



2 Insurers to Watch This Week

Description

Insurance isn't the most exciting industry, but it is a profitable one when handled with skill. Below are two insurers that I think warrant a look this week when they report.

1. Intact Financial

Intact Financial ([TSX: IFC](#)) is Canada's biggest property and casualty insurance provider, offering its products through a network of insurance brokers and directly under certain subsidiaries. So far this year the stock is only up 3%, and the company is scheduled to report second-quarter earnings on July 30.

Here are a couple of points I will be interested to hear about on the conference call.

The first is an update on the rollout of the Telematic system in Ontario. Telematic is a recent roll out from Intact where clients place GPS devices in their cars to monitor their driving habits. Intact then agrees to reduce the premiums it charges to reward responsible driving. This concept has seen some pushback from customers not willing to divulge their information for fear of having their premiums increased if they aren't considered responsible drivers.

Second, I hope to get more information on the commercial property and casualty division, which has been struggling and weighing the return on equity down these past four quarters. I am willing to accept low first-quarter results considering that the weather was unfavorable for property and casualty insurers, but now that summer is here I want to hear management's plan to bring this division back in order.

Finally, there is the pending legislation in Ontario — stalled due to the election — concerning the reduction of auto insurance costs, and I would like to hear management's strategy in both cases, whether the legislation either passes or fails to be approved.

2. Industrial Alliance

Reporting on July 31 is **Industrial Alliance** ([TSX: IAG](#)), a life and health insurance company that also

provides wealth management services. The company, like most life insurers during the financial crisis, was not ready to absorb the impact of lower interest rates and had to restructure its balance sheet. Since then, the company has been on better ground and can focus on increasing sales.

When I listen to the conference call this week, I will be curious to hear an overall update on sales, which were up 20% on a sequential basis last quarter. In particular, individual insurance is one area where I would like more detail, as sales were down last quarter due to product changes. An update from management on the state of the product pipeline could help investors better evaluate the future profitability of this division.

Next is the wealth management division, whose sales were also down last quarter on a year-over-year basis. Considering the huge sums of money that have been flowing to wealth management services these past few years, I find it a bit concerning that there isn't any growth in that sector. Again, I hope to get more information on management's strategy to shift the direction of its wealth management business next week.

Finally, there is the company's exposure to financial markets. While the state of operations is important, the vast majority of insurance companies' profits comes from their investment portfolios, and compared to its peers Industrial Alliance was more exposed to rising interest rates coming into 2014. It will be important to know management's stance on interest rates so far this year considering that rates only went down since the start of the year.

The bottom line

Industrial Alliance is up 3.7% so far this year, while Intact Financial is up a meager 3%. This is compared to the market as a whole, which was up 13%. It is clear that investors aren't optimistic about both companies, but I like to look at contrarian sectors to find value. Both insurers could see their share prices increase substantially if they manage to correct what I feel are small bumps in the road.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:IAG (iA Financial Corporation Inc.)
2. TSX:IFC (Intact Financial Corporation)

Category

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Date

2025/07/02

Date Created

2014/07/28

Author

fdenault

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