STANDARD LIFE

Canada's financial services industry – World predator or local prey?

Remarks by Joseph Iannicelli
President and Chief Executive Officer
of Standard Life in Canada

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Does Canada matter? Would anyone notice if Canada disappeared?

That was the rather impertinent question asked by the editors of *Time Magazine Canada* on its front cover in March 2002!

The question came just six months after the horrible events of September 11; Canadian troops had already arrived in Afghanistan and we were engaged in a debate about our role in the war on terror, and Iraq.

On a brighter side, just a month earlier in February 2002, both the Women's and Men's Canadian Olympic hockey teams won Gold Medals at the Salt Lake City Olympics, helped out by a little Canadian dollar buried at centre ice at the Olympic arena. That was a wonderful moment for Canadians. Those two gold medals remain a testament to the pride and strength of Canadians everywhere!

On the economic front, news about the loony was not so glorious. In March 2002, the Canadian dollar was trading at an historical low of around 60 cents to one U.S. dollar. Since a strong currency is considered a symbol of a strong, independent country, we can forgive Time Canada for asking that question about the future of this country in March 2002, even if the question was rhetorical!

Today, the Canadian dollar is sitting near its all-time highs. Does that mean Canada is ready to take over the world? Well, like most things in life, the answer depends on us. Certainly, there are opportunities. The potential is there!

I am here today to discuss whether Canadian firms can be serious contenders in the highly competitive global financial services industry and to ask some fundamental questions about going global:

- Are we strong enough domestically to be able to take on new markets around the world?
- How do we go about competing in those markets? What competitive strengths do we bring to the table?
- Is there room for Canadian companies to grow in global markets?
- Which markets make sense for Canadian firms?

In my opinion, the answer to the first question is a resounding YES! Canada and our financial services industry are strong and have everything it takes to succeed on the global stage. And the time to make a move is now!

Why go global?

Because the opportunity is as enormous as the global industry itself. The global financial services industry is fascinating and is valued in the trillions of dollars annually if we consider its main sectors: banking, wealth management and insurance. The industry is fragmented, sophisticated, crisis prone and resilient. It has been the life blood of economic growth since the development of money itself and tightly linked with broad societal trends like the fall of communism and the rise of open markets.

The industry is at the leading edge of the virtual economy, yet it is one where the importance of the human component in customer relations can never be taken for granted.

The Canadian financial services industry is among the strongest and most developed anywhere, befitting our status as one of the most developed economies in the world.

Our banking sector, for example, is large, geographically diverse and well capitalized compared to most of its international competitors. Compare how the Canadian banks have fared in the commercial credit crisis compared to some of the large international banks. Sure, we’ve seen some large provisions, but in my opinion our banks will work through this issue and become stronger for it.

That is a testament to the strong capital base in Canadian banking. Our insurance industry is also very strong. We were left virtually untouched by the commercial paper crisis in Canada.

Domestic strength of the Canadian financial services industry

Still, we need to give careful consideration to extending our domestic strength into the global arena.

Thirty years ago, it would have been hard to make a case that we were ready for global growth. The Canadian financial services industry was solidly divided into the so-called four pillars: banks, insurance companies, investment dealers and trust companies.

Deregulation of the financial services industry in Canada during the 80s and 90s followed closely what was happening in the U.S. and around the world. Banks bought brokers, insurance companies began selling mutual funds, brokers started accepting deposits. Today, while there are still lots of regulations, including restrictions on life assurance company ownership and distribution, the four pillars compete heavily with one another for the privilege of managing your wealth and providing you with financial services and products.

Because of this increased competition, the Canadian financial services industry is much stronger today! Successful companies are more competitive and more strategic in their approach to customers.

We are better managed and more focused on growth, profitability and shareholder value. Excellent products and services, competitive pricing and compelling value propositions are minimum standards to stay in the game. They are a must if we are to compete.

Standard Life is a prime example of how the industry has flourished. Standard Life is the largest and oldest subsidiary of the Standard Life group, from Scotland. We are celebrating our 175th anniversary in Canada during 2008. We opened our first office in Quebec City in 1833 and later established our Canadian head office in Montreal in 1852.

We believe we were the first life insurance company to do business in this country and today, we are the fourth largest wealth management and life insurance company in Canada with 2000 employees, 1,600 of whom work here in Montreal at our head office.

Our origins are Scottish, but Standard Life is also very much Canadian as we have played an active role in the evolution of the Canadian financial services industry throughout all these years.

We also play an important role in the global activities of our parent company, generating ten percent of its revenues and twenty percent of its profit.

Standard Life's profitability in Canada is not unusual in the Canadian market, which is perhaps why global competitors have already moved into the Canadian financial services sector in a big way. Global giants like Fidelity, State Street, HSBC and ING Bank are having a big impact on the competitive landscape. They bring a welcome global perspective and global experience to the Canadian market.

And that's important because competition in financial services is a driver of innovation and growth. A global presence in the Canadian market works in our favour by forcing Canadian companies to focus on our competitive strengths.

The resulting strategic imperative, in my opinion, is for Canadian financial services companies to level the playing field by executing our strengths globally. From our banks to our insurance companies, to our investment bankers, we need to proactively seek out opportunities beyond Canada's borders.

How we do it

How do we do that? How do we go global?

Quite simply, it begins with vision, capital, leadership and experience. It also requires a deep understanding of our competitive strengths both as a country and as financial services providers.

Our competitive strengths start with our people. Canada is blessed with a highly educated, well-trained, diverse, bilingual and multilingual population, people who are open to the world. These are important qualities any company needs when going global.

Another important competitive advantage is our leading edge, web-based know-how and technology to help manage customer relationships. Canadian financial services have a huge opportunity to take its products, services and expertise to the world in a profitable, culturally sensitive fashion.

A third strength is the strong capital base of the Canadian financial services industry. Canadian companies tend to be more highly capitalized than some of their international counterparts. Our strong capital base permits us to consider new markets from a more confident financial position. Many U.S. and other foreign banks and insurance companies are not in such an enviable position. They are more open to the risks of operating in foreign jurisdictions.

Canadians also need to understand how to apply their competitive strengths effectively in chosen markets. It requires a deep understanding of local markets in a global context, of long-term demographics, of cultural issues, of how people think and how they save and spend, of the economic and legislative barriers in specific markets, of branding issues and the degree of competition we expect to meet there. All of this requires superb research.

Which markets do we choose and how do we enter those markets?

Good research and local market knowledge will also help us understand the best ways to enter a market. Do we look for acquisitions to establish a presence, or do we grow organically, possibly through joint ventures as Standard Life and others have done in India and China?

Canadian firms also have to pick their markets carefully. The global industry is characterized by several large mature markets, like the United States, Canada and Europe. These markets are saturated, highly competitive and constantly changing, but still, there is considerable value to be had by participating in them. For good companies prepared to do in-depth research, mature markets offer solid market opportunities. Every mature market has niches or opportunities that are not necessarily obvious to the uncritical eye.

The North American automobile industry before 1974 is a great example. Until then, the North American auto market was shared by four automobile producers, all American. Theirs was a world of big, powerful cars that used plenty of cheap gas. When the first oil crisis hit in the mid-1970s, the Japanese decided to move into the market. They had no manufacturing facilities, and no distribution, yet they took the risk of entering the market.

Why? Because they saw an opportunity they knew U.S. manufacturers could not fill – rising demand for smaller, fuel-efficient cars. Toyota and Honda invested heavily in North America and it worked. By the time the U.S. manufacturers responded, the Japanese had acquired significant market share. This pattern was repeated by the Koreans a few years later and by the German automobile industry too. How many BMWs or Mercedes did you see on the road 30 years ago?

In the financial services sector, we also have some interesting Canadian success stories. Our largest insurance companies have made major acquisitions in the U.S. and Europe, and our banks have made big inroads in the U.S., Mexico and the Caribbean.

Although Canadian companies tend to look first to the U.S. for expansion opportunities, the U.S. market remains a difficult market to enter for insurers and other financial services companies. Establishing a national presence, especially by way of acquisition, is a very tough proposition in that country, because state regulation of the insurance industry makes it difficult to achieve economies of scale.

However, the U.S. is too big to ignore, especially for Canadian companies. We have seen some very large Canadian-U.S. mergers in the insurance industry over the past five years, including the Manulife acquisition of John Hancock just a few years ago, and the Great West Life acquisition of Putnam, a Boston-based wealth management company.

Each company should have a well thought out strategy for growth, whether it is by acquisition, or of an organic nature. Companies can grow organically by being ahead of demographic growth in both mature and emerging markets.

There are some massive demographic shifts occurring around the world today. We need to understand those shifts and act on them.

The best known demographic shift is the aging of the baby boomers. Everybody is on that bandwagon and for good reason. Baby boomers have amassed a lot of wealth that needs to be managed.

However, it is the next generation, the so-called X and Y generations, that we need to focus on now. They will inherit much of their parents' wealth and they will most certainly generate a lot of their own wealth. They are a potentially potent market and we need to understand what their needs are and how best to reach them and do business with them. We have to be ready to change our business model because the X and Y generations are far more comfortable receiving web-based services than they are meeting with advisors. And knowing how these generations think is important, because they are future leaders and we need their ideas.

Good research will help us understand the changing needs of successive generations. It will drive distribution of our products, the services we offer and our customer and advisor education programs.

In emerging markets, it is much the same story. The middle class is growing rapidly in China and India and this new generation has growing financial resources to invest in their future.

According to Euromonitor International, the Chinese middle class will grow from 80 million people in 2007 to almost 700 million people by 2020. In 12 years, the Chinese middle class will be twice as large as the entire U.S. population today! The Chinese middle class is already generating $100 billion in insurance premiums. The opportunity is there and it is huge.

Knowing how to deal with the Chinese is going to be important because their growth is driving global growth.

The Chinese will build more power generation facilities in the next ten years than North America has built since World War II. They are building large numbers of world class, leading edge universities that will rank in the top 100. They are building infrastructure at a rate that we have rarely ever seen.

We can't fear China. No matter what we do, China, as an economic force, is coming. Let's take advantage of their growth! We should be levering our strengths as Canadian companies to embrace their growth. We should be working with the Chinese as business partners. We <u>need</u> to work with them to be part of their economic growth. In doing so, we make ourselves stronger too.

The situation in India is very similar. Standard Life has entered both markets through joint ventures with strong local partners. Our businesses there are growing rapidly.

Emerging market consumers have increasing access to web-based technologies and they use these technologies every day, just like we do in North America. This represents a huge opportunity to use our competitive strengths in web-based technologies to generate market share and profitability.

The global opportunities are definitely out there!

<u>Doing business in Canada</u>

Before I conclude, I want to add that Canada's competitive strengths as a nation – our workforce, our education, our languages, our technology, our financial solidity and more, mean that we can deliver global services from just about anywhere in this country. And on a more micro level, Montreal is no exception.

Montreal is a great place to live, play and do business, including global business. At Standard Life, in addition to managing our Canadian business from Montreal, we also participate in projects and services on behalf of the entire company from here.

Our innovative approach of communicating with members of group retirement plans, for instance, is a perfect example of a program that we created here in Montreal that can be, indeed is being rolled out in global markets. Our *Plan for life* program, which is a multimedia program designed to guide people through the challenges of financial planning throughout their careers and into retirement, is currently being adapted for the United Kingdom and elsewhere.

In addition, our graphic design studio in Montreal is now charged with managing graphic design for the whole company. We are able to provide high quality, lower-cost services to our colleagues worldwide, saving millions of dollars per year. Canada is at the forefront of Standard Life's global efficiency exercise.

At Standard Life in Canada, we have everything we need to carry out our business here. Montreal is a city with four good universities, including three business schools, highly skilled graduates, and an abundance of actuarial talent. Our bilingual and multilingual population helps us stay globally connected.

After 175 years, Standard Life is in Montreal to stay, and we are the only life insurance company to be headquartered here!

So I ask *Time*'s question once again, will anyone notice if Canada disappears?

Canada is not disappearing. And Montreal is not disappearing either. In Montreal and throughout this country, we have developed our competitive strengths and found new confidence in ourselves. We have the expertise. We have the talent. We have the technology and the self confidence to take our products, services and expertise to the global stage.

We know how to compete. We know how to make money. It's time to make our presence felt in world markets and to open up the opportunities that will make Canada better for our children, for our neighbours, for our business community and for everyone else who can benefit from exposure to that hugely interesting and competitive world beyond our borders.

This is not about protecting our local values or territory from the rest of the world. It is not about being insecure. It's about playing to our strengths and making our values, our culture and our expertise more relevant in a world that is more and more global. The world needs more Canada! Canada does matter on the world stage!