Canada - Effects of Low Oil Prices on Financial and Insurance Sector

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FINANCIAL S

- The financial and insurance sectors contribute a total of $106 billion to Canada's GDP, employing 703,000 Canadians in 2013
- The Canadian banking system has consecutively been ranked the soundest in the world by the World Economic Forum since 2008, and five of the world's top 20 strongest banks are Canadian
- Canada's insurance sector has a total of $1.19 trillion in assets, and three life and health insurers rank among the top 20 of the world's largest life and health insurance firms
- Canada seen as one of the largest capital markets in the world, with a strong regulatory framework that integrates banking, insurance, and investment sub-sectors

EFFECTS OF LOW OIL PRICES ON BANKS

- Fears of an economic slowdown caused by low oil prices resulted in the Bank of Canada lowering interest rates on January 21, 2015; Barclay's downgraded outlook on Canadian banks on January 30th
- Despite negative outlook, all major banks have passed stress tests on oil: RBC can handle US$45 a barrel for a "prolonged period of 1 to 2 years; CIBC similarly announced ability to handle US$40 for 2 years
- None of the major banks have a direct oil and gas exposure that exceeds 3% of total loans; TD is the lowest with an energy portfolio consisting of 0.7% of loans
- No significant exposure estimated for indirect effects, such as effect on retail operations

EFFECTS OF LOW OIL PRICES ON INVESTMENT FUNDS AND INSURANCE

- Major institutional investors have balanced portfolios to mitigate risks of one particular sector like oil
- The Canadian Pension Plan Investment Board has "globally diversified" assets, with energy investments consisting of 2.5% of their entire portfolio
- All large insurance firms have balanced portfolios that don't overly invest within the energy or oil sector
- Sunlife Financial has the highest exposure, with energy making up 11% of total corporate debt securities

BEST PROSPECTS

- Biggest variable in investment is the duration of low oil prices: firms such as CIBC and Manulife Financial are assuming low oil is a short term phenomenon, but analyses worldwide have been mixed; Goldman Sachs analysts claim that a lower oil equilibrium will persist throughout the decade

- Second variable is effect of indirect exposure; still uncertain how low oil may hurt consumer industries, which will then have effect on banks
- Banking, insurance, and investment funds management are further good prospects; worst case scenario involves banks making less profits but still growing;

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