3 Key Takeaways From Industrial Alliance Insurance & Financial Services' Q2 Earnings

Description

Last week I mentioned that I was interested in the second-quarter reports from **Intact Financial Corporation** (TSX: IFC) and **Industrial Alliance Insurance & Financial Services** (TSX: IAG). Here are my three takeaways from Industrial Alliance's Q2 earnings.

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1. Overall sales update

I mentioned in my last article how I was interested in hearing about the overall sales environment considering the state of the insurance market in Canada. Top-line growth was mixed according to CEO Yvon Charest, but continued to show good momentum overall.

Looking more in detail at the operating segments we see that overall sales were down 11% year-over-year, which is not great, but it could have been worse.

The main setbacks came from Group Savings and Retirement with a fall of 39% year-over-year. This is not good news considering the massive amount of money that is flowing to this sector in recent years. Competition is also very present and offering many products to businesses that will not make the road back to growth easy for the company.

Overall sales were not the best in my opinion, but while retail insurance was lagging, auto and home insurance sales were strong with 8% growth, reflecting the positive momentum also echoed by Intact Financial earlier last week.

2. Fund sales and wealth management

Another segment I was looking forward to hearing about was the wealth management and fund sales. Considering the vast amount of money that has been flowing into mutual funds in recent years I was expecting strong numbers from the company.

However, I was disappointed with an 8% decline from last year in premiums and deposits coming in at $1.7 billion this quarter.

On the mutual fund side of the business, gross sales were down 20% with net outflows of $98 million for the quarter year-over-year.

Management mentioned the launch of three new funds to attack a segment of the market that they anticipate will bring good momentum to the business. Considering the recent performance of this segment, I will wait for the numbers in the coming quarters before making up my mind.

3. Financial market exposure and book value per share

Finally, there is the market exposure of the portfolio during the quarter and the book value per share. Here the takeaway is positive with book value per share up 13% year-over-year. This is good news, and I like to hear that management is confident in its hedging strategy. Industrial Alliance noted that it could sustain a 30% fall in the **S&P/TSX index** before having to increase its reserves for policyholder liabilities.

Such hedging coupled with positive earnings so far this year, thanks to increasing equity markets as a whole, gives me confidence that the investment portfolio will not be a cause for concern in the future.

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Should you buy?

What I thought would be a drag on earnings was indeed one. The insurance market in Canada is under substantial pressure from competition, and this will weigh down on profits.

Insurance companies will have to decide whether to price down new premiums to keep market share or accept lower revenues while the supply and demand reverts back to historical averages.

I don't think we've hit the bottom of the cycle for life insurers and I would wait for more information on the state of the marketplace before investing.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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