Great-West Lifeco Inc. to Cut its Way to Greater Profits

Description

Great-West Lifeco Inc. (TSX:GWO)(NYSE:GWO) announced April 25 that it's cutting 1,500 jobs across Canada over the next two years in a move to reduce overhead and transform its Canadian operations.

Shareholders will applaud the move given the competitive nature of the financial services industry here in Canada. Lean and mean gets investors excited—it expects annual pre-tax savings of $200 million by 2019—but that doesn't necessarily make it the right move in the long run.

Here's why.

Great-West Life, which some in the industry have given to calling "Great Waste of Life," is eager to transform itself into a bastion of competitiveness both in Canada and in other markets where it participates.

"Late last year we began the journey to evolve our Canadian business into a more agile and innovative organization, better equipped to respond to and anticipate the changing needs of our customers," said Paul Mahon, President and Chief Executive Officer of Great-West Lifeco. "To ensure we remain competitive and drive future growth, we are reducing costs and becoming more efficient, while at the same time investing more in customer-focused innovations and service offerings."

Great-West's CEO is saying the company doesn't have the right technology in place to compete with global insurers. Whether it be those in Canada—**Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF) and **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) come to mind—or in the U.S. and elsewhere.

Therefore, to pay for this technology, 1,500 people must go over the next 24 months. It's another example of the unintended consequences of technology.

"Social conflicts in the next three decades will have an impact on all sorts of industries and walks of life," Jack Ma, CEO and founder of **Alibaba Group Holding Ltd.** (NYSE:BABA) recently said at an entrepreneurial conference in China discussing how automation could be both a blessing and a curse for humans. "Only in this way [doing tasks humans can't do] can we have the opportunities to keep machines as working partners with humans, rather than as replacements."

Back in November, Great-West Life realigned from three product-centric business units into two customer-centric business units (Group and Individual) integrating wealth management into both instead of operating in a separate silo.

With greater use of technology, Mahon is betting the company will not only provide a better customer experience, but it will do so at a fraction of the cost. That's the theory, anyway.

In 2016, Great-West Life's Canadian unit had net income of $1.4 billion on $17.3 billion in revenue; Sun Life's Canadian unit had $936.0 million in net income on $12.2 billion in revenue, and Manulife's Canadian unit had $1.5 billion in net income on $12.7 billion in revenue.

I'm focusing on the Canadian business of each insurer because that's the part of Great-West Life's business affected by the job cuts. Sun Life's asset management business is separate from its Canadian results. Assuming Canada accounts for 50% of Sun Life Asset Management's 2016 results, which adds $364.5 million in net income and $2.0 billion in revenue to Sun Life's Canadian unit giving it $1.3 billion in net income on $14.2 billion in revenue.

Manulife has the best net margin of all three insurers at 11.8%, Sun Life is second at 9.2%, and Great-West Life is third at 8.1%.

If Great-West Life can save $117 million annually on an after-tax basis, its net margin on its Canadian business jumps to 8.8% and within spitting distance of Sun Life, and that doesn't take into account the revenue gains from new technological innovations introduced at its Canadian operations over the next two years.

Is this a buy signal?

You've heard the saying, "The best-laid plans of mice and men?" Adapted from a poem by Robert Burns, the Scotsman might well have been speaking about these types of transformations. Spelling them out is one thing, executing on them is another.

If it were up to me, I'd hedge my bets and buy **Power Corporation** instead. That way you can enjoy owning a piece of the holding companies' other excellent investments.

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.)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Yahoo CA

Category

1. Investing

Date
2025/07/02
Date Created
2017/04/26
Author
washworth