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By Editor Test *Wed, Nov 23, 2011*

After the report of a $900 million charge in the third quarter, Manulife's decision to limit distribution of John Hancock annuities can't have shocked many people.

In 2005, John Hancock Life was riding the pre-Crisis boom in variable annuity sales. In U.S. banks alone, it sold $1 billion worth of its Venture variable annuity with the Principal Plus for Life living benefit rider, doubling its 2004 bank sales. Over the next six years, the company would amass more than $56 billion in total VA assets.

But the Global Financial Crisis spoiled the party for John Hancock, as it did for many VA issuers. In 2009, the firm initially shifted its focus to a new, simplified VA contract called AnnuityNote, which had less exposure to market risk. AnnuityNote flopped however; it didn't have the flashy features that independent advisors craved and it was pulled from the market last March.

By last May, journalists in Canada, the home of Manulife Financial Corp., John Hancock's parent company, were starting to scoff:

> Once viewed as the boldest foreign acquisition in Canadian financial services history, Hancock has become Manulife's albatross, sucking up resources to such an extent that some analysts think it might be time for the company to sell it and flee the U.S. for the promise of Asia.
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> Manulife took a $1 billion write-off last year because of diminished prospects for its U.S. business; John Hancock takes up almost half of Manulife's equity capital, but, as National Bank Financial analyst Peter Routledge has noted, produces only one-third of its earnings.
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> The company's large variable annuity business in the U.S. became a major problem during the financial crisis because of the massive amount of exposure to stock markets that it built up. With the rebound in equities, that is no longer the problem that it once was.
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> But [Manulife CEO Donald] Guloien has nevertheless pledged to remake the company's business – to put more emphasis on fee-based products like mutual funds, to wring better earnings out of its insurance business, and to take less risk so that it will better withstand the next market meltdown.

The stock market slippage and the announcement of more Federal Reserve loosening last August just made things worse for everyone, including John Hancock. Market losses overwhelmed the company's VA hedging program, and in early November Manulife reported a $900 million charge against earnings to fill the hole.

Annuity sales also took a big hit. John Hancock's VA sales in the third quarter were down 32% from the same period in 2010, to $412 million. Thanks to the low interest rate environment, which hit all fixed annuity issuers, its FA sales also declined. Sales fell 48% from a year earlier, to $176 million.

Given all that bad news, it couldn't have surprised many people last week when word leaked out that John Hancock had decided to lay off or transfer some of its annuity people and to stop distributing its annuities except through "key partners." That includes the independent advisors in John Hancock Financial Network and Edward Jones. Edward Jones sells a front-loaded John Hancock variable annuity, which means that sales don't increase the insurer's exposure to problems recouping deferred acquisition costs.

In response to an inquiry, a John Hancock spokesperson explained in an e-mail that three JH Venture variable annuities (7 Series, 4 Series, and Frontier), three market value-adjusted fixed annuities (JH Signature, JH Choice and Inflation Guard), and the JH Essential Income immediate annuity would be withdrawn from general distribution.

The e-mail included the following statement:

> Due to volatile equity markets and the historically low interest rate environment that is expected to continue for an extended period of time, John Hancock is restructuring it annuity business. Going forward, our annuities will be sold only through a narrow group of key partners such as John Hancock Financial Network. John Hancock will continue its award-winning service to its annuity clients, who will see no change in how their accounts are handled.
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> Partners such as John Hancock Financial Network sell many John Hancock products. This will allow them to continue offering a full complement of products to their clients. We continually evaluate our products, but at this time will not be making any modifications to the annuity products we offer. Many of our annuity employees, including most of those in the sales area, have been transferred to our growing mutual funds and 401k businesses. There were some staff reductions.
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> We looked at our wholesaling capabilities in mutual funds and VA where we had a variety of distribution coverage arrangements, and have merged our VA wholesaling team into our mutual funds distribution team. Prior to our restructuring we had 20 wholesalers covering channels for both mutual funds and VA, and 30 wholesalers who focused on VA. We now have 14 wholesalers who support both VA and mutual funds and their focus will be on firms where we distribute both products. As a result of restructuring our annuities business, 36 wholesaling positions were eliminated.

Three people close to the retirement industry shared their thoughts about John Hancock's move with RIJ this week. One suggested—and this is pure hearsay—that the firm preferred to shift its focus to the nascent but potentially huge in-plan annuity market. John Hancock, with Prudential, recently founded IRIC (Institutional Retirement Income Council) to promote in-plan annuities.

Another observer noted that John Hancock was a merely a victim of persistent "below 2% 10-year Treasury rates", plain and simple. A third observer, showing a trace of schadenfreude, believed that John Hancock was paying the inevitable price for the pre-Crisis hubris of its once-rich VA riders. Back then, he said, wirehouse brokers would sometimes irk other carriers' wholesalers by asking them, "Why can't you be more like John Hancock?"