprise I would say year-on-year is the market has gone up a lot more than we anticipated, and we've controlled the expense base.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

Okay. Thanks for that color.

Operator: And your next question comes from the line of Sumit Malhotra with Scotia Capital. Please go ahead.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Thanks. Good morning. I have a few questions on expenses and probably should start with Kevin Morrissey and the actuarial review. So when we see a CAD 73 million negative impact on earnings as a result of reviewing expenses, there is a couple of items you listed in your press release that result – or that caused that loss to be taken.

At least the way I read them, they almost sound more like quarterly items that would have impacted the income statement than they do actuarial changes. So I guess my question here is, what's the – what's the factor that causes you to change expenses as part of the actuarial review? And more importantly, when you take the charge in this assumption, does it have an impact on the run rate level of expenses going forward?

Kevin Morrissey
Senior Vice President & Chief Actuary, Sun Life Financial, Inc.

A

Thanks, Sumit. This is Kevin Morrissey. So were these related to quarterly items? No. When we're looking at the modifications for the actuarial assumptions related to expenses, we're really looking at forward-looking expectations, so longer-term run rate changes. So the first one that we've called out is related to the closed block of international wealth business. This block is in run-off mode. As a result of the block running off, we see a projection of higher unit costs. So we've done some strengthening there.

In Canada, we did a periodic review of some of the more indirect or overhead expenses. So this is something we do not every year, but from time to time we did a bit of a deep-dive. And we ascertained that a higher proportion of these expenses should be included in the ongoing costs that are included in the actuarial reserves. Each of those represent about maybe one-third of the total change and then we had a number of other smaller items that added up to the original – or to the last one-third.

Your last question about the run rate on the expense experience line, we certainly will see an improvement when we have this type of strengthening. It increases our expectation that's built into the reserve. So we should see an improvement in the expense line on a longer-term basis. Obviously, there'll be quarter-to-quarter fluctuations.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Okay. And then maybe now to the more here-and-now for Kevin Strain. When we look at not a business, we look at too often, but your corporate segment on an underlying basis had a bigger loss this quarter that seems to show up once in a while. And at least the way I read it, it seemed like that was driven by a higher level of expenses. Could you help me understand what exactly drove that number to be a bigger loss this quarter?

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.

A

Yes. Corporate expenses were about CAD 20 million higher than we would normally see. And this is a timing thing I would say that some of these expenses ended up coming through the third quarter, and you could've seen them coming through other quarters. So it was a bit of a timing thing in terms of how expenses hit us.

Sumit Malhotra
Analyst, Scotia Capital, Inc.
Q

And I mean, the aforementioned change in the review, does that stabilize this going forward?

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.
A

I think this was a – this was sort of a one-time thing that we saw coming through the expenses. So it's not really impacted by the review.

Kevin Morrissey
Senior Vice President & Chief Actuary, Sun Life Financial, Inc.
A

Yes, that's right. Sumit, it's Kevin Morrissey. That corporate expense increase that we saw in the third quarter, that's not part of our ongoing expectations and it was not part of the review that increased the actuarial assumptions in the quarter.

Sumit Malhotra
Analyst, Scotia Capital, Inc.
Q

Okay. Yes.

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.
A

I would say we ...

Sumit Malhotra
Analyst, Scotia Capital, Inc.
Q

Sorry, go ahead.

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.
A

Yes, sorry. I would say that we continue to be very focused on controlling the expenses. And you would have seen that the controlled expenses grew 2.5% in the quarter, which is less than we've been growing at. And that growth includes investments in our client strategy and digital and data analytics. And we're reinforcing that focus on expenses and financial discipline, and Dean mentioned the restructuring charge in his comments. And so there is a lot of focus on expenses and making sure we control those expenses.

Sumit Malhotra
Analyst, Scotia Capital, Inc.
Q

And that's what I was going to close with, which is probably for Dean. So you've told us you're going to take the restructuring charge in Q4. And at least my experience with those across sectors is that the savings that are – the run rate savings that are derived from such an exercise can go one or two ways. Maybe, one, we're going to see a benefit in expected profit from a lower level of run rate costs; or number two, Dean, you've certainly talked a lot in different venues, including your Investor Day, about the investments the company is making. So how should we think about the benefit to shareholders from that restructuring exercise? Is it going to be a split between the bottom line and technology initiatives or is most of it going to be reinvested back into the business?

Dean A. Connor
President, Chief Executive Officer & Director, Sun Life Financial, Inc.

A

Sumit, you should think of it as being reinvested back into the business. The related way to think about it is that the slope of expense growth will be bent and flattened somewhat. Kevin talked about the pace of controllable expense growth in the third quarter. And this – this restructuring charge gives us the capacity to keep investing in growth and innovation and digital and everything else that we need to invest in while bending that cost curve down somewhat. So ultimately, the test is, are these expenses generating good VNB and profitable VNB. And we're holding ourselves accountable for that. So I think – I think investors should be pleased that we're doing this that this is a positive and it's a way to continue to fund the kind of investment in innovation that we've been driving at Sun Life.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Thank you for that color, guys.

Operator: Your next question comes from the line of Paul Holden with CIBC. Please go ahead.

Paul Holden
Analyst, CIBC World Markets, Inc.

Q

Thank you. Good morning. So we've been thinking about Sun Life as – within the Canadian comp group, as perhaps the biggest beneficiary of potentially U.S. tax reform. But of course, with what's being proposed, there's also something on the excise tax for offshore affiliate. So wondering if there is any kind of risk to Sun Life there, what your exposure may be?

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.

A

Okay, Paul. It's Kevin Strain. And first, I want to reiterate and stress that the regulations haven't yet been finalized and a number of things could change, especially around the transition rules and even potentially the implementation timeline. That said, as currently written and we've been through the over 400 pages in great detail, for every 1% drop in the U.S. tax rate, Sun Life underlying earnings benefit by around CAD 10 million. This relates to both MFS and the U.S. business. And that's before the effects of the proposed excise tax and other base broadening measures.

If you look at these, that CAD 10 million reduces just slightly. In addition, there would be a one-time charge at the time of enactment related to a number of transition rules, including the tax reserves for our life insurance policies. The one-time charge for us under the regulations as currently written would be that for every 1% drop in the U.S. tax rate, we would have a hit that's just less than CAD 10 million. So, again, I want to stress that these regulations are subject to change, but that's the impact that you would see at Sun Life.

Paul Holden
Analyst, CIBC World Markets, Inc.

Q

Okay. So you're not expecting any material offset from any enactment of the excise tax?

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.

A

See, again – I mean, the regulations are changing, and I think they go to the Senate today. So there's a lot of impacts that can happen there. But what we see in the way they're currently written is that for that transition piece would be – the 1% drop would be about CAD 10 million. And then for the overall, as I mentioned, the excise tax would be a small decline in the 1% for the CAD 10 million in the ongoing.

Paul Holden
Analyst, CIBC World Markets, Inc.

Q

Okay. Got it. And then moving back to MFS, so, Dean, you made some comments regarding MiFID II, the approach that MFS will take with respect to MiFID. Do you think this is a strategic advantage relative to some of your competitors going forward, i.e., do you see this as a market share opportunity, particularly on the institutional side of the business where I think a lot of institutional clients are going to be asking about the management of your research costs going forward?

Dean A. Connor
President, Chief Executive Officer & Director, Sun Life Financial, Inc.

A

A short answer – yes. I'm going to let Mike Roberge give the detail.

Michael William Roberge
Chief Executive Officer and President-MFS Investment Management, Sun Life Financial, Inc.

A

Yes, Dean, I'll take it. Yes. We would say that absolutely we think it's a competitive advantage, for a couple of reasons as Dean mentioned. One would be scale, is as a larger firm, we can obviously absorb that. In addition to that, though a related would be we've made a significant increase in internal capabilities over the last five-plus years. And so while external research will continue to be an important part of how we serve our client, we think that the impact here has been going down, will continue to go down as we ramp up what we do internally here. So we think it is going to be a significant competitive advantage for us. And we have been an early mover to go global on this because we think it's very hard to manage to have a – to be dealing with Europe differently in the way you're going to deal with clients in jurisdictions outside of Europe, and believe that ultimately it's a very good alignment with us relative to the clients in terms of what we can deliver on their behalf.

Paul Holden
Analyst, CIBC World Markets, Inc.

Q

Okay. Thank you. That's all the questions I had.

Operator: And your final question will come from the line of Mario Mendonca with TD Securities. Please go ahead.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

Good morning. Probably for Kevin Strain. So with the strengthening of the expense assumption, I've just gone back and looked at the various Q4s – the many Q4s where the expense experience was awfully negative as in like Q4 2016 experience hit a pretty large number. Looking out now, does this mean that the Q4s won't be the big lumpy expense quarters that they've been in the past or is that still going to be the case?

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.

A

I think you still see that there is a lot of expenses that typically in our business and there are a lot of business come to the fourth quarter as projects wrap up and those types of things. But as I did say part of the hit this quarter was around timing, and timing some of those expenses could have come through the fourth quarter and in other quarters – other years.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

So it's possible we'll see less of a hump come through this fourth quarter?

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.

A

I think the answer is that we still would see what's going to happen in the fourth quarter, but this timing piece could have been in the fourth quarter.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

I understand. Okay. So let me...

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.

A

...in any other years, it could have been in the fourth quarter.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

I understand. So I'm looking at your Asian business now. So this might be for Claude. And I see here that the impact of new business remains negative for this company. And it may not be fair to compare it to another company that we all know. But in the last few quarters, their Asian business generates very substantial new business gains, as in I think CAD 150 million positive each quarter. Now I get that there are scale differences, mix differences and what have you, but that difference is awfully big. What can you – what would you point me to in understanding why one company in Asia would generate – will experience, sorry, new business losses and the other ones, substantial gains?

Claude A. Accum
President, Sun Life Financial, Inc.

A

Hi. It's Claude here. I'll take a piece of that. And so you really need to look at the pieces and the particular products they're selling. So in the Philippines, that number would broadly be quite positive. The pricing margins in the Philippines are quite strong. We have good scale. We have good coverage of our distribution allowances. And it helps when you're serving just single premiums during the Philippines. We have a good mixture on the single premium. So that – and that tends to give to – rise to a number in which is either not much strain, or if you're doing a lot of single premium, is actually a recognition of a gain on sale on that business. And so our Philippines business is capable of showing a strong number there.

Similarly, in Hong Kong, when we're very strong in the single premium MCV business, we can also see a strong positive result on that line. As you're aware, in Hong Kong this year, that style of business went away for us with the currency restrictions in China. And so our Hong Kong business has moved more to a strained model on regular premium.

And then if you turn to some of our other businesses in Indonesia, Malaysia, Vietnam, they tend to be more regular premium sales. Consequently, there is strain. They tend to be subscale businesses. So there is strain. That will cure over time as we build those businesses, and we're focused on making substantial investment in those businesses to move them to – I think most of them by year-five, we'll move to zero expense/loss model on distribution expenses. And so I think that will improve over time as these businesses scale.

And then, the other thing that helps is how much wealth business you sell? On some of the wealth business, you can recognize gain on sale. And so there's an opportunity to do more wealth business, and some countries may have a lot more of that and they'll show a different signature on that line.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

Okay. So if we think about single premium then, single premium – I'm familiar with what you're talking about. These products, like, do you view this as a healthy attractive sales to have because they generate gains or do you view it as less so because there isn't as much of a client relationship not as much – it's not as enduring from a long-term earnings perspective? So, are single premium sales good or bad for you?

Claude A. Accum
President, Sun Life Financial, Inc.

A

Single premium sales are – we view them as very good. We view regular premium as also very good. And it could be the same client. One day, we'll do one form with you and the next day we might do another. And so particularly on the large policy, if they're buying a CAD 10 million face policy, they might do that regular premium. We're making a good margin on that. We'd welcome that. Or they might choose to premium finance the next version of it and do it single pay. And we think that's also good. And we can price both of them to make really good margins over time.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

So finally, given the experience that this other company has with very substantial new business gains, do you envision a time three years from now when Sun Life also generates new business gains, substantial new business gains in their Asian business?

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.

A

Mario, it's ...

Claude A. Accum
President, Sun Life Financial, Inc.

A

I think ...

Kevin D. Strain
Executive Vice President and Chief Financial Officer, Sun Life Financial, Inc.

A

Sorry, Claude. I was going to maybe just lift up the conversation and then you can talk about the future. But if you look at Asia and our expectations for Asia, the growth in earnings has been significant in the past five years. And we still see Asia as being a significant contributor to our medium-term objectives. You would have heard Claude speak earlier around a growth rate I think you've mentioned 12% to 15%. But our expectation is that the earnings growth from Asia will be a significant contributor for us getting in the 8% to 10%.

And I think that's the right way to look at it because in Asia, we have seven countries and multiple businesses. We talked to you earlier about our Indian asset management business, for an example. It's performing really, really well. And so I think you should think about Asia not just by the lines of the source of earnings, but by the overall contribution to the earnings. And we expect that to be at the higher end and closer to the 15%.

Kevin Morrissey
Senior Vice President & Chief Actuary, Sun Life Financial, Inc.

A

And Mario, it's Kevin Morrissey here. Maybe I'll just add one further comment. When you're starting to look at longer term views of those pricing gains, you need to start thinking about the changes to the International Accounting Standards, so IFRS 17. That's scheduled to come in January 1, 2021 under that new structure. There will be no front-ending of profits any longer. None of the companies will have any pricing gains after that point.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

I understand. That's helpful. Thank you.

Operator: There are no further questions at this time. I would now like to turn the call over to Greg Dilworth for closing remarks.

Gregory A. Dilworth
Vice President-Investor Relations, Sun Life Financial, Inc.

Thank you, Dan. And I'd like to thank all of our participants today. And if there are any additional questions we'll – we will be available after the call. Should you wish to listen to the rebroadcast that will be available on our website later this afternoon. Thank you, and have a good day.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.