SLF.TO - Sun Life Financial Inc at National Bank Financial Services Conference

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All right. Welcome back after the break. I'd like to welcome to the stage Jacques Goulet, President of Sun Life Canada. Thanks, Jacques, for joining us.

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

Thank you.

Gabriel Dechaine - National Bank Financial Markets - Analyst

We could do this in French. But for the people online, we'll do it in English.

Gabriel Dechaine - National Bank Financial Markets - Analyst

I'd like to kick off with a question about your overall growth outlook for Canada. At the 2019 Investor Day, Canada was positioned as a 6% plus growth business. Canada is also a mature market. So how does -- what are the building blocks, if you will -- that make it so that Canada can generate that type of growth?

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

Thanks, Gabriel, and welcome. Nice to be here, obviously. So listen, when I joined in 2018, it became pretty clear to me that both people outside of Sun Life, a lot of people in this room, people inside of Sun Life have this impression or this perception that Canada, Sun Life Canada, was a mature company operating in a mature market, as you say.

And my view was that this was an incorrect perception, and I'll tell you why in a minute. But it was important that we change the mindset as important internally as externally. If people inside don't believe that we are a growth engine for Sun Life globally, then we're not going to be a growth engine.

And the reason that I thought that we can be a growth engine is because if you look at the trends out there, you have the aging of the population. You have people with a greater need for financial security and savings. You've got pressure on the healthcare system, greater usage of the healthcare system also as people are getting older.

And so, my sense is that if you look at this, what's happening, and you align our capabilities, generally, at Sun Life Canada, we do two things, or I can put it in two broad buckets. One is financial security and health. My sense is that we have the ability to generate much higher growth. But the perception was, hey, Sun Life Canada is this mature business, growing 3% to 4% every year. Steady as she goes, as we say.
And so, we started a portfolio review of everything that was inside the portfolio. We looked at what is high-growth businesses? What is low-growth businesses? What are businesses that require a lot of capital versus not?

And we made some strategic choices. So for example, one thing you might have seen, it was announced earlier this year as we divested our affinity and creditor business, we decided to fuel with additional investments businesses that we thought had higher growth potential.

So to give you some example, concrete examples, we have a pension risk transfer business. Our view is the pension risk transfer market in Canada is still very immature, certainly if you compare it to the UK and the US, where defined-benefit plans have been derisked much faster.

So we’re number one in that market. We’ve got great market share. We’ve got a great team, and we’re able to continue to grow. SLGI, Sun Life Global Investments, was basically a business we started from nothing, 10, 12 years ago to today, it has about $30 billion of assets under management.

Our businesses are -- we’re a leader in the group business, both group benefits and group retirement. In fact, we’re a leader -- we’ve been leaders for years and years. And so, we saw an opportunity to scale -- to use the scale that we have to develop some further innovations.

One that I’ll mention, we call that at Sun Life the worksite advantage. When an employer decides to hire Sun Life for either group retirement or group benefits, that means that all of these people who are employees of that employer is they become plan members for us, and we can start interacting with them and develop solutions and bring that to their attention.

And the last thing I would mention is the financial discipline that we brought. I mean, some of our businesses, in fairness, five years ago were more driven by a volume game, if you like. Let’s go for the number-one market share, and that’s great. But what you want is to flow to the bottom line as well. So some things that people don’t realize is we don’t see Sun Life Canada in the market as playing a price game. We always go for value.

The thing that I like best together yet is when I get a call from a client that says, hey, we did an RFP. We’re selecting you. You were not the cheapest, but we think you’re the best value provider. There is nothing more pleasant than to hearing that kind of situation.

So all in all, when you look at the trends out there, the capabilities that we have, the fact that the needs are actually growing, I mean, if there’s one thing that COVID has provided is pretty big lands on the fact that the healthcare system in Canada is under difficulty.

So the trends, the capabilities we have, the discipline that we’ve had, and the fact that we have this mindset of disruption -- like, I always tell the executive team, if we’re going to get disrupted, let it be by ourselves because there’s nothing like being disrupted by someone else, where you’re losing control. If you disrupt yourself, you remain in control. And I’d say we’ve become much more agile than we were.

And one last thing I’ll mention to give you a concrete example, in March 2020, we had the pandemic. And we quickly realized that telemedicine or virtual care services would become very important in an environment where people don’t want to go and sit in a clinic at a doctor’s office if they don’t have to, right?

So we scanned the market and we looked at all the providers, and we decided that Dialogue right here in Montreal actually was the best telemedicine provider in the country. So within a month, we struck a commercial distribution agreement with them. And a month later, we became a shareholder. And today, we own 24% of Dialogue.

It’s something that we did in response to client needs and with a high degree of agility. So we think of ourselves, and -- I don’t want you to take this to the bank obviously, but last year in 2022, we had 12% growth in Canada. This is very, very healthy growth rate. We’re confident. It’s a six-plus objective, as you’ve mentioned, that’s what we talked about at Investor Day. And we’re quite confident that we’ll deliver that.

Gabriel Dechaine - National Bank Financial Markets - Analyst

So there’s a lot in that answer that we can go many directions. One comment you made, I found quite interesting. And I’d like to -- you said -- as we all know, the pandemic showed that the Canadian healthcare system is under a lot of stress, lacked resources, whatever, and you positioned...
that as an opportunity for Sun Life. I get telehealth or virtual care delivery. It seems like an obvious area for opportunity, rather, for you. And I think, what else?

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

Yes. I mean, if you look at the group benefits market, we're playing quite a bit in health. These plan sponsors, they are really driving for two things. One, they want cost efficiency. They want to drive and bend the cost curve if they can. And second, they want to deliver a great employee experience. And those two things are not always in alignment because, sometimes, to have a great employee experience.. to have a generous benefit plan, you might have to spend more.

But one of the things that we do, like, through our digital assistant called Ella -- and by the way, just as a quick part, this is -- people don't realize this, but Sun Life is the largest private payer of healthcare in Canada. As we all know, the governments, of course, have their provincial public system. But on the private side, we're the largest private payer. In 2022, we paid over $100 million medical claims, physio, dentists, pharmacists, et cetera. That gives us access to a lot of data and insights that we can then use to deliver to plan members.

So one of the things that our digital assistant Ella might do is, for example, if you filled a prescription in a pharmacy with a high dispensing fee because dispensing fees are not the same all across pharmacies, she might send you an e-mail or text that says: Hey, Gabriel, you filled in at Pharmacy A. And if you had gone to Pharmacy B, you would have saved $20.

So we're able to prove to plan sponsors that we are able to help them reduce costs at the same time as that we enhance digitally the employee experience. And you mentioned COVID, but one of the things that is happening at the moment is despite all the uncertainty, and maybe we'll have a recession or not, what we find is that the war for talent is at its strongest.

It's really hard for people to find people to attract and retain top talent. And we're finding that the leading employers, particularly in Canada, want to have a very attractive employee benefits plan, and we're there to help them do that.

**Gabriel Dechaine - National Bank Financial Markets - Analyst**

Got it. And the group business, obviously, is a big part of your Canadian story. And over the past few years, there have been some oscillations, I guess. But generally speaking, there's been a lot of tailwinds. And to this, the most recent quarter, we're still seeing some positive morbidity experience and things of that nature. So it's -- those tailwinds have been blowing for longer than I expected.

And the question I have is how much of the, let's say, positive experience is, I guess, remnants of the pandemic where behavior still hasn't gotten back to normal? And how much of it is attributable to actual strategies that you've implemented that are either making your claims adjudication or whatever else better?

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

Yes. So to your first question on utilization is there is this change because of the pandemic. It dipped during the pandemic, but we're back to normal.

**Gabriel Dechaine - National Bank Financial Markets - Analyst**

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

For all intents and purposes at the moment, we’re back to normal. And I would say the other thing, which you’re very familiar with because you’ve asked me that question a few times on earnings call, is that on the morbidity side, we have had issues with mental health in particular.

So we manage at Sun Life the largest block of long-term disability in Canada. And if you look at everybody who is on long-term disability and you look at what is the cause, why are they on long-term disability? The number-one cause for us is issues linked to mental health. One-third of our cases are on long-term disability because of a mental health issue: anxiety, depression, et cetera.

By the way, this is more than twice the second cause, which is cancer at 15%. And so, one of the things that you know well, Gabriel, is that we looked at that -- particularly, we started in 2019 in May -- as something that is not a one-off situation that’s going to go up and normalize. We saw the increase in mental health cases as something that would be more secular and permanent.

So we took some early action in price increases, and in some -- and we went back to market a couple more times after that. In some cases, we went to clients with pretty significant price increases. Now the case was easy because we could show them that look, five years ago, we had x number of people on disability. And today, it’s 3x, right?

So one of the reasons you mentioned, the tailwinds, the discipline that we’ve had in terms of pricing our business and going out to clients -- and by the way, think about this for a minute: You’re an account executive, and I’m sending you to talk to a client in the middle of COVID when their own business might not be doing that well, negotiating significant price increases.

Sometimes, people would come back to the office with scars on their face, if you know what I mean.

Gabriel Dechaine - National Bank Financial Markets - Analyst

Yes.

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

So it requires discipline. And then at the same time, it requires to continue to innovate, as I said, to deliver good value. And one of the things we’ve been very clear on is we’re not about racing to the bottom on prices. When we receive an RFP or request for a proposal from somebody, it says: Hey, five insurers are going to compete for our business. And we find out through due diligence, talking to procurement, et cetera, that at the end of the day, they’re going to go for the lowest-priced provider because we can figure it out.

We don’t even bid because we don’t want to be in that game. We’re in the value game. And as I said earlier, there is nothing better than getting a call from a client and say: Hey, you are more expensive than the next guy, but you guys deliver more value.

And one of the things we hear a lot is the technology and digital innovation. It’s recognized as Sun Life being a leader in Canada.

Gabriel Dechaine - National Bank Financial Markets - Analyst

And I guess that segues to my other question. I look at the pandemic as having accelerated some trends that were already in motion, both good and bad. But on the on the positive side, we’ve talked about virtual care. You’ve invested more in claims handling and stuff. Are there a number of, call it, permanent benefits that have been, I guess, cemented into your business, whether it’s group or individual or whatever else that you’re -- that will benefit you for years to come?
Jacques Goulet - Sun Life Financial Inc. - President, Sun Life Canada

It’s a great question. And I might start with a small story or anecdote. On Friday the 13th in March 2020, we were all in the office.

Gabriel Dechaine - National Bank Financial Markets - Analyst

It had to be a Friday the 13th.

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

I know. And on Monday, the 16th, everybody was working at home. And I had -- the first meeting on the 16th on that Monday was at 8:00 AM, and we were gathering the Canada executive team. So we were all there, and I have to admit, in a fog. We didn’t know. Is this going to be two weeks, two months, two years? There was a lot of uncertainty.

And the one thing that we could have done is decided to tighten our belts and say: Let’s back off, be very prudent, cut expenses. We don’t know where we’re going. And it was quite unanimous, by the way. Everybody, we all decided, no. We’re going to do the exact opposite. We’re going to use that as an opportunity to accelerate.

So we double down on digitization. We digitized a bunch of processes for our advisors, for example, in the career network, where they could increase their productivity, do more meetings using Zoom, e-signatures, all kinds of tools. That’s when we decided to do the deal with Dialogue and the other parts of the business that we accelerated.

And in hindsight, I would say it was a great decision. It really paid off because it allowed us to do even more with our clients using our advanced digital tools. And some of those things we had on our agenda to do, but it was like the next three to four years, and we decided to -- so to answer your question directly, I would say yes. There have been permanent benefits in terms of accelerating things that were going to take quite a bit longer to do if we hadn’t had the crisis.

Gabriel Dechaine - National Bank Financial Markets - Analyst

Bringing it to a more contemporary issue, I guess, the outlook for recession, the group business in -- you can comment on other businesses as well, but the group business seems to be the one that’s most exposed to economic cycles.

Let’s say we have recession starting next week, how long before that event starts to show up in the group claims or claims start to go up? Or do you think that it could be different in the way you’ve structured the business compared to what would have been expected historically?

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

The first thing I would say is the nice thing about Canada at Sun Life is -- we were founded here in Montreal, as you know, 158 years ago in 1865 -- is we have a very diversified business. So we have group and retail, we have health, wealth protection, and so on. So sometimes, what’s happening in the market means that some parts of our business are more challenged than others. But then, there is an effect of their diversification, and we end up doing fine.

But to your specific question, in the group side and the group benefits side, employment levels matter. So here it’s like when you say we have a recession next week, what kind of recession? Is it going to be deep and long and prolonged? Is it going to be a short recession, where employment levels are not too impacted?
I don’t have a crystal ball on that, but I would say generally in group benefits, the employment levels matter because the salary levels matter, the benefits levels matter. People might -- plan sponsors might decide to change some plan design, tweak plan design features to remove some costs. So we -- obviously, that would have an impact.

I have to say, though, given the war for talent, we -- and COVID could have been an opportunity, frankly, for plan sponsors to retract a little bit, and we haven’t seen that. And so, it’ll be interesting if we have a recession, whether what’s -- to see what happens to employment levels, because right now, we tend to see situations where people have a shortage of resources. They would like to hire more if they can.

On the group retirement side, as you know, it’s a pretty straightforward business model because our business is a fee business based on the level of assets under management. So if assets under management go down, of course, our fees are going down.

What people don’t always realize, though, is we also have a business at Sun Life Canada, which we call our rollover business. So if a lot of people are losing their jobs because of a recession, they can roll over into an individual solution with us.

So if our GRS business is starting to decline, we might see a compensating element on the rollover side. So again, the diversification of the business, the fact that we have a wide array of different products and solutions tends to help in these kinds of situations.

Gabriel Dechaine - National Bank Financial Markets - Analyst

Okay, one more group question. I do want to talk about the individual wealth and the distributions parts of your business. But the budget yesterday, and we all knew dental coverage was coming, any updated views on how, [my words], government crowding out the private sector -- is it a marginal impact to your business or --

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

Look, I would say, generally, we are in favor of every Canadian having coverage. It’s the same thing with the whole debate on PharmaCare, which you’re probably familiar with, so the same thing with dental care in my view. Having said that, our view is, to your point, not crowding out the private but, as we call it, fill in the gaps. So where there’s gaps, that’s for -- the [focus is on] the government on filling those gaps.

Today, we serve over 5 million Canadians with their dental coverage. So we’ve got a lot of expertise, a lot of experience. We know how to do this. I want to be careful what I say about the government, but sometimes, it’s not so easy to stand up some kind of a program like that.

So the question embedded in your question in my view is what happens with employer plans? Because the way the government plans is designed at the moment, there are certain eligibility criteria for you to be part of that program. It’s around household income, it’s around ages, and so on, whether you’re on disability or not.

But one of the criteria that they’ve made in their eligibility set of criteria is whether or not you have access to an employer plan, not whether you’re covered by an employer plan, but whether you have access. And if you have access, then you don’t qualify for the government plan. So technically, they’re approaching it in the right way.

Having said that, and I come back to the other question underneath your question, is there a chance or is there a risk that employers say: Hey, the government could pay for this if I don’t have a plan. Let’s cancel the plan, and we’ll keep Vision/Medical/LTD, et cetera, I don’t know.

I mean, I can tell you one thing because we’ve had discussions with the government. They don’t want to see that happen because the bill is going to be a lot higher than -- if all employers in Canada get out of the dental coverage game, the government is going to be left with a major liability, as you can imagine. And they haven’t factored that into their predictions of what is it going to cost.
So we think they’re well aware of this, and that’s why they’ve designed it in the way they have. But they’ll probably have to figure out at some point some other tools to -- or levers to play with if they want to be certain that they’re going to contain this dental program to fill in the gaps process.

Gabriel Dechaine - National Bank Financial Markets - Analyst

You're making my question sound a lot smarter than they are. Individual business, we'll start with wealth and SLGI. You talked about SLGI, which went from $0 to $30 billion of AUM, so it’s been a nice growth trajectory. Markets are volatile. The long-term outlook, let's go with that. What kind of growth rate do you expect from SLGI, given what we have in the rearview mirror? And talk a bit about the partnership with SLGI and MFS, how those two work together, I guess.

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

So look, we like what we’re doing. SLGI is -- I would describe it simply as a manager of managers. So we hire best-in-class managers as sub-advisors in our in our structure. You asked about MFS; we have a lot of leverage. MFS is actually the largest sub-advisor to SLGI. They manage global equity, US equity, global balance. They have a number of mandates.

And as you know, MFS has a great track record and a great performance. They do very well. We also have good leverage with SLC Management, the alternative asset management company that we have.

Gabriel Dechaine - National Bank Financial Markets - Analyst

Right.

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

So recently, for example, we launched through SLGI a private credit fund, which is sub-advised by Crescent Capital Group. So there’s good leverage going on, good synergies going on across the entire set of capabilities that we have at Sun Life.

Look, I mean, SLGI -- your question is interesting because it leads me to say that if you look at the wealth versus health and protection side of Sun Life Canada, the wealth side has been growing faster. So close to 40% of our earnings now are coming from wealth. And as you know, wealth has a higher growth rate than, let’s say, traditional insurance.

So we have high aspirations for SLGI. Of course, like GRS, they’re subject to market volatility. It’s an AUM fee-driven business. But we think the outlook is actually quite good for SLGI.

Gabriel Dechaine - National Bank Financial Markets - Analyst

Now the Sun Life advisor -- I used to pay much closer attention to the number of advisors and just looked at it again recently, and I noticed it’s off quite a bit from its peak levels. Is that a deliberate strategy, or is it a reflection of the competition for talent?

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

In a way, it’s a bit of both. And I have to say, we try to recruit. It’s not been so easy that COVID has not helped. The one thing we will not do is lower our standards of quality, right? So we want top-quality advisors. But the reason I say it’s a bit of both, Gabriel, is because our strategy is a broad multichannel or omnichannel strategy.
And what I mean by that is on the one end, we have something called Sun Life Go, where you can go on our website and buy an insurance policy without talking to anybody. Then a bit over from there, we have Prospr, which we launched a few months ago, and that’s a hybrid model. It’s digital, but you can have access to a salaried advisor through chat or virtual Zoom conference, et cetera. And then next to that, you have our career network, which is the one you’re pointing out we’ve had declines.

Having said that, while we’ve had declines in the number of advisors, because of increased productivity, our sales results have been actually quite good. So our advisors are more productive, part of that is digitization of the business, and we’re ultimately focused on outcomes for clients as opposed to just the number of advisors that we have.

We have more and more financial planning going on. So we’ve made -- I mentioned Dialogue, but another partnership we did is with Conquest, financial planning. It allows our advisors to do an easy basic financial plan. And if every Canadian had a financial plan, it would become a good anchor to achieving financial security.

And then, at the far right of the spectrum, we are working through third-party brokers on high-net-worth and ultra-high-net-worth segment. And these are people buying significant $5 million, $10 million, $15 million policies.

If you look across all the channels and the number of advisors we’re hiring in Prospr, the number advisors we have in our career network, and the number of advisors with whom we work as independent advisors, that is growing, actually.

So across the omnichannel, we’re seeing growth, even though there is, as you point out -- we’re up to 2,800 now -- we’ve had a decline in our career network.

Gabriel Dechaine - National Bank Financial Markets - Analyst

Got it. We’ll go into overtime, if you will, just because I did want to ask about your real estate footprint. A couple of years ago, there was some rationalization. Now the future of work at Sun Life, what does that look like? Your office space utilization, plan for the future, where do things stand?

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

So you might recall, we were one of the early ones in July, summer 2021, where we announced publicly that we would have no mandates for people to come back. So it’s choice and flexibility and empowerment. If you want to work five days at home, you work five days at home. If you want to be in the office, you can be in the office.

And so, where we are today is we’re still learning. I would say there’s a bit of a bell curve in our organization. And what I mean by that is Mondays and Fridays, if you come to our office, there are not many people there, it tends to congregate more --

Gabriel Dechaine - National Bank Financial Markets - Analyst

Offer free sandwiches.

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

Midweek, it’s higher. The reality, I would say, is that it has actually served us pretty well in terms of attraction, retention, and competing for talent. The fact that we’re fully flexible has helped. Now, I can tell you transparently that while I don’t believe we need to be together all the time in person, we need to be together in person some time. Five days at home, in my view, is not the way to go.
So one of the things we’ve talked a lot about at Sun Life is what we call moments of togetherness. So we want our people to spend time together. Sometimes, it’s a social event. Sometimes, it’s a group strategy meeting. Sometimes, it’s innovation -- brainstorming sessions. So we don’t want to create a mandate to make it obligatory for people to come back. But we want people to come back.

And in terms of your question, so what does it mean for our footprint and the different buildings that we have? I would say it’s a bit early at this stage to make a call on that. I think we need to see where this is all going to go as we’re creating incentives for people to come back, even though we’re not mandating it formally at this stage.

Gabriel Dechaine - National Bank Financial Markets - Analyst

Moments of togetherness, so I’ll use that as a title one day -- anyway, Jacques, thanks again for coming and spending the time. We covered a broad range of topics there, and I appreciate your answers.

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

Thank you very much, a pleasure. Merci.