Canada’s Life Insurance Sector: Back From the Brink

Description

One doesn’t have to think back too far to remember the awful situation that Canada’s life insurers (often referred to as “lifecos”) faced during the financial crisis. One of the country’s highest-flying sectors had crashed down to earth – and then some. It was sometimes a struggle even to maintain adequate capital ratios.

Back then, Canada’s lifecos were referred to as “black boxes”, meaning that it was impossible to know exactly what one was getting by buying shares. While these companies are still very complicated and difficult to analyze, much of the criticism has faded as the sector has come roaring back.

Now the life insurers are at a point where they can think about returning capital to shareholders — what a difference five years makes.

Manulife

No Canadian lifeco was in worse shape during the crisis than **Manulife Financial** (TSX:MFC)(NYSE:MFC). The company, which had become one of the world’s top five life insurers before the crisis, was suffering from inadequate capital levels. The company had to respond by cutting its dividend and even issuing new equity. In early March 2009, its shares traded under $10 after trading over $40 only 16 months earlier.

Canada’s largest lifeco now has the strongest capital ratio among its large peers. But likely due to its troubled history, Manulife is being very deliberate in returning capital to shareholders. After the fourth quarter earnings call, management stated that the dividend will remain as is, for now.

Sun Life

Sun Life Financial (TSX:SLF)(NYSE:SLF) has also seen a remarkable turnaround. Back in early 2009, the company’s shares traded in the mid-teens after having been above $55 in late 2007. In 2008, credit-related losses were $1.2 billion, and earnings per share had dropped 65% from 2007. Since then, Sun Life has gradually recovered nicely, and its shares now trade in the high $30s.

Last week, Sun Life reported that it earned $3.21 per share in FY2013, a 13% increase over the previous year. Capital ratios are also at their highest level since the crisis. But like Manulife, Sun Life is being very tepid about returning capital to shareholders. Management stated on the last earnings call that there are opportunities to reduce debt, make acquisitions, and grow the business organically – returning more capital is always top-of-mind, but is on the back burner for now.

Great-West Life

Like Canada's other life insurers, **Great-West Lifeco Inc** (TSX:GWO) has also been a boon to investors in the past five years. The shares actually recovered more quickly than those of its large rivals, and still rose by more than 35% last year.

Thus it was a bit surprising that the company's fourth quarter 2013 earnings missed analyst expectations. But given how well the company has performed over the past few years, investors should be forgiving.

The quarterly dividend has remained consistently at $1.23 per year since 2009, and has not risen despite increasing earnings. But with the dividend yielding over 4%, Great West has the highest-yielding dividend of Canada's big three.

Foolish bottom line

Canada's big three life insurance providers have all had remarkable turnarounds since the depths of the financial crisis. But with such bad memories, it is understandable they are hesitant to return capital to shareholders. At the very least, this gives them flexibility to do so in the future. For investors that like to pursue rising dividends, and aren't afraid of "black boxes", this may be the sector to look into.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:GWO (Great-West Lifeco Inc.)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:SLF (Sun Life Financial Inc.)

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