



Why Asia Is Key for Manulife Financial Corp. to Succeed

Description

Survival for an insurance company is dependent on three things: signing new customers up for the products offered, more money coming in than going out, and finally, strong investment returns on the float (the difference between what comes in versus what goes out). As long as those three things happen, an insurance company is in a good place.

Manulife Financial Corp. ([TSX:MFC](#))([NYSE:MFC](#)), Canada's largest insurer, is primed to see an explosion in the first requirement of signing new customers up in bulk. And I believe this is going to help the company achieve tremendous growth in the coming years. But to achieve that, it will need to make sure that it has a good understanding of the expected outflow of funds to its clients.

In its second-quarter earnings results, management revealed that its profits from sales of insurance products saw a 10% increase to \$557 million year over year. As my thesis will show, 30% of this growth came from Asia and 23% came from Canada (the United States saw profit drop by 19%). The problem is that it had higher claims costs, which means more of its clients needed to use their insurance than it had planned.

Fortunately, Manulife recognizes this and is reviewing its actuarial assumptions for its U.S. variable annuity units and long-term care. It may be forced to increase the premiums, which could hurt sales. And management believes there might need to be a "post-tax charge to shareholders of up to \$500 million."

Bad news aside, I believe the next few years are going to be huge for Manulife because of Asia. As I said, 30% of the growth came from Asia, which is unsurprising. As these emerging markets begin to grow in economic strength, the people driving that growth are going to want financial products that provide stability to their newfound wealth. And since Asia is the most rapidly expanding region in the world, Manulife should be able to take advantage of it.

And the good news is, Manulife recognized this trend and jumped at opportunities. In the beginning of January DBS Bank and Manulife agreed to a 15-year partnership whereby Manulife would become the key provider of insurance products to DBS Bank's clients in Hong Kong, Indonesia, Singapore, and

China. On August 15, Manulife signed a partnership with FTB Bank in Cambodia to sell life insurance solutions to the bank's customers. This is a small deal, but it will grow over time.

In September 2015, Manulife bought the pension business from Standard Chartered Bank, one of Hong Kong's oldest banks. And going forward, Manulife will be the bank's sole insurance provider for 15 years.

So Asia is providing all the capital inflows that the company needs. Unfortunately, the strong investment returns have not been there in the past few quarters. Donald Guloien, president and CEO of Manulife, explained that market volatility and a sharp decline in interest rates contributed to weaker than expected earnings. Once the market becomes a bit less volatile, I expect things to turn around quite significantly for Manulife.

Now ... should you buy?

Manulife is risky for two reasons. The first is because its actuarial methods appear to have provided bad data, hurting earnings. And second, its investments are holding it back from maximizing profits from insurance sales. However, I believe that its growth in Asia in the coming years will more than offset these problems (so long as they're fixed). Therefore, I don't see any harm in starting a position in this company.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)

Category

1. Investing

Date

2025/08/23

Date Created

2016/08/29

Author

jaycodon

default watermark