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Sun Life Financial, Inc. (SLF)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Carol, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sun Life Financial Q1 2018 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, Carol, and good afternoon, everyone. Welcome to Sun Life Financial's earnings conference call for the first quarter of 2018. 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 first 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 financial results for the quarter. 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 on today's call.

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 afternoon'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 afternoon, everyone. Turning to slide 4, the company reported underlying earnings of CAD 770 million and an underlying return on equity of 15.1% for the quarter. Sun Life U.S., Asia and MFS, each delivered strong earnings growth over last year and Canada had a solid quarter.

Yesterday, we announced the dividend increase of 4%, reflecting our continued earnings momentum. As you know, this quarter, we began reporting under a new capital regime, the Life Insurance Capital Adequacy Test or LICAT framework. What was a strong capital position under MCCSR is even stronger under LICAT, as evidenced by the pro forma CAD 1.2 billion increase in holdco cash at SLF to CAD 2.9 billion that will occur post-quarter as we transfer up cash from SLA to SLF.

This capital position, combined with a financial leverage ratio of 22%, provides both a strong defense as well as a strong offense in terms of the ability to take advantage of opportunities. Looking at sales, the value of new business or VNB was up 33% over prior year from a combination of higher sales volumes and favorable mix of business. Asia individual insurance sales grew 18%, Asia wealth sales grew 32% and U.S. Group Benefits sales grew 17%, all on a constant currency basis.

In Canada, our retail insurance sales were down relative to strong sales in the first quarter of 2017, including the lead up to tax changes. Asset Management sales grew 11% in constant currency. It was also a strong quarter in growth in expected profits, up 13% over prior year, 17% on a constant currency basis with growth across all four pillars, with particularly strong growth in Asia and Asset Management. In Canada, we had a successful RRSP season. Retail sales of SLGI mutual funds were up 28% and SLGI's assets under management increased by 24% year-over-year to end the quarter at almost CAD 22 billion.

In our Client Solutions business, we grew in-plan deposits by 45% over prior year to CAD 225 million for the quarter. This growth was driven by more targeted touch points with our Clients from the increased profile and use of Ella, our Digital Benefits Assistant. In U.S. Group Benefits, we grew the after-tax profit margin from 5% at the end of 2017 to 5.6% on a trailing 12-month basis. Our success here reflects strong execution on the AEB integration, disciplined expense management and good progress on pricing and renewals.

Asia results were strong with underlying net income higher by 32%, reflecting growth in In-force business, sales growth and improve product mix. In the first quarter, Asia delivered 17% of our global underlying net income and we expect this percentage will continue to grow. Asia results reflected for the first time our International high-net worth life insurance business, which was previously part of Sun Life U.S. Most of the Clients, nearly 90% of these high-net worth Clients we serve in International life insurance are in Asia. And we believe this change will help accelerate the development of high-net worth business across our countries.

In Asset Management, we delivered strong investment performance across the global platform and ended the quarter with CAD 682 billion in assets under management. Sun Life Investment Management, our alternatives business, generated net flows of CAD 335 million. At MFS, net outflows of US$4.3 billion improved over the prior year. MFS' investment performance remained strong, with 83%, 84% and 91% of MFS' retail mutual fund assets in the top half of their Lipper category over three-year, five-year and 10-year periods respectively. In this year's Barron's ranking of U.S. mutual fund families, MFS earned the number two spot for 10-year performance, a testament to their focus on delivering value for Clients over longer horizons. You know, remarkably in nine years of the last 10 years, MFS has ranked in the top-10 of that Barron's list based on 10-year returns.

The intensity of our efforts and pace of change around Clients continued in the quarter. In Canada, we continued to improve and extend our mobile app, which is the number one Client-rated financial services app in Canada and focused on helping Canadians live healthier lives. So this quarter, we launched virtual doctor on demand, where Clients can access immediate care and peace of mind through a visit with a physician by live video, telephone or text.

In the U.S., we continue to enhance the onboarding experience for Clients by streamlining and automating our processes, taking administrative work off the shoulders of benefits administrators and improving our Client education and touchpoints. Our surveys show increased levels of Client satisfaction with their Sun Life implementation experience. In this quarter, we installed more than 1,200 employer groups. Our Group business In-force grew to US$3.9 billion of premium and other revenue.

In Asia, our Hong Kong business launched our Client mobile app, providing additional convenience and more personalized contact. The app leverages many of the same features we offer to our Canadian mobile users including fingerprint-ID login, policy and coverage summaries, account value updates and access to support to a Sun Life advisor or a call center. Our Hong Kong Mandatory Provident Fund business was recognized as the MPF Plan of the Year in recognition of outstanding service and fund performance. Our MPF funds won another nine awards, including Consistent Performer in the one-year, five-year and 10-year categories.

We have the fifth-largest MPF business in Hong Kong and have been the fastest growing in the MPF market over the past 10 years. So overall, we're off to a strong start in 2018. The move to LICAT shows the strength of our capital and risk story, and gives us more financial flexibility. We have a lot of momentum. We're enhancing the Client experience and we're executing on growth across the company. Putting it all together, we're excited about 2018 and we're making real progress toward our ambition to become one of the best insurance and asset management companies in the world.

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

Kevin D. Strain

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

Thank you, Dean, and good afternoon to everybody on the call today. Turn to slide 6. We take a look at the financial results from the first quarter of 2018. We saw strong results in profitability, growth and financial strength year-over-year. Underlying net income was CAD 770 million, up from CAD 573 million in the same quarter last year. We saw a strong growth in underlying net income across all four pillars. Underlying results in the quarter reflects a 13% growth in expected profit, the contribution from interest on par seed capital, and a lower tax rate due to U.S. tax reform. These results were achieved against the headwind of a strengthening Canadian dollar which reduced underlying income by CAD 19 million relative to the same period a year ago.

Interest on par seed capital reflected in SLF Canada and SLF U.S. results, contributed CAD 110 million to earnings this quarter. At the time of demutualization, shareholders of Sun Life and Clarica transferred seed capital to support new business in the participating policyholder account and this seed capital with interest would be returned to shareholders when the capital in the par account was sufficiently large enough to support the business. Our success in growing the par business has allowed us to transfer the seed capital back to shareholders this quarter and to recognize the investment income. We saw the benefits from U.S. tax reform numbers this quarter as expected in MFS and in the U.S.

Our reported net income for the quarter was CAD 669 million, up from CAD 551 million in the first quarter of 2017, including unfavorable market-related impacts of CAD 79 million. Our leverage ratio of 22.2% remains below our long-term target of 25%. We redeemed CAD 400 million in subordinated debt in the quarter and repurchased and canceled 3.1 million common shares. Our capital position continues to be an area of strength under LICAT, with strong solvency ratios for both Sun Life Financial and Sun Life Assurance.

Turning to slide 7, we provide details of underlying net income by business group for the quarter. We saw year-over-year underlying earnings growth across each of our four pillars. In SLF Canada, underlying net income of CAD 295 billion was up 29% on growth in fee income on our wealth businesses and the benefit of the interest on par seed capital. The underlying return on equity for Canada was a strong 17.9%. Expected profit, the impact of new business and surplus income, all grew in the quarter, with a combined growth of almost 10%.

In SLF U.S., underlying net income more than doubled from the first quarter of 2017 on favorable morbidity experience in the stop-loss business, gain from investing activities on insurance contract liabilities, the contribution from interest on par seed capital and U.S. tax reform. Our Group Benefits after-tax profit margin increased to 5.6% in the first quarter from 2.8% in the prior year.

SLF Asset Management had underlying earnings growth of 26% on higher average net assets at both MFS and Sun Life Investment Management, and a lower tax rate due to U.S. tax reform. MFS' pre-tax net operating profit margin improved to 38% from 36% in the prior year. In Asia, underlying net income grew by 32% over last year and our underlying return on equity was 10.7%. The improvement in SLF Asia's ROE this quarter reflects strong growth in net income, the addition of the high-net worth International business as well the change in our capital allocation model that saw us move our Asian business to a fully levered basis, consistent with our other business groups across Sun Life.

Turning to slide 8, we provide details on our sources of earnings presentation. Expected profit of CAD 734 million, increased by CAD 83 million or 11% from the same period last year, with growth across all four pillars. Expected profit was particularly strong in Asia and Asset Management, growing 23% and 11% respectively.

Excluding the impact of currency, results of SLF Asset Management expected profit grew by 17%. We had new business strain this quarter of CAD 7 million, an improvement of CAD 11 million over the same period of last year from higher levels of new business gains in SLF Canada and SLF U.S. We've reflected a methodology change in our source of earnings to better reflect the expected profit in new business strain in our U.S. stop-loss business. This does not impact our overall earnings, but lowers the level of new business strain in SLF U.S. that is offset by an equal decrease in expected profit.

As a result of this methodology change, we are revising our quarterly estimate for new business strain from minus CAD 10 million to minus CAD 20 million per quarter to a range of plus or minus CAD 5 million. I would remind you that this is a quarterly average which can fluctuate based on business mix, sales volumes, currency and changes in the level of interest rate. Experience items were largely offset this quarter as unfavorable net market-related impacts, lapse and policyholder behavior and mortality were offset by the interest on par seed capital, investment activity, favorable credit and morbidity experience.

Other, which amounted to negative CAD 50 million in our sources of earnings disclosure, includes the fair value adjustment on MFS share-based awards, acquisition and integration costs, and the impact of hedges in SLF Canada that do not qualify for hedge accounting.

Earnings on surplus of CAD 157 million was CAD 25 million higher than the first quarter last year reflecting higher levels of investment income and realized gains. Our effective tax rate on reported net income for the quarter was 16.4% and on an underlying basis, the tax rate for the quarter was 15.8% and in-line with our stated range of 15% to 20%.

Turning to slide 9, let's look at the new LICAT capital framework and what it means for Sun Life. We ended the first quarter with a LICAT ratio for the holding company SLF of 149%. This combined with a leverage ratio of 22.2% places us in a very strong capital position at the holdco level.

Our LICAT ratio for SLA was also a strong 139%. The higher ratio at SLF largely reflects the excess cash of CAD 1.7 billion held by SLF Inc. Under the LICAT framework, the amount of capital required above the supervisory target in our operating company is lower and we will be transferring CAD 1.2 billion from SLA to SLF in the second quarter.

When added to the CAD 1.7 billion of cash we already have at SLF, this will result in a pro forma excess cash level at SLF of CAD 2.9 billion. While this will have no impact on the LICAT ratio at SLF, the transfer will reduce the LICAT ratio of SLA by approximately seven points to 132.0% or 132.5% on a pro forma basis.

On slide 10, we illustrate the amount of capital above the supervisory target under both capital frameworks for SLA. Under LICAT, we have CAD 7.1 billion above supervisory target of 100%. This compares to CAD 5.2 billion above the supervisory target at 150% under MCCSR for an increase of almost CAD 2 billion. This reflects a number of factors, including the efforts we've undertaken over the past several years to reposition the company and improve our risk profile.

On slide 11, we show our market sensitivity to interest rates and equity market movements under LICAT. The sensitivity to changes in equity markets with a 10% change in either direction impacts our LICAT ratio by approximately 0.5 point. This impact of interest rate movements is counter to our earnings sensitivity where interest rate increases are a positive and interest rate declines are a negative.

As interest rates declined 50 basis points, our LICAT ratio increases 3 points. Almost all of this sensitivity is due to the sensitivity of changes in interest rate and available capital and surplus allowance. This difference relates to the inclusion of unrealized gains and losses on AFS bonds and OCI, and the change in insurance PfADs from interest rate changes.

Slide 12 shows sales results across our insurance and wealth businesses. While total insurance sales were down 14% or 12% on a constant currency basis, we grew our VNB by 33% over the prior year reflecting a positive mix of sales. This quarter, we began reporting VNB, excluding our Asset Management pillar. We believe that VNB is a strong measure of future profitability and growth in the insurance business, but the other measures like AUM growth, fund performance and net deposits are better measures for the Asset Management business.

SLF Canada sales were down 34% at the first quarter in 2017 and particularly strong sales driven by tax and product changes were introduced in January 1, 2017. Notably at $88 million, we continued to lead the Canadian industry for individual insurance sales. Sales in SLF U.S. grew by 17% from strong sales in group life and disability and in stop-loss. Asia individual insurance sales were also quite strong, growing 18% over the prior year on double-digit growth in China, The Philippines, Vietnam, Indonesia, Malaysia and in India. Total wealth sales of CAD 39.8 billion were up 6% over the prior year and 10% on a constant currency basis.

Asia wealth sales were up 32% compared to the same quarter in the prior year, supported by strong sales in our MPF business in Hong Kong and higher fund sales in India and the Philippines. Sun Life Asset Management sales were up 6% as sales at MFS remained strong, including U.S. retail mutual fund sales that reached an all-time high. Wealth sales in SLF Canada were down 13% as there were fewer large case sales in group retirement services than in the prior year. Individual wealth sales in Canada were up 5% on continued growth from our wealth manufacturer products, including Sun Life Global Investment mutual funds.

So to conclude, we had a good first quarter. We saw strong growth in earnings, ROE and value of new business, taken together with an even stronger capital position under LICAT, we are well positioned for the remainder of 2018.

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.

Thanks, 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 question or two questions, and then re-queue with any additional questions. With that, I'll now ask Carol to please poll the participants for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today comes from Steve Theriault from Eight Capital. Please go ahead. Your line is open.

Steve Theriault
Analyst, Eight Capital

Q

Thanks very much. A couple of questions, but first Kevin if I could just ask the upstreaming you did, the CAD 1.2 billion or that you're planning on doing I guess, or maybe it's already occurred in Q2, but the CAD 1.2 billion of the CAD 1.9 billion bump you get on application of LICAT. Should we expect you to take the additional CAD 700 million up at some point or is that under discussion, or is this the move that we should expect in its totality?

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

A

Yes. This is the first quarter we're reporting LICAT and it's still fairly new days under the LICAT regime. And so optimizing the capital under LICAT will be done on a measured basis going forward.

Steve Theriault
Analyst, Eight Capital

Q

Okay. So possibly more to come. On the U.S. business for Dan. I wanted to circle back on the margin. You've talked about a target margin of 5% to 6% in Group Benefits. So last quarter, you talked about a 75 basis point tailwind from a lower tax rate. So we see the margin this quarter up nicely at 5.6%. Is that in the middle of a 5% to 6% range or at the low end of a more like a 5.75% to 6.75% range including the lower tax rate, just want to make sure I understand sort of where we are in that process?

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

A

Yes. I think obviously it's in the middle of a 5% to 6% range at this point. But you're right that we said we should get a tailwind from the lower tax rate. That will phase in gradually as this is a trailing 12-months measure. So we only saw a portion of that in the first quarter. So that's going to be an additional tailwind through the rest of the year. But certainly we're nicely in the middle of that 5% to 6% range at this point and hoping to see that go higher.

Steve Theriault
Analyst, Eight Capital

Q

Okay. And then last thing for me. The U.S. Employee Benefits business, the In-force has been consistently down, but Dan, I saw that sales were up year-on-year for the first time in quite a while. You know, we can definitely see the turn in the stop-loss business and improve margin overall. Can you refresh us on your outlook for the Employee Benefits business looking out for rest of the year?

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

A

Sure. The reduction in BIFs to the same quarter last year is primarily related to two items. One was we had one large life and disability Client that lapsed on January 1st and then we also last year converted the legacy Sun Life dental business to the stronger legacy Assurant products. That was a block of business that needed quite a bit of rate action. Actually in both of those cases, the lapsation of that business was a positive for our margins, because it was underperforming. But those are the primary drivers of the BIFs decline in Employee Benefits.

As you noted, we're seeing very nice growth in stop-loss. We've had a 20% year-over-year growth in the stop-loss BIFs. Also as you noted, sales are up year-over-year in the first quarter. So we think we've got good momentum and with the lack of those one-time type items that occurred last year, we think we're on a good growth path. We should start to see growth in BIFs in Employee Benefits and a continuation in growth in stop-loss.

Steve Theriault
Analyst, Eight Capital

Q

Thanks for that.

Operator: Our next question comes from Humphrey Lee from Dowling & Partners. Please go ahead. Your line is open.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Good afternoon and thank you for taking my question. Just related to the CAD 2.9 billion cash at the holding company, I guess, what are you going to do with that? That is really sizable war chest from what I heard, how do you look at it?

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

A

Humphrey, it's Dean Connor here. Thank you for your question. And you're right, it is a very strong capital position. It's not just the cash at the holdco, it's the 22% leverage ratio which as Kevin noted is below our long-term target of 25% and a strong LICAT of 132% at SLA after we make that transfer. So it is a nice position to be in.

We continue to focus on organic growth. We continue to focus on M&A activities. And as I've said before, and I won't apologize for being consistent or boring on this, but as I've said before, you know we do take a disciplined approach, we're looking for opportunities that are on strategy where that will support our four pillars and we're looking for opportunities where the economics make sense and clear our hurdle rates.

So, we're clearly in the middle of lots of conversations across all four pillars on that front and of course buybacks have been part of the mix over the prior years, and we're in the middle of an NCIB where, as Kevin noted, we were active in the quarter and that will continue.

I would note that, we feel it's a very good time in this cycle to have a strong balance sheet. The stock market has been on a run for nine years plus. The credit cycle is in its later innings. So at this -- while we're looking for opportunities and we're looking to put that capital to work, we're also mindful that we're in later stages of this cycle. And I think it's a really good time in the cycle to have a strong balance sheet.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

And then just to follow on the kind of the strategy surrounding the four pillars, so you talked about kind of the all the different pieces, but I guess in the U.S., you always talked about being in the Group business, but what about your appetite for Group Retirements given your expertise in Canada and your expertise in Asia? Is that something that you contemplate given your Asset Management business in Sun Life could be a strategic benefit?

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

A

We've looked at the U.S. Group Retirement business many years in the past. In fact at one point, had a small 401(k) business, originally part of MFS and part of Sun Life and then we sold it back in 2010. That market has unfolded as we had expected when we sold the business; it has continued to consolidate. Margins have continued to come in and we would much rather play in the manufacturing of alpha part of that retirement business through MFS and increasingly through Sun Life Investment Management.

So that's the path we've chosen. You're right to point out we've got a very strong GRS business here in Canada where we have the leading position, the number one share in a market that is consolidated in relatively fewer players. We see the U.S. market as a market where there's still more consolidation to come. And so, we have been very deliberate as we have picked our spots and the U.S. retirement market is not one of them, and instead we're focused on the Group business where we see the opportunity to grow faster.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Got it. And if I could sneak in one more. MFS, you definitely had very strong growth in sales in both mutual funds and managed funds in the quarter. But obviously, redemptions were even higher, so I think you might have some management changes at MFS. So, I was just wondering if you can talk about like which strategies you're getting inflows versus the strategies that you're getting outflows?

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

A

Good afternoon, it is Mike Roberge. Gross sales as you mentioned, we control gross sales and we actually had record gross sales in U.S. retail and our best gross sales year across all channels for the last several years. And so, growth continues to be strong. On the net side, there is really no themes associated with that. We continue to see some of the same things I've talked about from an industry perspective that are impacting, which is move to passive, de-risking, rebalancing by Clients.

And so, there's really no theme to redemption other than the fact that we think the redemption rates are going to have to come down in the industry because they are at very high levels now and as we've seen over the last couple of years. And the way to improve flows ultimately on a big asset basis to have redemptions come down. And so, our thought is we think that we'll see some normalization, we and the industry over the next couple of years and that will obviously improve flows.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Got it. Thank you.

Operator: Our next question comes from Tom MacKinnon from BMO Capital Markets. Please go ahead. Your line is open.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

Yes, thanks very much and good afternoon. A question just on the notable items that are listed as other. If I take the $110 million seed capital gain out of that, that's a loss of $48 million. And from what footnote suggests, it's largely due to short-term strategic spending.

This negative $48 million is more than twice the negative $23 million in the first quarter last year and significantly larger than the negative $9 million from the prior quarter. So, I was just trying to figure out what's going on here. Is this all sort of short term strategic spending, is there seasonality with respect to it? What's the outlook for that going forward? And I have a follow-up, thanks.

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

A

Okay. Well, Tom, I'll start with an answer and then maybe pass it to Kevin Morrissey. The other notable line does include our strategic investments that were moved from the expense line, and this includes our investment to build up the retail wealth business in Canada and some of the distribution investments in Asia. But that's only part of what's in there and there's some other sort of seasonable or one-time expenses like a charge related to the Affordable Care Act in the U.S. Group Benefits line and some seasonality around some comp expenses.

Outside of that, there's just a number of smaller items that worked against us in the quarter and drove that down. But I would turn you to sort of think about the total notable items as a positive CAD 94 million, which reflects the CAD 110 million, right. So it just gives you a sense of what's there. I don't know if Kevin wants to build on that.

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

A

Hi, Tom, it's Kevin Morrissey. Just to add to what Kevin said, there isn't anything else really big that I would highlight there. It really was a bit of an odd quarter in that there were just a lot of really small pieces that went against us. We see these as being kind of unusual and not things that would normally continue, and there is really nothing more that's notable, was just a whole bunch of smaller things that added up.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

What were those whole bunch of smaller things that added up, what do they amount to, and are they – what should be a run rate for this other line, I guess is what I want to get at?

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

A

Yes, if you look at the run rate in that over the last eight quarters, Tom, it's about minus CAD 15 million. And so, I think that probably gives you a good sense. We did move our – some of our strategic spending into that line and I think that's probably a good benchmark to look at.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

So you think that's calculated to be negative CAD 48 million, if you take out the seed capital gain, and you think negative CAD 15 million run rate is better for that line going forward?

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

A

Yes.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

Okay, thanks for that. And then just a question on the LICAT capital, are you able to share with us what your target LICAT you price for? I assume you're pricing stuff for LICAT now. And what do you assume for LICAT ratio when you're doing your pricing?

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

A

Okay. Well, let me take a crack at that Tom, and I think it's -- we're not going to disclose our exact sort of pricing ratio at this time. But if you think about LICAT and MCCSR, they are different calculations. LICAT is a more risk based calculation and the mechanics are different.

But if you were just doing, and I know many of the investors have been looking at the 200% calculation under MCCSR, and if you looked at it on a mathematical calculation that looked at the equivalent excess capital over 100% LICAT number, you'd get roughly around 120%.

But that's only one way to look at it. And if you look more specifically at Sun Life and our philosophy of capital, so we moved the excess capital up to SLF. Our philosophy of doing that of moving the excess capital to SLF isn't going to change under LICAT. And so, that's why we're transferring the CAD 1.2 billion excess of capital up. This brings SLA down to a LICAT ratio of 132.5%, and we've historically run in excess of our operating target at SLA.

So maybe that gives you -- I know it's not a perfect answer, but it gives you a sense that, how we're thinking about LICAT. But it is a very different calculation, so you can't just take the sort of mathematical excess and say it's 120% and look at that, because the risk inside of LICAT and the calculation of the ratio is quite different.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

When you get to the 132% LICAT at SLA, are you carrying excess capital in your opinion at SLA?

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

A

So you would have seen it, just like our philosophy before, we are running at a level that's higher than our operating target.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

Okay. Thanks.

Operator: Our next question comes from Meny Grauman from Cormark Securities. Please go ahead. Your line is open.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Hi, good afternoon. Just wondering what proportion of the CAD 110 million in accrued investment income can we expect going forward, how much do we expect on a run rate basis?

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

A

I'm assuming you're talking about the par seed capital transfer.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Yes.

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

A

Yes, so the transfer amount including capital was around CAD 200 million and that will be inside of the surplus account and we'll be earning investment income on that.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Okay.

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

A

And Meny, it's Dean Connor, that's a onetime transaction.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Right. So, what I'm trying to get is just more sort of on a run rate basis how much that extra capital do you expect to kind of help you? Is it part of the reason that sort of we're earnings on surplus look higher over time?

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

A

That didn't come through the surplus this quarter, but in future quarters, the investment income on the CAD 200 million will come through surplus.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Okay. And I guess it's a very small number, just from that additional capital from the par transfer?

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

A

Yes, the surplus account's been earning 3% to 3.5%.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Okay. And just following up on the capital deployment question, just ask another way in terms of a large amount of dry powder. Does it change the way you look at capital deployment? Specifically on the M&A side, would it mean that you can look at bigger deals? Do you think of it that way, changing something fundamentally in terms of your plans going forward?

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

A

Meny, it's Dean Connor. It doesn't change our view of the kinds of opportunities that we are considering. When you think about the cash at the holdco and Kevin in answer to Tom MacKinnon's question, said yes, even at CAD 132 million, we have additional capital at that level and then we've got a leverage ratio of 22%.

And as you know, every point of leverage is worth about CAD 300 million. So we've got lots of capacity in the balance sheet to make acquisitions, so it doesn't change our view. We're more focused on fit, alignment, and what could we bring to a transaction beyond a checkbook, what could we bring to that business to lift it up and what can they bring to us to lift it up, and how do we make the thing worth more than the sum of the parts. So that hasn't changed.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Okay. Thank you.

Operator: Our next question comes from Doug Young from Desjardins Capital Markets. Please go ahead, your line is open.

Doug Young
Analyst, Desjardins Securities, Inc.

Q

Yes, just a first question on Canada, I mean, if I exclude the seed capital gains, it looks like underlying earnings declined year-over-year. And I think mortality was quite strong last year versus this year, and maybe you can elaborate and quantify that. But it also appears there was unfavorable group morbidity experience, which is very different than what we've seen at some of your competitors this quarter. So hoping to get a little bit more color on that first off.

Jacques Goulet
President, Sun Life Financial Canada, Sun Life Financial, Inc.

A

Yes, thanks for the question. This is Jacques. Obviously, I can't speak to the specific experience of others in the industry. In our case, the morbidity experience was little slightly unfavorable in the quarter. That was indeed driven by negative experience in visibility, which was partially offset by positive experience in extended healthcare. Overall, morbidity experience can bounce around a bit from quarter-to-quarter and at this stage, we're not concerned about it.

Doug Young
Analyst, Desjardins Securities, Inc.

Q

Was there anything else that so morbidity was only slightly negative? Is there any other reason why the underlying earnings pulled back year-over-year, was there additional expenses in there, additional noise last year, or – what I'm trying to get at is, what should we expect in terms of underlying earnings growth? And I think Dean's quantified this in the past, but it seems like it's different this quarter?

Jacques Goulet
President, Sun Life Financial Canada, Sun Life Financial, Inc.

A

Sure. Let me give you further views. I mean the – we've seen growth in expected profit across both of the group businesses GRS and GB, as well as individual wealth business. We've seen growth in new business gains, our assets under management are up, our business-in-force is up, so those are things that we are pleased about in a way, because they speak to what I would call key drivers of performance.

As Kevin Strain mentioned, in the individual insurance business, our sales are actually number one in terms of market share for the fourth consecutive quarter in a row. So, overall, we think our underlying performance remains pretty solid. We've had in Q1 a number of what I would call experience items like morbidity and policyholder behavior. None of them were large on a one-by-one basis or on a cumulative basis, they did create a bit of a headwind. But overall, we feel good about the business from the start of 2018.

Doug Young
Analyst, Desjardins Securities, Inc.

Q

Okay. And then just second question, adverse lapse experience popped up again this quarter. I guess, maybe for Kevin, I guess the biggest item here was the U.S. In-force Management business. I think that was called out in Q3 of last year as well as being an issue. Can you dig into this a little bit more?

And I guess where I'm going with this, will this require a reserve boost to deal with, or do you think this is just normal ebbs and flows, if you can maybe dig into that a little bit, that would be helpful?

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

A

Hi Doug, it's Kevin Morrissey. The largest piece, about half of the total, was in the U.S. In-force Management closed block. This is a lapse supported universal life block of policies. The experience in the quarter we had fewer lapses than expected and the lapses that we did see were skewed to less lapse supported policies, and by this I mean higher cash values and lower reserves.

The second piece that constituted about 30% of the total was in Canada. This was in the individual segregated fund guarantees. We view this piece as seasonal, because the valuation assumptions really aren't calibrated to some of what we observe as seasonal policyholder behavior assumptions, in particular in regards to policyholder withdrawals and resets. And so, we expect this to be a timing issue and we think that we're going to recover that throughout the rest of the year.

The final piece, it was rather smaller, but I'll just highlight it for completion was in the International life business, so this is now reported in Asia. It was only a loss of CAD 7 million and this is also universal life block, where relapses were a bit higher than expected.

So, second part of your question is more looking forward. It's still early days, it's only been two quarters since we made the update to the lapse assumptions and we'll continue to monitor the experience closely and we'll see what the future unfolds.

Doug Young
Analyst, Desjardins Securities, Inc.
Q

Doesn't sound like you're too concerned at this point. I mean, at what point in time do you get a little bit more concerned on the lapse side?

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

I'd say if the trend continues to build, if we see the quarters continue to stack up going against us, that would indicate that we might see reserve strengthening coming. But as I said at this point, it's a little too early to make that call and we're just monitoring.

Doug Young
Analyst, Desjardins Securities, Inc.
Q

Okay. Thank you.

Operator: Our next question is from Gabriel Dechaine from National Bank Financial. Please go ahead. Your line is open.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Good afternoon. A couple of quick number questions here. First of all, AFS gains, was that a meaningful number in the earnings on surplus? And then, you did highlight the expenses as a bit of an inflationary item in the corporate segment, and tied to IFRS 17, so are we going to see those costs rolling in over the next few years?

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

I'll start with the discussion on the corporate segment. On the corporate expenses, we did see a tick up in those with regards to LICAT and IFRS 17 and some other tax items in the quarter. IFRS 17 is starting to hit full flight now as a project and we will see a higher run rate on expenses from IFRS 17.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Okay. And is that something you can earn your way through though?

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

Yes, that's something we can earn our way through, we're certainly not changing our medium-term objectives.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Okay. Good to know.

Randolph Brill Brown
Chief Investment Officer, Sun Life Financial, Inc.
A

Gabriel, it's Randy Brown. With respect to AFS gains in surplus, no they were not running high this quarter. So that did not contribute to the earnings there.

Gabriel Dechaine

Analyst, National Bank Financial, Inc.

Q

All right. Then my real question is on the capital front and the inverse sensitivity to rate, so high rate is bad for your LICAT ratio. I mean it's not really, I mean, you're far from having a capital concern given your balance sheet positioning, but conceptually how does that affect the way you manage and plan your capital or your capital management in a rising rate environment? Are you willing to go much thinner on the LICAT ratio knowing that your earnings is going to be – your earnings generation is going to be improving over time, but just trying to get my head around that?

Kevin D. Strain

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

A

It is a bit counterintuitive because the earnings improve as the interest rates go up. And we can understand your questions on this front, Gabriel. I think if you – one of the ways to think about it is this will likely change under IFRS 17 as well, so some of the sensitivity comes out of IFRS 17. We are at a very strong capital ratio overall. So I think that gives us a protection around sensitivity of interest rates. But I think in terms of how you manage it, it's a balance around earnings versus capital.

Kevin Morrissey

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

A

And Gabe, it's Kevin Morrissey here, maybe I'll just add to that a bit. At the beginning of the question, you're asking about the sensitivity, so I just want to elaborate a bit more about those components because they really are driven by the new components in LICAT. It didn't under MCCSR. Kevin highlighted that at the beginning of his comments. We see about 55% of that sensitivity is driven by the PfADs, which are essentially mark-to-market in the discounting rate under CALM reserving.

And the other component is the surplus bonds that essentially get mark-to-market through the OCI adjustment in available capital. So that's really contributing about 90%, almost all of our sensitivity, under LICAT.

As Kevin mentioned, we do have a strong ratio, but when we think about how we're going to manage this, I see that we're really at early days in terms of optimization of capital. Under LICAT, we have a very strong ratio, but we think we can do more and you'll see more activity in the future as we look to rebalance our profile, and we think that we can do a bit more around those sensitivities, so more to come on that.

Gabriel Dechaine

Analyst, National Bank Financial, Inc.

Q

Okay. Appreciate that. That's helpful. But just to paraphrase, Kevin, balancing earnings versus capital means in theory you'll sacrifice capital because of the mechanics, in knowing that earnings is going to put you back onside over time, is that the idea?

Kevin Morrissey

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

A

Gabe, I think we always look at making these calls on an economic basis, right.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Right.

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

A

And unfortunately, now you get conflicting signals, right, when you look at it from an earnings perspective or from a capital perspective. But, there may be opportunities where those come together. So an example might be, if we have a tactical outlook on rising interest rates, we could look to position some of our fixed income securities shorter, right. So, and that would be a short-term drop in the run rate of earnings, but the yield curve is pretty flat and tactically that might be a good call. So that might be an example, where those two could come together.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

All right, great. Thank you.

Operator: Our next question comes from Sumit Malhotra from Scotia Capital. Please go ahead, your line is open.

Sumit Malhotra
Analyst, Scotiabank

Q

Would Kevin Strain go back to the seed capital transfer. So just so if I heard the previous answer, right. So the $110 million was the interest after-tax benefit in the quarter. And what was the total amount of capital, was that the $200 million that you say you got transferred back to the shareholder account?

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

A

Right, and that includes the $110 million. So the total transfer of capital and the investment income was around $200 million.

Sumit Malhotra
Analyst, Scotiabank

Q

And what was the reason for the timing coming through the quarter? I was speaking – or coming through this quarter, I was speaking with Greg, it didn't seem like it was related to the LICAT changed anyway. What was the – was this, did you have the option on this or was there something that triggered this event being -- taking place in this particular quarter?

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

A

Hi, Sumit. It's Kevin Morrissey. I'll take that one. As you know, we set up the seed capital at the time of demutualization. So this is going back about 18 years. The intention was to always return the seed capital plus interest, once it was no longer needed to support the new business. What really triggered the timing was, right now we are in a position where the par open accounts no longer need the seed capital.

We completed an internal review that came to that conclusion at the end of last year, we had an external actuarial opinion, which collaborated that. And we also -- the last step which really triggered it was getting regulatory approval, and we did get regulatory approval from OSFI for the transferring in Q1.

Sumit Malhotra
Analyst, Scotiabank

Q

And this is next part, it really isn't -- I realize it's not an overly material factor, but I'm always just curious on how companies decide, what gets included in their definition of operating, or in your case underlying earnings?

So, why would you view I mean, Dean did say this is pretty much a one-time pick-up, why was this included in your definition of underlying earnings since it's not something that we can expect to occur at this level going forward?

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

A

We have a number of places we have seed capital. We have seed capital in Asia, we have seed capital at SLIM, we have seed capital at MFS. And in all the cases we have seed capital, we include the investment income as underlying net income. And so, that's been our philosophy.

And if you look at the criteria that determined underlying net income, this fits into that criteria. So, we did make sure that we disclosed that, we are transparent in our disclosure because it is different and it's sort of a lump sum one-time item, but we did feel that it was underlying net income.

Sumit Malhotra
Analyst, Scotiabank

Q

That's one, Kevin, I just – I feel like we go on with underlying or core or whatever the metrics are for the various companies, but I'm always curious as to what your thought process is. So thank you for that.

Just move back to Canada for Jacques, and Kevin it might be for you as well. I think Doug was getting at it, but if you kind of look at a few quarters trend now and we take out the seed capital benefit, it is now three consecutive quarters of year-over-year decline. I fully understand that there can be experience back and forth in any particular period.

But even when we look at the expected profit now having been pretty flat for the last four quarters, I guess Jacques you sounded more positive on the numbers than the trend has exhibited in the last few periods. What in your view is the key measure that we should be looking at here as to where you see the strength in the Canadian operations?

Jacques Goulet
President, Sun Life Financial Canada, Sun Life Financial, Inc.

A

Yes, as I said earlier, I mean we view the underlying performance as solid, as I pointed out a number of things. And there is experience headwind that has gone against us. I've looked at over the next, no last three months sorry, and took some deep dive into various businesses, and things are looking pretty good.

I mean I don't want to create expectations, but as Dean has mentioned in his remarks, our investment in digital are paying off very nicely. We're getting a lot of differentiation in the market from some of our tools. We've grown our assets under management, we've had great results with Ella. So overall, I don't feel that there is anything that stands out as being a warning signal of any kind. I think things are looking pretty solid as I said.

Sumit Malhotra
Analyst, Scotiabank

Q

So and maybe Kevin, this one might be more numerically based for you that flatter trend we've seen in expected profit over the last four quarters now in Canada, and I'm talking sequentially, in your -- maybe for both of you to hear that, that is more of an aberration than anything stagnant in the business?

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

A

I might start with that and see if Kevin Morrissey wants to jump in. But if you at Q1 2017 versus Q1 2018, and as Jacques had mentioned earlier, we saw expected profit growth in individual wealth, Group Benefits, and GRS. And so those are three drivers of the expected profit going forward, and that's where we'd be looking to continue to drive that.

Sumit Malhotra
Analyst, Scotiabank

Q

All right. Well – yes.

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

A

Yes, so the only thing I would add to that is we did see a significant increase in individual insurance as a result of the repricing that happened with the tax changes in Canada and we are seeing good year-over-year growth from expected profit in Canada from that.

Sumit Malhotra
Analyst, Scotiabank

Q

Okay. I may be looking more at the – year-over-year you're right was fine I guess. I'm just looking at the last few quarters, but we'll monitor that going forward.

Last one quickly for Dean, obviously very strong capital position. You did have a higher level of buybacks in Q1 than we'd seen previously. At least a portion of that was related to those third party share agreements that seem to have stopped now for many companies. Does that change your view on allocating capital towards buybacks?

I mean obviously there was a – it was more favorable from a pricing perspective via those specific agreements. Do you still view the ROI of buybacks as attractively post those changes?

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

A

Yes, Sumit, thanks for the question. You'll recall we did under this NCIB 3.5 million shares last year and that was without the benefit of the kind of purchase agreement that you referred to, the 3.1 million shares in the first quarter, partly with the benefit of that agreement that you referred to.

So the agreement was an opportunity, we took advantage of it while we could, and we come back to kind of, it is a normal course, normal course issuer bid, if I could put it that way and we kind of view it as -- we still think at this share price, we still think it makes sense to continue on with the NCIB that we have open.

Sumit Malhotra
Analyst, Scotiabank

Q

Thanks for the time, guys.

Operator: Our next question is from Paul Holden from CIBC World Markets. Please go ahead, your line is open.

Paul Holden
Analyst, CIBC World Markets, Inc.

Q

Thanks. Good afternoon. So a couple follow-up questions on Canada. First is, with respect to potential capital deployment, particularly as Dean mentioned the focus will be on the four pillars and of course one of them is Canada. Maybe to me, the M&A opportunities in Canada are a little less obvious than some of the other pillars. So maybe you can highlight to me what M&A could look like in Canada?

Jacques Goulet
President, Sun Life Financial Canada, Sun Life Financial, Inc.

A

Well, I mean, I don't want to get into that really, I'd refer back to what Dean said earlier. I mean, it has to be something that fits with our strategy, where we think we can bring some value. I think that you're probably right in saying that the list might be shorter in Canada than in other places. But at this stage, that's something that we're looking at.

Paul Holden
Analyst, CIBC World Markets, Inc.

Q

Okay. Let me ask you something a little bit more specific on that point then. We're seeing a couple of your competitors get active on the MGA side in terms of M&A. Is there a competitive response you're thinking about, particularly as you are number one in market share for individual insurance sales?

Jacques Goulet
President, Sun Life Financial Canada, Sun Life Financial, Inc.

A

We like our model. As you know, we have our own sales force, we also distribute through third-party channels. We see that there is a need, and we are investing in that to be in what we call omni-channels, and that's why we invest quite a bit in digital. So, overall I would say that we think we're in a good place. There are some opportunities that as I said we're pretty pleased with where we are.

Paul Holden
Analyst, CIBC World Markets, Inc.

Q

Okay. Fair enough. And then last question, and again, specific to Canada, another trend we're seeing across the industry is a focus on cost efficiencies, and particularly with respect to head count. Is there any kind of commentary confide around there in terms of Sun Life's strategy?

Jacques Goulet
President, Sun Life Financial Canada, Sun Life Financial, Inc.

A

Yes, look, specific to Canada there was a springboard last year and we're on track for that. We're looking across the business. As I said, there are areas of the business that are high growth, where we need to continue to invest. I'll mention again digital, an area that's very important. Generally, we're in the kind of environment where looking closely at expense is important and we are continuing that, that's part of good business management.

Paul Holden
Analyst, CIBC World Markets, Inc.
Q

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

Operator: Our next question comes from Mario Mendonca from TD Securities. Please go ahead. Your line is open.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

Good afternoon. First, if we could just think through the growth in expected profit in Asia, there's sequential improvement obviously a lot greater than just the growth in the underlying business. I'm using assets as my proxy for the growth in underlying business. Was there any recalibration of expected profit as in looking at the pace with which you release those reserves, did anything change in that respect?

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

Hi, Mario, it's Claude Accum. Thank you for that question. The primary drivers of the recent improvement in the expected profit is a result of, we had – and it's up CAD 24 million this quarter from prior year. Number one is we had strong business growth in our wealth businesses. It's very strong in the Hong Kong MPF channel, very strong in the India AMC, asset management company channel, and very strong in the Philippines.

And then the second source was we had a strong pickup in expected profit in our Philippines insurance business. And you wouldn't have seen that before, but it picked up this quarter due to the strong insurance sales in Q4 and Q1 in the Philippines. So in a bit more detail, our gross wealth sales in Q1 were CAD 3.7 billion. So that will get you the sense of the assets that are driving it, that's a 30% growth and that level of sales gives us fees and those fees shows up in expected profit. So you can triangulate to get that.

And in the Philippines, Q1 insurance sales they accelerated, they were at 40%, and you saw that acceleration in Q4. In Q4, Philippines sales were up 20% on a constant currency basis. And what happens in the Philippines, these products are strongly engineered. We don't get a gain on sale or strain when we issue the policy, but in the immediate months thereafter, earnings start showing up and so that's what you're seeing in the Philippines, lifting expected profit from the strong sales.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

So why wouldn't this business growth that you're referring to also show up in the form of just stronger asset growth? Why the big disparity between asset growth and expected profit growth? Because all the things you've highlighted would suggest to me that they would also fall into the asset side?

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

Yes, it does. If you look at our total assets under management, it's up materially.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

But far less than the expected profit? Like sequentially, expected profit's up 11%, assets were up 3%, is there anything you can think of that would cause that disparity?

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

A

So you're going Q4 to Q1?

Mario Mendonca
Analyst, TD Securities, Inc.

Q

Yes.

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

A

I think a better place to look is Q1 to Q1. If you look at Q1 this year to Q1 last year, you're comparing two comparable quarters.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

Okay. I'll have a look at that. Secondarily, in mortality, it was a weak quarter for mortality, probably the first time in some time. Could you just speak to the segments that have played out in the products, and if there's anything in particular that would have driven it this quarter?

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

A

Mario, this is Kevin Morrissey, I'll take that one. We did have a weak quarter in mortality. We had a loss of CAD 21 million pre-tax. It's not unusual for us to see seasonally higher mortality rates in Q1. So we would normally expect to see losses in the insurance business and gains on our payout annuity.

This year, we had more losses than gains with – on the insurance side, we lost CAD 46 million on payout annuities, it was plus CAD 25 million. The mortality rates were especially severe in the U.S., where we have life insurance but we don't have the payout annuity. So when we look at our first quarter last year, we had the reverse. We actually had a small net gain as a result of this. But maybe I'll turn it over to Dan Fishbein to comment a bit more on the mortality experience in the U.S. Dan?

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

A

Yes, thanks Kevin. In the first quarter, there was a very severe flu season. The U.S. Centers for Disease Control actually tracked this as the worst flu season in at least five years, both for deaths and hospitalizations. And while it's always difficult for us to track this exactly, because cause of death is not always listed as the flu, usually a secondary cause of death. We think that was the primary driver of the adverse mortality in the U.S. in the first quarter.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

That's helpful. That's consistent with what we're hearing from others, appreciate it.

Operator: And we have no further questions in queue at this time. I'll turn the call back to Mr. Dilworth for closing remarks.

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

Great, thank you, Carol. I would like to thank all of our participants on today's call. If there are any additional questions, we will be available. Should you wish to listen to the rebroadcast, it will be available on our website later this afternoon. Thank you all and have a good day.

Operator: This concludes today's conference. You may now disconnect.