



# Sector Theme 01

## A New Era of Life is Upon Us

# A New Era of Life is Upon Us: Structural Re-rate Call on the Life Insurance Sector



In a market where growth at a reasonable valuation is harder to come by, we are increasingly confident in our longer-term structural re-rate call on the North American life insurance sector. We believe the current macro backdrop – higher and longer-term rates, demographic trends, and generational wealth transfer – presents a tremendous tailwind for the life insurance group, which has been largely out of favour for the better part of two decades.



## The Post-GFC Era: A Challenging Decade

After the global financial crisis (GFC), we experienced more than a decade of near-zero interest rate policy as central banks embarked on multiple instances of quantitative easing. This environment proved to be challenging for the life sector. The present value of liabilities ballooned while new money yields dramatically fell, straining balance sheets. Products rich with features such as variable annuities with guaranteed minimum withdrawal benefits (GMWBs) and long-term care insurance policies with lifetime benefits and inflation riders became increasingly capital-intensive. This ultimately led to many insurers exiting these product lines or moving them into run-off portfolios.

During this period, most of the life insurance space focused internally on shrinking balance sheets, reducing risk, and returning any excess capital to shareholders via buybacks – with growth becoming an afterthought.

## The New Era of Life: A Shift in Strategy

The life insurance landscape has shifted significantly. Companies today have materially reduced tail risk through risk-transfers and spinouts. Product design has been drastically de-risked. Moreover, the era of easy financial conditions (quantitative easing, zero interest-rate policy) likely appears to be behind us. This could create favourable asset/liability dynamics for life insurance companies.

In response, life companies have shifted their strategy from shrinking balance sheets and returning capital to growing once again. Recently, several of the largest North American life insurance companies have increased their earnings growth algorithms and longer-term return on equity (ROE) targets, including Manulife Financial Corp, Sun Life Financial Inc, Reinsurance Group of America, and most recently, MetLife Inc.

These targets signal high-single-digit to low-double-digit earnings per share (EPS) growth and ROEs in the high teens – profiles that haven't been seen since pre-GFC. This shift supports our view that the current environment will usher in a new era for life insurance companies.

“ We believe life insurance companies are well-positioned for a transformative period of sustained earnings growth. ”

## Favourable Comparisons to Banks and P&C Insurers

Additionally, these earnings algorithms screen much more favorably than both banks and property & casualty (P&C) insurance companies, which currently trade at sizeable premiums to the life insurance space (29% and 30% respectively).

This discrepancy highlights an opportunity for life insurance companies to capture increased market attention and valuation re-rates.

**29%**

**Banks trading premium to life insurance.**

Valuation gap that presents an opportunity for life insurance companies to gain market attention and potential valuation re-rates.

## Our View

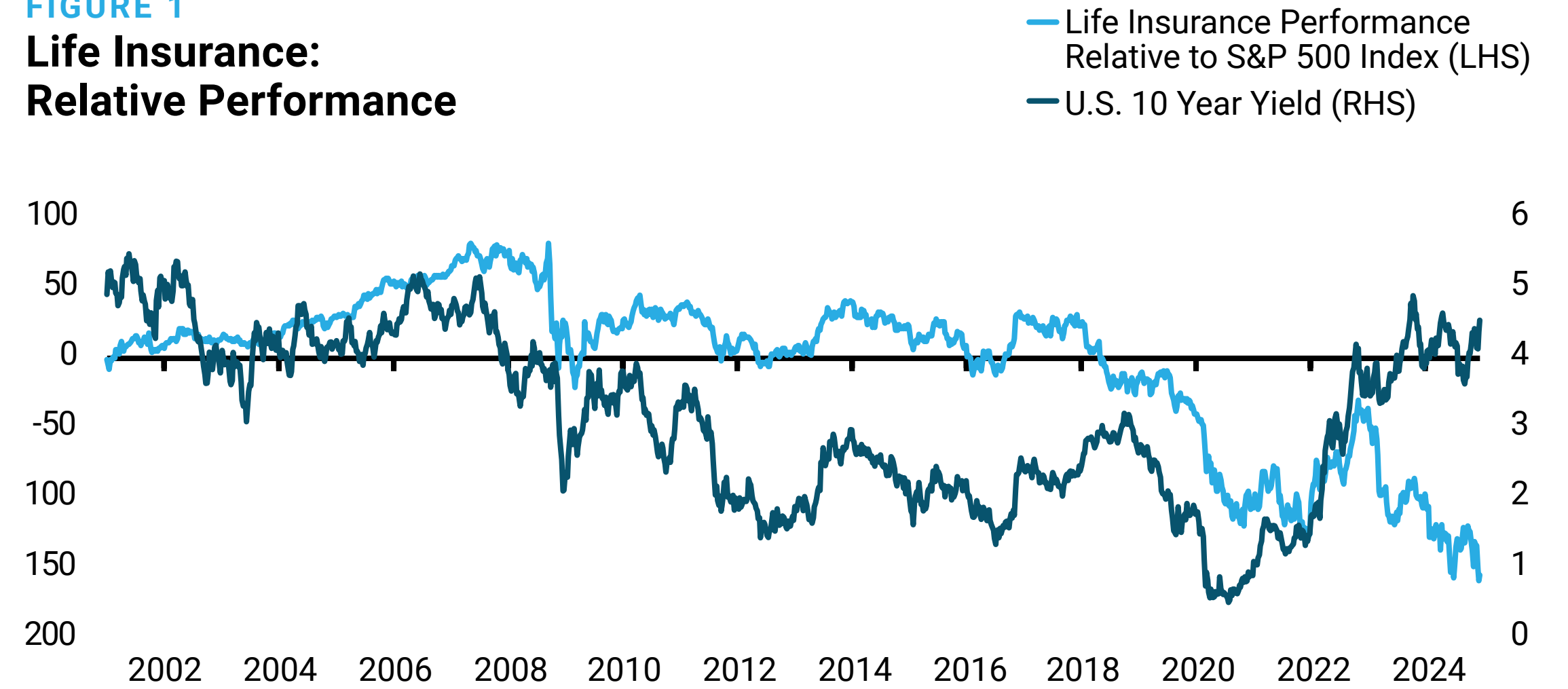
### A New Era Brings New Opportunity

We are big fans of structural re-rates driven by positive fundamental change, especially in areas of the market that have been largely ignored for the better part of the past two decades.

With the tailwinds of higher rates, de-risked products, and a renewed focus on growth, we believe life insurance companies are well-positioned for a transformative period of sustained earnings growth and improved ROEs.

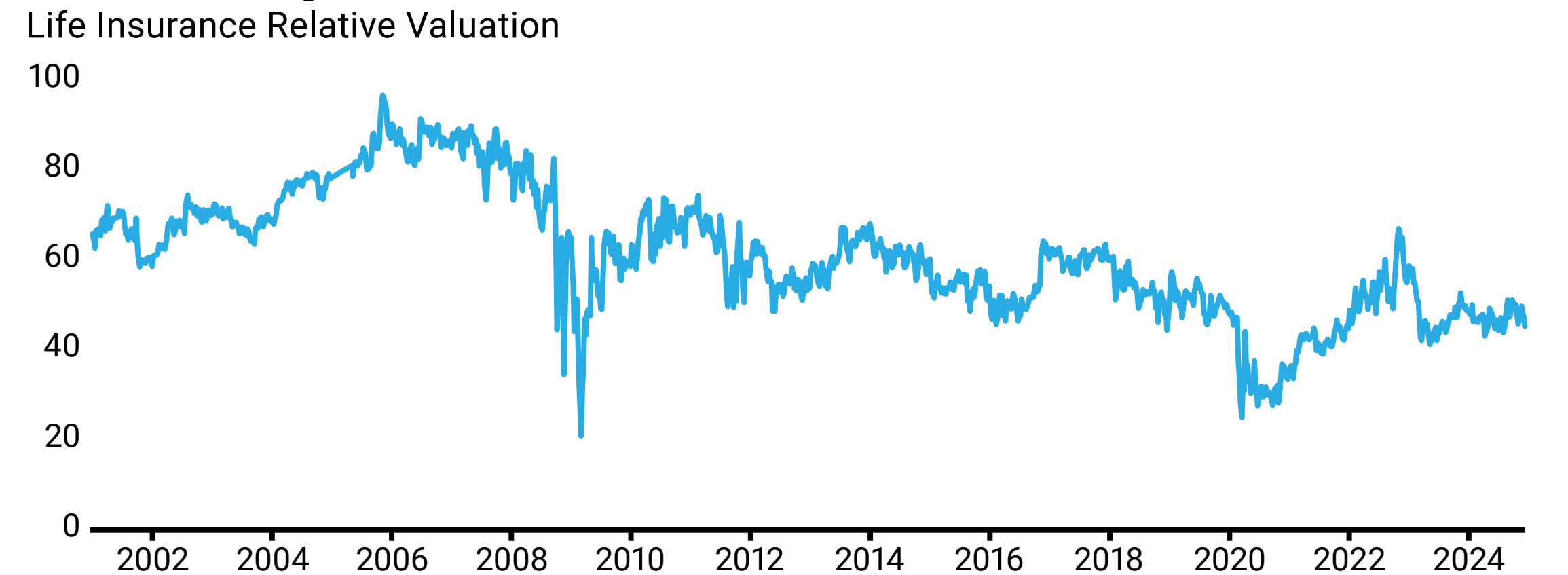
This new era of life insurance could offer compelling opportunities for investors seeking exposure to a sector on the cusp of re-rate potential.

**FIGURE 1**  
**Life Insurance: Relative Performance**



Source: Bloomberg, L.P., Picton Mahoney Asset Management Research. Jan 2001 to Dec 2024.

**FIGURE 2**  
**Life Insurance Price Earnings Multiples as a Percentage of the S&P500**



Source: Bloomberg, L.P., Picton Mahoney Asset Management Research. Jan 2001 to Dec 2024.

**Head Office**

33 Yonge Street, Suite 320  
Toronto, Ontario  
M5E 1G4

**Telephone:** 416-955-4108  
Toll Free: 1-866-369-4108  
Retail Sales: 1-833-955-1344

**General Inquiries**

[invest@pictonmahoney.com](mailto:invest@pictonmahoney.com)

**Vancouver**

Four Bentall Centre  
1055 Dunsmuir Street, Suite 3370  
Vancouver, British Columbia  
V7X 1L3

**Calgary**

Bankers Hall, West Tower  
888 3rd Street SW, 10th Floor  
Calgary, Alberta  
T2P 5C5

**Montréal**

1155 Metcalfe Street, Suite 1502  
Montréal, Québec  
H3B 2V6

[pictonmahoney.com](http://pictonmahoney.com)

All figures provided are sourced from Bloomberg L.P. unless otherwise specified, and are based on data as at the dates indicated.

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