OVERVIEW:
Opinion Leaders on Mergers in Financial Services

Prepared for our Commentators
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On behalf of Sun Life Financial

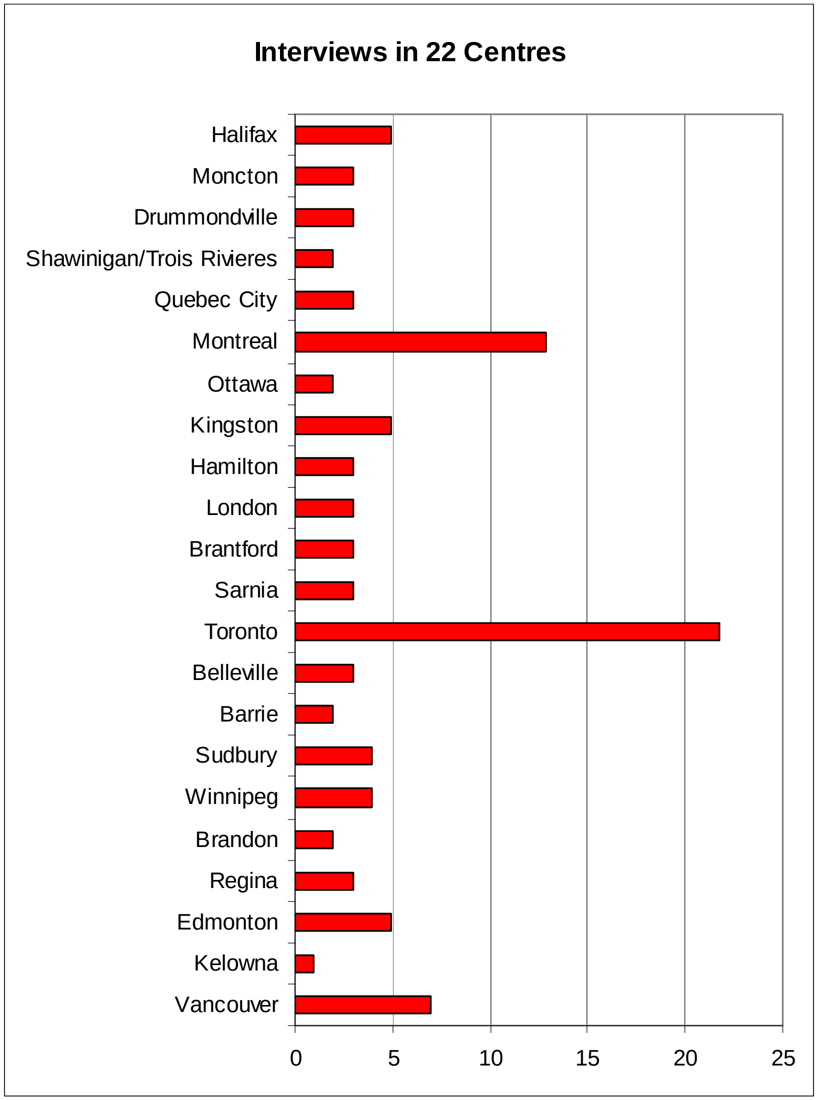
The Brondesbury Group

A. INTRODUCTION

- This overview focuses on the 101 personal interviews of one hour or more conducted between February 23rd and March 23rd 2004. The people interviewed were 'persons of influence' from more than 20 communities across Canada. About 20% of the interviews were conducted in Western Canada, 10% in Eastern Canada, 20% in Quebec, and the remaining interviews were from Ontario.

Who Did We Interview?

- Persons of influence included 83 community leaders and 18 regional and national opinion leaders. Community leaders were selected from lists of executive members of community organizations across Canada. We began with organizations like the Chamber of Commerce, Board of Trade, United Way, Rotary and Economic Development Groups. The 18 regional and national opinion leaders were a mix of business journalists, former regulators/senior civil servants, senior academics, large pension fund investors, consumer/business advocacy groups and others. No respondent worked for a bank or life insurer.



B. BACKGROUND

- The past 15-20 years have seen tremendous concentration among Canada's financial institutions. There are now effectively two main 'financial pillars' led by the five dominant banks (Big 5) and the three dominant life insurers (Big 3). Control of the investment dealer industry is largely in the hands of the Big 5 banks, which also absorbed most of the trust industry. Much of the mutual fund industry is also in the hands of banks and life insurers. In short, Canada's domestic market for financial services is both small and mature by world standards.

- In recent years, Big Canadian Financial Institutions (FIs) have sought to improve their position by making their operations more efficient, and at times, by expanding into new markets. Domestic and foreign acquisitions have been the hallmark of this era. The push for further financial institution mergers is likely to continue. That push is likely to include requests for cross-pillar mergers (banks & insurance companies) of major FI's, as well as mergers within each pillar (bank with bank, or insurer with insurer).

- This overview examines the views of 'persons of influence' across Canada in regards to FI mergers. Each interview was split into three sections to gather these views and opinions.

- Initially, questions were open-ended and simply asked what type of merger was best/worst for:

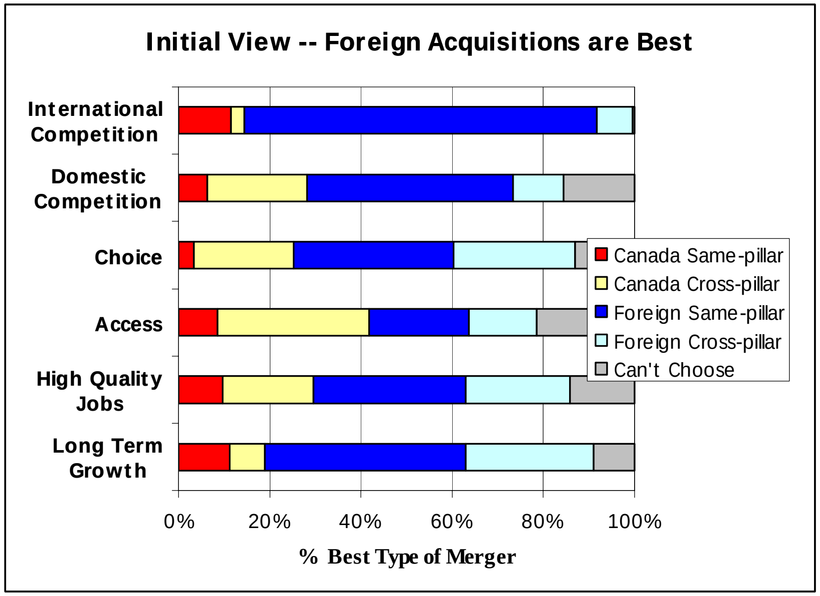
    - Making Canada's financial institutions more competitive internationally,
    - Fostering more domestic competition,
    - Access to a wide range of products and services,
    - Choice of suppliers and products,
    - Long-term economic growth, and finally
    - Creating high quality jobs.

- In the second part of the interview, we asked people to give their opinions once again on these criteria. But, they were asked to consider their answers in light of 3-5 issues that are often associated with each criterion. Opinions often shifted in response to the issues.

- The final check on opinion change was very brief. It consisted of ratings of agreement with a number of assertions that banks and life insurers make in presenting their views on mergers. Most of these statements reflect a bias, but the agreement ratings make it clear whether the informed public accepts this bias. As such, these ratings help us understand why people agree or disagree with merger proposals of different types.

C. INITIAL VIEWS

- We first look at initial top of mind views about FI mergers. The exhibit shows the percent of respondents that said each type of merger would be the best for each criterion.



- Foreign Same-pillar acquisitions are initially viewed as most effective for fostering both domestic competition and international competitiveness. Strengths are there to be gained from the exposure and access to US/Foreign markets and capital. Staying within pillar allows the organization to grow and diversify its product offerings. This gives the company a competitive edge, while taking advantage of new technologies and incorporating new ideas of culture and 'ways of doing business'.

- A few quotes from opinion leaders convey their reasons for supporting Foreign Same-pillar mergers as the best means of developing the international competitiveness of our big financial institutions.
  "Gets them into foreign markets and a competitive edge in these markets." Jim Hudson, Moncton.
  "Buying in the US means you get a subsidiary in a foreign country, means you get presence there, increasing international competition" Morry Brown, Sudbury, ON.
  "Increases the range of services, offers products more competitive, improves output" Michel Poulin, Shawinigan.
  "It's the least bad. It would increase competition and that's good." Ronald Rea, Scarborough, ON
  "Give breadth to market, access to additional equity, and credibility"
  "Foreign acquisitions would produce economies of scale and other efficiencies for the insurance industry that cannot now be achieved in a Canada-based company"

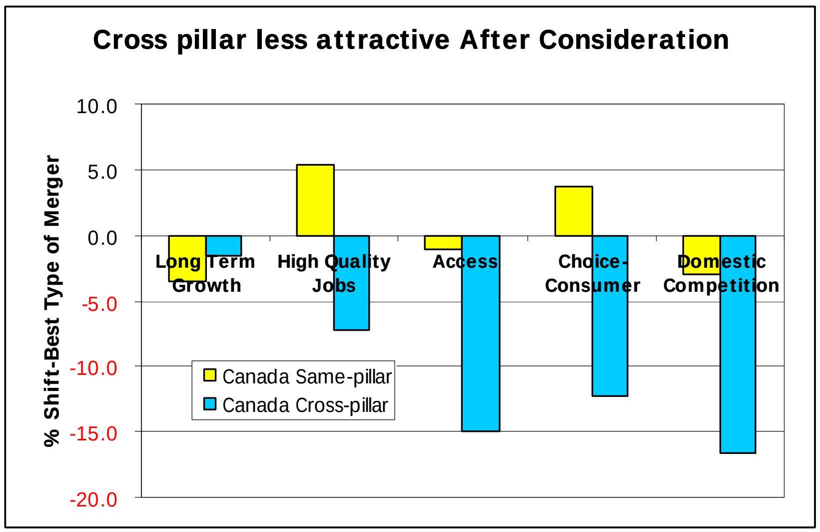
- Domestic Cross-pillar mergers are not initially viewed as effective for fostering international competitiveness, but they are initially viewed as the second most effective type of merger for building domestic competition, receiving support from 2 out of 10 opinion leaders. This number drops by half after key issues are considered—making it about the same as bank-bank mergers in popularity.

- Apart from giving access to products and services, Foreign Same-pillar mergers are initially viewed as the most desirable type of merger across the set of criteria. While not shown, we note that Domestic Same-pillar mergers are viewed as the worst type of merger for ensuring either domestic competition (73%) or international competitiveness (51%).

D. CRITERIA CHANGE VIEWS

- Here we examine how opinions shifted after opinion leaders thought about the issues surrounding each topic. During second half of the interview respondents were **asked to consider specific issues** when they discussed each of the five major criteria for judging mergers.

- After considering specific issues, the preference for foreign mergers over domestic mergers increased markedly for all criteria except high quality jobs, which showed a strong preference for foreign acquisitions from the start. Focusing on domestic mergers, we found the popularity of cross-pillar mergers declined markedly after considering a full range of issues. We also found that people without an initial opinion had developed a viewpoint.

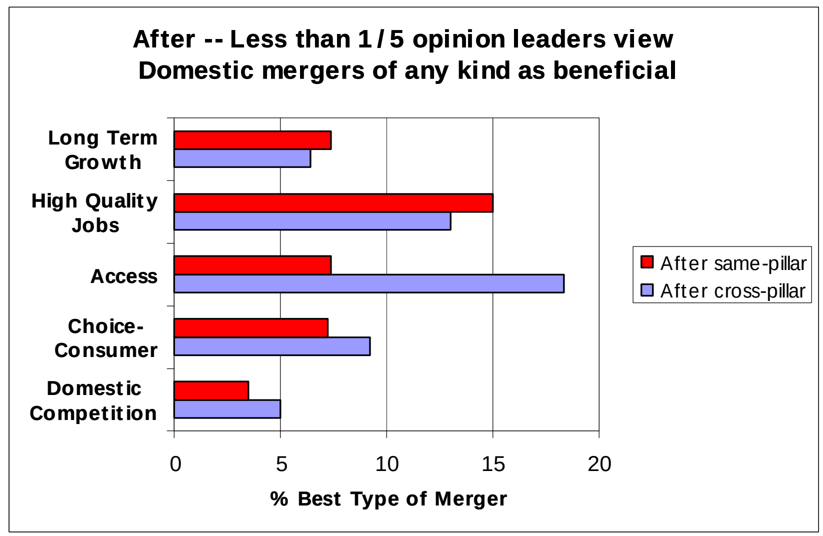


- With the exception of access to service, opinion leaders come to the view that bank-insurer mergers and bank-bank mergers are equally unpopular (in statistical terms) types of domestic mergers for delivering real benefits to Canadians. Of those favoring domestic mergers, many see them as "bulking up" before a foreign acquisition. Still, it is foreign acquisitions by Canadian FI's that are seen as the best way to benefit Canadians.

"Competing internationally gives you a leg you don't have... Can grow local jobs. Growing the organization means growing jobs." Claude Lamoureux, Ontario Teachers Pension Plan Board, Toronto.

"Buying outside Canada allows for diversification of markets and products." Dan Trotter, Economic Development Committee, Brandon.

"Recognize there are people outside our borders who can bring ideas and products to the table." Lynn Buckley, Agenda Partners, Halifax.

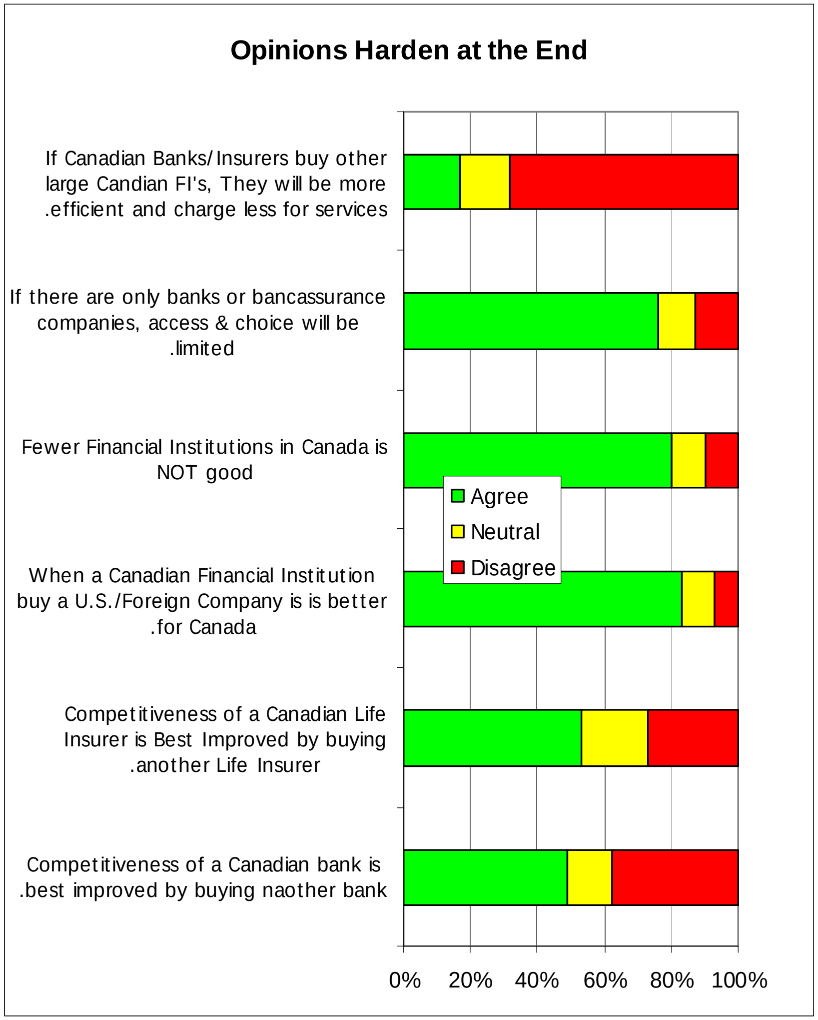


E. VIEWS ON KEY ARGUMENTS

- In the final portion of the interview, opinion leaders rated their agreement with six main statements (shown on the right) and some 32 related statements. These statements are largely extracted from bank and life insurer submissions to the Department of Finance regarding mergers. The statements reflect key arguments or views about the kinds of mergers that should be permitted or encouraged.

- Most opinion leaders (68%) disagreed with the statement that FI's will be more efficient and charge less for services. While many differentiated the two points, three-quarters (77%) did not believe FI's would pass on cost savings to consumers.

- Two similar statements, 'Fewer Financial Institutions in Canada is NOT good' and 'When a Canadian FI buys a Foreign Company it is better for Canada' both received more than 80% agreement among respondents. The argument that access and choice will be limited if there are only banks and bank-owned insurance companies also received a high level of agreement. While not shown, we note that most opinion leaders (83%) feel it will be harder to find credit if there are fewer financial institutions. They also believe that fewer FI's will mean lower service levels for consumers (72%).



F. CONCLUSIONS

- In our view, there are four main messages that come from this study.

  1. If you ask people to think about the issues, they develop a view quickly.

  2. Further consolidation in Canada is undesirable. US/Foreign acquisitions are beneficial no matter which of the criteria are used.

  3. The initial view is that domestic cross pillar mergers are largely harmless. After considering the issues, opinion leaders become more adamant that there should be ‘no further consolidation’ among the Big 8 financial institutions. Bank-insurer mergers and bank-bank mergers become equally unpopular types of domestic mergers for delivering real benefits to Canadians.

  4. Most shifts away from an initial viewpoint reflect a strong sentiment against domestic mergers and a positive desire to see Canadian financial institutions grow into other markets.

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