

Intact Pounces Again

Graham M. Segger, FCPA, FCA

The Intact Financial Corporation (“IFC”) acquisition team has recently locked up yet another deal, this time with Canadian Western Bank for their insurance subsidiary Canadian Direct Insurance Incorporated (“CDI”). The purchase price announced was \$197 million, which, based on 2014 premiums written of \$143.5 million and December 31, 2014 net book value of \$80 million produces a price multiple of 1.37 times premium and 2.46 times surplus. CDI direct premiums were written 47% in Alberta and 53% in BC in 2014 while claims incurred were 57% in Alberta and 43% in BC. IFC announced in their February 10, 2015 press release that they expect significant annual synergies of \$10 million after tax from a combination of reinsurance cost reductions, systems related cost savings and claims efficiencies. CDI has averaged a return on equity of over 13% over the last five years.

CDI has a similar direct to consumer approach as IFC’s belairdirect division and has also been successful recently in acquiring clients in the Affinity market space. IFC’s direct divisions (belairdirect and Grey Power) and CDI have something else in common. Both were the leaders in their respective markets in the 2013 J.D. Power Customer Satisfaction honours, CDI in western Canada and the IFC divisions in Ontario. In an effort to consolidate IFC’s product offerings they have announced in the same press release that they will be rebranding the Grey Power division as belairdirect.

This deal is seen as a continuation of IFC’s recent strategy of acquiring successful niche players to fill in their geographic and service offerings. Examples of this strategy in Canada over the last few years have been the acquisition of Newfoundland based Metro General and motorcycle and recreational vehicle specialist Jevco. This is in contrast to IFC’s earlier mega-merger strategy in the 1998 through 2011 period when they acquired Guardian, Zurich personal and small commercial lines, Allianz and AXA. Intact was also active in that period acquiring broker distribution networks in Canada, and in late 2014 announced the purchase of their first international broker in Brazil. At recent investor conferences, IFC executives have indicated that they are now looking internationally for opportunities but are also expecting as much as 20% of the Canadian market to be up for grabs over the next five years. IFC obviously hopes to be a major player in this consolidation as they have expressed a desire to substantially increase their current market share of 13.5% (a) share of the Canadian P&C market.

a) Source: MSA P&C Researcher total P&C market share