John Hancock swims against the tide, doubles down on independent broker-dealer business

June 23, 2016

By Bruce Kelly, Investment News

Unlike many insurance companies who are fleeing the high-risk, thin-margin independent broker-dealer business, John Hancock Financial Network, through its independent broker-dealer, Signator Investors Inc., has doubled down on its commitment.

Signator in May closed on its deal to acquire 883 registered reps and advisers from Transamerica. Those former Transamerica advisers have $25 billion in client assets and Signator now has close to $50 billion in assets under management, according to Brian Heapps, John Hancock Financial Network's president.

After cutting about 200 low producers and adding the former Transamerica advisers, Signator now has close to 2,200 advisers under its roof, almost double what it had before. The average production of its advisers has increased from $125,000 to $175,000 after these moves, Mr. Heapps noted.

And Signator will continue to kick the tires at other broker-dealers, focusing on small and mid-sized broker-dealers looking to exit the business because of the costs of increased regulation, particularly the Department of Labor's new fiduciary rule for retirement accounts.

"We are looking for opportunistic acquisitions that we can take advantage of to continue to gain scale," Mr. Heapps said. With the addition of the former Transamerica advisers, Signator's total annual revenue will approach $500 million, according to Mr. Heapps.

Many in the industry consider half a billion dollars in annual revenue the watermark for a firm to have the scale necessary to survive and thrive in an era when costs of regulation and technology continue to increase.

Signator's investment comes at a time when insurance company giants, including MetLife and American International Group, have sold their independent broker-dealers.

MetLife Inc. in February said it was selling its U.S. adviser unit to Massachusetts Mutual Life Insurance Co. And in January, American International Group Inc.'s CEO Peter Hancock cited the Department of Labor's fiduciary rule as part of its decision to sell its broker-dealer unit to private-equity firm Lightyear Capital and Canadian pension manager PSP Investments.

"There are a few insurance companies that seem committed to the independent broker-dealer business, like [Lincoln Financial Group] and [Massachusetts Mutual Life Insurance Company]," said Jon Henschen, an industry recruiter.

"Others are more iffy to their commitment," he said. "The biggest factor against the insurance companies, as I see it, is the record low interest rate environment. When a company is financially stressed, it starts selling things and focuses on core business. Many of those types of firms have been dependent on variable annuities, and that business is tanking."

Terms of the Signator acquisition of Transamerica, which was announced in November, were not revealed. Signator on Thursday announced the addition of a unified managed account and separate account programs to its platform, geared towards the investment adviser, or hybrid, reps.

Signator’s evolution began almost 10 years ago. “The strategy we started in 2007 was to take the John Hancock broker-dealer, which at the time did a lot of business in proprietary products, to independence,” Mr. Heapps said.

“A year and a half ago we rebranded to Signator from John Hancock Financial Network,” he said. “[We] renamed the firm Signator to get distance from John Hancock product manufacturing name.”

“If you look at some of the other firms and the reason they left the business, like AIG or MetLife, they were avoiding being too big to fail,” Mr. Heapps said. “We don’t have that problem. We have a Canadian parent company, Manulife Financial Corp., and they like distribution.”

“We are one of the few components of the John Hancock network that actually has line of sight to the end customer, and that gives them a lot of comfort,” he said. “We needed scale.”