

**RECORD OF SOCIETY OF ACTUARIES
1987 VOL. 13 NO. 4B**

FINANCIAL SERVICES -- WINNING STRATEGIES

Moderator: CHARLES H. BROWN
Speaker: JAMES W. BURNS*
Recorder: LEONARD M. PRESSEY

MR. CHARLES H. BROWN: It is my pleasure to introduce our guest speaker, Mr. Jim Burns, Deputy Chairman of Power Corporation of Canada. Power Corporation's assets are invested primarily in two major public companies: Consolidated Bathurst, which is a forest products company, and Power Financial Corporation. It also has extensive interests in the communication sector in Canada through investments in radio and television and newspapers.

Of most interest to us as a group of actuaries though is Jim's association with Power Financial Corporation where he is the Chairman and Chief Executive Officer. Power Financial has a controlling or substantial interest in four major financial institutions. First, there is Great-West Life which is a major life insurance company doing business in both Canada and the United States, with assets exceeding \$13 billion. The second major component is Montreal Trust, which is a major Canadian trust company offering both personal and corporate services with assets exceeding \$7 billion. Third is Investors Group Incorporated which is a major developer and supplier of mutual funds in the Canadian market with assets exceeding \$7 billion. Last but not least, is Pargesa Holding which is a Geneva based international investment group with banking interests in Switzerland, Luxembourg, Britain, the United States and France. There is no doubt Power Financial's penetration of the financial sector is significant.

MR. JAMES W. BURNS: I thought I might start off trying to be timely. Timely in the sense that you are all in one way or another involved in the financial

* Mr. Burns, not a member of the Society, is Deputy Chairman of Power Corporation of Canada in Montreal, Quebec.

SECTION LUNCHEON

world, and the events in the financial community of yesterday and a few days last week, were very unusual.

A good friend of mine, who has been enormously successful in the Canadian markets, said there are only two things that drive markets: greed and fear. Now think back to the period, January to August of 1987; there can't be any question that greed was in full control. Then, during September greed and fear tousled it out, backing and filling a little bit. Finally, as of yesterday and now in full control is fear.

From Power Corporation's standpoint, we have been waiting all year for this to happen. In fact, in the market we have been punished all through 1987 because we paid off all our debts and had \$500 million cash. What we prepared for in March didn't happen, and then we thought it might happen in May, and it didn't. The stock analysts were saying that this was an organization that had lost its touch and didn't know what to do. Well, yesterday we felt good for a little while because it had finally turned the way we thought, but we took no pleasure out of the debacle that ensued because there will be quite an extensive, and we all hope not too serious, fallout.

There is no real necessity for a fallout. After yesterday, the market close at New York was just about the same as the market of one year ago. Most professional investment managers coming into the end of 1986 were not predicting anything particularly strong by way of a market in 1987. In fact, most of them were predicting a bit of strength in the early part of the year, then some softness, with a drop and corrections, and maybe by the end of 1987, some improvement by a few hundred points over the beginning of the year.

Well, that clearly didn't take place. You may recall on the 2nd of January, the markets in North America took off like a shot, totally unexpected by North American professionals. Of course it was caused by the onset of international funds coming into North America, who predicted a stable U.S. dollar and saw the North American market prices as being grossly undervalued compared with what they were used to. So all of a sudden in 1987, our traditional stock multiples, for which we always thought 10 or 12 was about right, maybe 15 if it was a growth situation, were taken up to multiples of 22, 24 or 26 by the Europeans, Japanese and Chinese.

FINANCIAL SERVICES -- WINNING STRATEGIES

It looks like as of yesterday, a lot of them have gone back home and what we have today is that, after the roller coaster ride in 1987, we are back to where we were about a year ago. A lot of people were hurt in the process, which is too bad, but from the perspective of looking from year to year, it clearly isn't the end of the world.

The Power Financial group has had for a considerable time, direct interest in trust companies, banks, insurance companies (casualty and life), investment dealers, merchant banks, real estate agencies, mutual funds and so on, in Canada, in the United States and in Europe. So I think our perspective covers a fair part of the horizon of financial services.

In all this, I have become more and more convinced that as the regulatory walls come down, the need for specialization and expertise goes up. Think about the buzz words for the so-called new era: A level playing field, where anyone can do anything that they choose; one-stop shopping, an extension of the same idea where one group for one person will provide all things to all people by way of financial products and service. For some time at Power Financial, we've had under our own jurisdiction, all the tools that one would need to handle these theoretical missions. We have tried various combinations of things here and there and we have considered quite a few in theory, but our experience to date is that this concept as it is described is simply not on.

We have seen success where there has been a concentration on excellence with a single focus. What becomes obvious is that if any sophistication is required in the product or the service, and quality is to be delivered, you cannot load on double or triple missions. Stockbrokers should stay with stocks; the banktellers should stay with retail banking services; the casualty agents in effect should stay with casualties; and the life agents should stay with life. We have had very limited success in attempting to acquire double or triple mission on the delivery systems and the people on the firing line. I am not aware of anybody that has had.

We have had some success in cross-selling products. Investors Group salesmen sell at least 70% of the term insurance sales of Great-West Life in Canada. It only happened after Great-West Life designed a short form application and procedure that these people who sell certificates and funds could understand and cope

SECTION LUNCHEON

with. Once it was simple, they could put it in their kit without disrupting their basic business and they were prepared to offer it with considerable success.

Giving another example, we have had a great deal of difficulty convincing the Montreal Trust real estate agent to deliver the mortgage business from their own sales to their own company. A real estate agent simply does not want to have his primary transaction cluttered up with any other possible complication. After quite a few years of trying, Montreal Trust got it to work by preunderwriting all the mortgages at the time prior to the real estate deal. Once preunderwritten, they had the mortgage the instant they closed the sale. Agents now produce something in the order of 50% of the mortgage production for the trust company.

On the investment side of things, and this is equally important, we have found that commercial lending for people is a vastly different world than mortgage or income lending for financial disaster.

As we look at the future of Power Financial, we start now with a very healthy respect for the special requirements for each function, respect for the very culture that is needed to achieve above average results. And it is for these reasons of course, that I believe the life insurance franchise to be among the best and why it will continue to be.

Bankers in the insurance business? First of all, I don't think they will be very good at it. I think they will try, I think they will muck it up, and they will certainly muck up the pricing while they are learning. They will lose money and then they will go back to banking.

The bankers also want to be in the securities business. Today perhaps they don't want to be in the securities business as much as they wanted to be in two weeks ago, but their interest perhaps is still there. Bankers in the U.S. have been attacking and lobbying for a change in the Glass-Steagall Act. Well, it would seem to us that this kind of request suggests we really have a hard time learning. Glass-Steagall was, as you know, enacted post-1924 to protect the banks and the banking institutions of the United States from direct involvement in market fluctuations. The events of the last few days have established that there is still quite a bit of wisdom in a clear line between the two functions.

FINANCIAL SERVICES -- WINNING STRATEGIES

The stock market has a very high emotional content which an actuary would tell you should be insulated from a financial institution in its stewardship role. You can't mix the two over a long period without great danger for human disaster.

Now clearly I am not arguing that everything should and will stay the same. I am saying that great care should be taken in matching real know-how, experience and culture, as we move to do different things. For example, I believe that a life company could manage corporate and personal trust affairs with profit and good long-term results for the customer. There is a natural fit between the two. They require care, caution, system expertise, capacity and stability.

Well, is there change in the years ahead? Yes, of course. Is there going to be new, different, and vigorous competition? I believe so. Does it suggest the demise of a life insurance industry as we know it? Absolutely not. I believe that the specialized benefactors and systems skills to guarantee products, and highly specialized distribution systems will continue to be a formidable competitor to anyone who comes in. The fundamental products and services can and will be improved. I think your products and people have an excellent future in store for yourselves. Markets as we have seen come and go, but the actuary and his or her thing, which is life insurance, goes on forever.

