Manulife faces OSC disclosure probe

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Manulife Financial Corp., MFC-T which has recorded two consecutive quarterly losses totalling about $3-billion, failed to fully inform investors about the damage that falling stock markets would inflict on its balance sheet, securities regulators have told the company.

Late yesterday, the country's largest insurer revealed that the Ontario Securities Commission is looking into its disclosures and, separately, that its long-time chief financial officer is retiring.

The company said the two developments are unrelated.

The Ontario Securities Commission sent the company an enforcement notice this week, relating to disclosures about its business selling guaranteed investment products.

While Manulife says it believes that it met all of the requirements, the OSC has come to the “preliminary conclusion” that it failed to meet its rules for timely disclosure to investors.

“If more information would have been available, investors would have made different decisions earlier,” said ***Anthony Scilipoti***, executive vice-president of ***Veritas Investment Research Corp***. and an expert in accounting and disclosure issues.

The key issue is Manulife's stock market exposure from its large business selling variable annuities and segregated funds. Those products are like private pension plans for individual investors; Manulife takes a customer's money, invests it, and promises payments down the road. When markets drop, it must build up capital and reserves to protect against any shortfall in the amount it has promised to pay customers in the future.

While most of the payments that Manulife has promised will not come due for decades, the plunge in stock markets late last year caused a growing shortfall between the amount of the guarantees and the value of the portfolio supporting the business. The shortfall stood at roughly $30-billion at the end of March, forcing Manulife to boost its reserves to $7.7-billion.

Manulife is not the only insurer to be walloped by its stock market exposure.

It has suffered more than some competitors partly because the company was not hedging its stock exposure. Manulife's stock fell from $39 at the beginning of October to a low of $9.20 in early March.

It will now have a chance to respond to the OSC, and provide information, before staff of the regulator decide whether to begin formal proceedings.

A spokeswoman for the OSC declined to comment, and the regulator's specific allegations remain unclear.

Meanwhile, the company disclosed that chief financial officer Peter Rubenovitch is retiring after 14 years, to be replaced by Michael Bell, who has been the CFO of Cigna Corp. for the past six years.

Mr. Rubenovitch worked closely with recently retired Manulife chief executive officer Dominic D'Alessandro.

Donald Guloien, Manulife's new chief executive, also sought to play down hopes that the recent rise in stock markets will significantly boost Manulife's profits, by allowing the company to release some of the money it socked away as it scurried to bolster its financial cushions.

A large portion of the benefits the company will receive from rising stock markets could be offset by the need to boost reserves due to lower corporate bond rates, as well as a more conservative assessment of what policy holders might do, and lower investment returns in other areas, Manulife said in a statement.

“While we have seen encouraging improvements in the equity markets since March 31, our earnings and capital levels will continue to be impacted by equity market and interest rate volatility, and we will remain focused on fortifying capital,” Mr. Guloien said, adding that one of Mr. Bell's first priorities will be to complete Manulife's plan to ensure that it has strong capital levels.

Manulife (MFC-T)

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