



## Can This Old-School Insurance Company Change its Tune?

### Description

**Manulife Financial Corporation** ([TSX:MFC](#))([NYSE:MFC](#)) CEO Roy Gori first caught my attention in September 2017 a month before he became CEO of the 128-year-old insurance company.

Gori, who ran Manulife's Asian business before getting promoted to the top job, made some harsh comments about the insurance industry in a speech to attendees of the 2017 Scotiabank Financials Summit.

Fundamentally, Gori didn't believe the insurance industry in Canada was a winner in the eyes of the buying public; he wanted to change that by making it easier to buy insurance quickly and efficiently over the internet.

What an amazing concept. It's something **Progressive Corp.**, one of the largest property and casualty insurance companies in the U.S., has been doing since 1997. Of course, the property and casualty business isn't quite as complicated as life insurance, but something tells me if they did offer life policies, it would figure out how to make the buying process simple.

### Gori's latest obsession

At Manulife's 2018 Investor Day held June 27, Gori laid out the company's five [strategic priorities](#) for turning around the company — something Fool contributor Haris Anwar touched on in his June 29th article about Manulife.

Anwar concluded that MFC stock was a buy around \$17 a share, about 28% lower than where it currently trades. That's a significant decline for a company that's lost a lot of ground over the past decade.

Is this assessment warranted?

### Let's consider the company's five strategic priorities

Of Manulife's five priorities, the easiest to achieve, in my opinion, is the freeing up of \$5 billion of

capital in its legacy businesses from divestitures that it will then reinvest in growth areas such as Asia and wealth management.

Its legacy businesses include the company's annuity business in North America, long-term care insurance, and specific longer duration guaranteed insurance products. Of the three areas, long-term care will undoubtedly be the most difficult to unload, because there are a number of insurers exiting this business line, leaving too many sellers and not enough buyers.

The next most readily achievable strategic priority is accelerating growth in areas such as Asia and wealth management, where it's already having significant success. It wants to earn 66% of its core earnings from its highest potential businesses, and I don't see why it won't be successful.

Finally, the third strategic priority I think is doable is cutting \$1 billion from its annual expenses on a permanent basis. It's never easy to trim the fat, but if Manulife wants to compete with the biggest players around the world, it's got to do so from an appropriate cost structure.

### **The two most difficult strategic priorities**

The company's last two strategic priorities are the intangibles that businesses so desperately aspire to but rarely achieve.

Gori wants to achieve two quantifiable objectives as part of its strategic priorities to put customers first and foster a high-performance work culture.

First, he wants to boost Manulife's net promoter scores — the degree to which customers would recommend its products and services to a friend or colleague as opposed to a competitor's — by 30 percentage points over the next four years.

Companies tend not to be very transparent about these numbers, so it will be interesting to see how Gori intends to convince investors that Manulife is improving its customer engagement.

Second, Gori wants to create a culture of accountability where performance both regarding top-line revenue growth and with regards to expense control farther down the income statement is built into the company's DNA.

To achieve this intangible, Gori would like to see employee engagement in the top quartile by 2022. Currently, between 50% and 75% of its employees are considered engaged, suggesting up to half its employees aren't satisfied with their work at the company. That's never a good thing.

### **The bottom line on the CEO's strategic objectives**

In May, I'd [suggested](#) income investors consider Manulife stock because of Roy Gori's honest assessment of both the industry and his company.

However, I'd recommended that those interested in MFC stock for capital appreciation wait for a quarter or two to see how the company's transformation is coming along.

Nothing has changed, in my opinion, except for the strategic priorities being out in the open. I'd wait until 2019 to jump on the Manulife bandwagon, but only if the evidence suggests it's genuinely making headway.

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