With Rising Rates, These Are the Best Insurance Options

## Description

With two interest rate increases in the books for 2017, Canadians could be looking at a third increase before December 31.

Given this potential headwind, every investor will want to ask themselves where they can go to hide money in the event that borrowing costs continue to escalate, potentially slowing down major capital expenditures for many companies.



As most investors have already recognized the obvious benefactors of higher rates, such as banks and mortgage companies, the opportunities presented by companies that hold a large amount of short- to medium-term capital may not seem as obvious.

When considering Canada's insurance companies, investors should remember that the capital taken in (known as float) needs to be put into short-term, highly liquid investments for when the money is needed to payout claims.

Leading the pack is **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC), which has one of the biggest balance sheets of any Canadian company. As of June 30, 2017, the company held assets of$725 billion, which now has the potential to bring in a greater amount of interest income over time.

The company, which trades at a price of less than $25 per share, offers investors a dividend yield of more than 3.25% and tangible book value of almost $22 per share. Clearly, the market is factoring in a rosy future for this company. The good news for investors is the high probability of a much better bottom line.

The second-biggest insurance company by market capitalization is **Great-West Lifeco Inc.** (TSX:GWO. At a 4.25% dividend yield, the company could potentially make investors very happy over the next year.

With the most consistent earnings over the past few years and a levered balance sheet, the company is in prime position to surpass expectations as time passes.

As the amount of shareholders' equity has continued to increase over time, shareholders in Great-West Lifeco may benefit the most from rising rates, as the increase in retained earnings could be used to conduct a share buyback.

Last on the list are shares of **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF. At 1.7 times tangible book value, there may already be high expectations priced into the share price.

Although the dividend-payout ratio remains relatively low, the total amount of shareholders' equity has not increased substantially over the past few years. Assets, however, have increased alongside liabilities, leading to a bigger balance sheet.

With larger balance sheets than in previous years, Canada's insurance industry may be the best positioned industry to grow revenues and earnings, and could return significant amounts of capital to shareholders over the next few years.

As an industry, the Canadian banks have done a fantastic job showing how to compete with one another while maximizing profits to shareholders. In the hope that the insurance industry will follow suit, investors can guard against rising rates by buying into the sector.

**CATEGORY**

1. Dividend Stocks
2. 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. Sharewise
4. Yahoo CA

**Category**

1. Dividend Stocks
2. Investing

**Date**
2025/09/11
**Date Created**
2017/09/25
**Author**
ryangoldsman