August 1994

WHERE I WAS WHEN...

CONFED LIQUIDATION

BRUCE GOWANS

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ONE FRIDAY MORNING in early August of 1994, the phone rang at a rented cottage in Rockport, Mass. Bruce Gowans, then vice-president of group underwriting at Confederation Life Insurance Company, answered. It was Bruce's father, who'd just heard on the news that Confederation Life was in liquidation.

Gowans knew the insurer was experiencing difficulties—he was involved in talks with Great-West Life about merging the two companies' group benefits businesses—but the news still hit him hard. "It's like when you have a death in the family," he recalls. "You might know it's coming, but it's always a shock when it happens."

Technically, Gowans was still on vacation at the time. So when his wife—apprehensive about the situation—asked him what they were going to do, he said, "Well, we'll go to the beach." Monday morning would come soon enough.

And Monday brought with it a lot of confusion and uncertainty. The liquidator wanted to sell the business, so Confed's employees became its "contract employees," tasked with trying to keep the business going while a buyer was sought.

However, there was no precedent for such a large liquidation in the insurance sector. While there had been two previous liquidations—Les Coopérants and Sovereign Life—they were both fairly small. "I'm not even sure people were all that aware of them, whereas Confederation Life was big," Gowans says. Developing procedures around Confed's liquidation was, therefore, a work in progress.

Confederation Life's plan sponsor clients were understandably concerned about the impact on their employees. Who was going to pay their benefits? Some clients moved to other insurance providers within the first couple of days of the liquidation announcement. However, Gowans adds, the liquidator quickly made it clear that new claims would be covered and, to stop further movement, got a court order restricting companies from transacting in the business of Confederation Life.

The liquidator tried hard to keep the business intact, creating incentives for plan sponsors to stay with Confed, says Gowans, adding that most did stay and a few even returned later. However, the event has brought the insurance industry under greater scrutiny. Plan sponsors now ask questions about an insurer's level of capital as well as what would happen if the company failed. "That was virtually unheard of prior to Confed," he notes.

The liquidation also had a direct impact on the players in the insurance market, with Manulife Financial's purchase of Confed's group life and health business in 1994. "Manulife went from being a relatively small player in the group benefits business to being one of the largest," Gowans explains. Though he's not sure if Manulife's acquisition was a tipping point, he notes that more consolidation came after Confed (see Waves of Change for examples).

As for Gowans, he enjoyed that Friday at the beach. He lived through the thick of the liquidation. And he came through unscathed—with another 17 years at Manulife to show for it.

By Brooke Smith, managing editor, *Benefits Canada*. brooke.smith@rci.rogers.com

WAVES OF *Change*

1996: The Manufacturers Life Insurance Company merges with North American Life; London Life buys Prudential Insurance's Canadian operations; Liberty Health buys Ontario Blue Cross

1997: Great-West Life (GWL) buys London Life

1998: Mutual Life acquires Metropolitan Life's Canadian operations; Canada Life acquires Crown Life

1999: Maritime Life buys Aetna Life

2001: Manulife Financial acquires Zurich Life Insurance's group operations, followed by the rest of Zurich Life

2002: Maritime Life buys Royal & Sun Alliance Insurance Company of Canada; Sun Life Financial scoops up Clarica

2003: GWL buys Canada Life

2004: Manulife Financial merges with John Hancock Financial Services, Inc.; RBC Insurance buys Unum Provident