The Rise of the Middle Class in Asia Is Propelling Canadian Insurance Stocks

Description

In the wake of the 2007-2008 Financial Crisis, many experts have been focused on trends that show a declining middle class in North America and Europe. Because Western economies rely so much on consumer behaviour, this has become a concern when it pertains to the long-term growth prospects of North American and European companies.

The story has been entirely different in Asia, where rapid economic expansion has fueled the rise of a middle class that is expected to represent over 60% of the global middle class by 2030. The middle class in Asia will also provide over 55% of middle-class consumption, with a large focus on services in metropolitan areas.

In 2014, **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF) made the decision to expand business in Indonesia and Malaysia after a recent slowdown. The company justified the decision by pointing to the growth opportunity in Asia and stated that it did not intend to fall behind competitors in this regard. Sun Life reported its second-quarter results on August 9, which saw net income grow 24% from Q2 2016. Its division in Asia saw wealth sales of $2.9 billion, representing an increase of 66% from the previous year.

Sun Life Malaysia also announced a partnership with Malaysian telecommunications giant U Mobile, which will allow customers to subscribe to coverage with their mobile device. Sun Life stock has fallen 9.1% in 2017 as of September 6. The stock has still experienced growth of 13.6% year over year, as it saw a massive boost from the U.S. election as insurers hoped the Trump administration would move forward on higher rates.

In 2015, **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) paid $1.2 billion to sell its health and life insurance products for a 15-year period through branches of DBS Bank Ltd. in Hong Kong, Singapore, China, and Indonesia. Banks are a common distribution channel for insurance sales in Asia, making up between 30% and 60% of sales.

Manulife released its second-quarter results on August 9 and was also a beneficiary of strong growth in Asia. Core earnings increased 22% to $1.1 billion, which beat analyst expectations. In Asia, Manulife reported that the company saw 31% growth in annualized premium equivalent sales and a 53% increase in new business value.

Manulife has had a volatile 2017, and, as of September 6, the stock has been static, gaining 0.04%. It has seen a 34% increase year over year — also powered by the expectation of rising rates after the election of Donald Trump.

Both Manulife and Sun Life have positioned themselves well to take advantage of a middle class in Asia that is poised to almost triple its relative global consumption by 2030. Both stocks have tapered off from an increase that was due to domestic events, but growth will be more dependent on external growth in the future. Investors should be aware of these global trends, and these companies are great additions to ride the wave of change.

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aocallaghan