

Canadian P&C Insurance Industry – A Family History

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Clients or colleagues who have spent any significant amount of time with me over the last few years will no doubt have learned of my passion for genealogy and family history research. Having now traced many branches of my own family back 200 years and beyond, this new pursuit rivals the interest I have had in the ever changing face of the Canadian P&C insurance industry over the course of my career in the Deloitte insurance practice. In this article I will fuse these interests by attempting a Canadian P&C Insurance Family History. I have set a modest goal of concentrating on the last thirty years from 1979 to 2009, the period I am most familiar with. Relating the 300 year history of the Sun Fire Office (now part of RSA) is well beyond the scope, though I do recommend that history as effective bed time reading for insomniacs!

The Players

The first step in such a study is to identify the agents of consolidation. Given the economic shadow of the US and the growing influence of the far-east, it is interesting that the consolidators have rarely been US companies and never Asian. The major players, as all who follow the industry will know, have been the Europeans and large domestic Canadian companies. This survey focuses exclusively on concentration within the Canadian industry so does not address international acquisitions such as those undertaken by Fairfax or Kingsway. The results of the analysis are included in three charts appended at the end of this article: Chart 2 for European controlled companies; Chart 3 for Canadian companies; and Chart 4 for American owned companies. While most of this data has been drawn from personal experience in the marketplace, we have checked the data against the extensive information on dates, name changes, status changes, mergers, acquisitions, license changes, and press releases contained in the P&C M&A Database product available from MSA Research. There may be a few errors and omissions included in these charts, but hopefully not so many as to taint the results and conclusions drawn.

Impact of Consolidation

How then has market concentration evolved over the last 30 years? In Table 1 we calculate that direct premium written (“DPW”) market share of the largest ten private insurers was approximately 36.5% in 1979 and had grown to 57.7% in 2009, an increase of 21.2 percentage points. The corresponding market share figures for the twenty largest companies were 55.8% in 1979 and 80.4% in 2009, an increase of 24.6 percentage points. All figures exclude the government compulsory auto insurers and are based on total Canada DPW.

In the following chart we have looked at direct premium written data from 1979 available in the original 1982 TRAC Report (predecessor to MSA Research’s current data products), supplemented by data on provincial companies found in the April 1980 Statistical Issues of Canadian Insurance and Canadian Underwriter (courtesy of the IBC Library). The 2009 data is derived from the 2010 MSA Market Share Report.

Twenty Largest P&C Insurers - Direct Premiums Written								Chart 1	
1979				2009					
Rank	Group	DPW	Share	Rank	Group	DPW	Share		
		(\$'000)				(\$'000)			
1	Royal	509,321	9.29%	1	Intact	4,261,539	10.86%		
2	Co-operators	262,338	4.79%	2	Aviva	3,390,386	8.64%		
3	Commercial Union	211,292	3.85%	3	Co-operators	2,222,684	5.66%		
4	Allstate	183,380	3.35%	4	TD Assurance	2,127,265	5.42%		
5	Lloyd's	155,354	2.83%	5	RSA	1,910,324	4.87%		
6	Travelers	152,064	2.77%	6	AXA	1,868,574	4.76%		
7	Guardian	136,129	2.48%	7	State Farm	1,832,917	4.67%		
8	Wawanesa	132,137	2.41%	8	Economical	1,809,011	4.61%		
9	Fireman's Fund	130,062	2.37%	9	Wawanesa	1,735,669	4.42%		
10	Desjardins	128,340	2.34%	36.49%	10	Desjardins	1,498,531	3.82%	57.72%
11	Zurich	121,579	2.22%	11	Lloyd's	1,497,341	3.81%		
12	Gen Accident Grp	118,175	2.16%	12	Northbridge	1,286,914	3.28%		
13	Economical Grp	116,072	2.12%	13	Dominion	1,178,829	3.00%		
14	Prudential Assur	109,353	1.99%	14	Chartis	1,002,454	2.55%		
15	Groupe Commerce	109,128	1.99%	15	Zurich	819,011	2.09%		
16	Dominion of Cda	108,547	1.98%	16	Allstate	718,806	1.83%		
17	Continental Ins	99,457	1.81%	17	RBC	682,323	1.74%		
18	State Farm	96,744	1.76%	18	La Capitale	669,231	1.70%		
19	Cdn General Grp	92,253	1.68%	19	Chubb	635,915	1.62%		
20	Cdn Indemnity	89,331	1.63%	55.84%	20	SGI Canada	425,201	1.08%	80.43%
1979 Industry total		5,481,480		2009 Industry total		39,253,835			

Close examination of the market share summaries produce a few other interesting observations. The percentage of the market held by the largest company has not changed dramatically in the last thirty years with Royal Insurance in 1979 and Intact Insurance in 2009 both holding approximately 10%. The big changes are in the 2nd through 10th largest companies who have all gained share. The total private company DPW has increased by 716% in the last 30 years (not inflation adjusted) while the three government insurers (ICBC, MPIC and SGI) have increased their DPW by an almost identical amount of 717% (though that latter figure may be understated as the data used for SGI includes non-compulsory coverages in 1979 but those premiums were segregated from the Saskatchewan Auto Fund in the early 1980s and are included in the private industry totals in 2009).

While moderating a CFO panel at the recent Canadian Insurance Financial Forum ("CIFF"), I challenged the CFOs of three large insurers, Mark Tullis of Intact, Nick Creatura of RSA and Craig Pinnock of Northbridge, to predict the level of concentration they foresaw for 2014 year end, five years from now. After a certain degree of hedging and prevaricating, perhaps due to worries about what their CEOs might think of such predictions, they came back with personal estimates of 62%, 65% and 66%. To put this in perspective, these predictions would involve transactions by the current big 10 representing DPW of approximately \$1.7 billion, \$2.9 billion and \$3.2 billion respectively – two big transactions could do it! We've promised to bring them back to the CIFF in 2015 to see how close their estimates are – with a bottle of vintage single malt Scotch on the line!

Drivers of Consolidation

What then were the drivers of all of this consolidation? There is rarely one reason for a transaction, but from a cursory review of the many acquisitions represented on Charts 2, 3 & 4, we can identify the following frequently recurring factors:

- Economies of scale and a desire for new distribution channels and markets for the acquirers
- Financial difficulty of the target or its parent
- Parent company consolidation outside Canada
- Strategic product or geographic withdrawal or refocusing
- Exit strategy for a family, financial buyer or life insurer
- Over capitalization in the Canadian P&C insurance industry

Detailed analysis of the factors at play in all of the transactions listed on the following charts is beyond the scope of this article, but a brief look at the evolution of several of the groups may help illustrate some of the patterns involved. The following summaries provide a very high level, and personal, interpretation of some of the drivers involved in the creation of three of the four largest P&C insurance groups in Canada.

Co-operators Group

One of the first mega deals I encountered early in my career was the combination of Co-operators Insurance Association (Guelph) with Cooperative Fire & Casualty in Regina to create The Co-operators. This combination was quickened by financial challenges at the western partner and the full merger was preceded by common ownership and assistance provided through a favourable reinsurance transaction. The Co-operators' acquisition of Sovereign General represented an expansion into a new market (commercial) and distribution channel (brokerage) while the vendor was motivated by financial concerns elsewhere. The Union Canadienne acquisition represented a geographic expansion into Quebec for The Co-operators and a strategic withdrawal from non-direct P&C by a life company (Industrielle Alliance) and its European partner. The most recent Cumis acquisition results in a logical consolidation in one company of insurance offerings to the credit union market.

Aviva

Aviva predecessor Canadian General's ("CG") acquisition by KKR and CG's later acquisition of the Simcoe & Erie and Elite groups were influenced by elements of financial distress at the target company or its parent (a group of Canadian banks had inherited CG as collateral for a failed loan to its ultimate parent). KKR's sale of CG to General Accident ("GA") represented a profitable exit strategy for this financial buyer and was facilitated by an aggressive acquisition push by GA who had previously picked up Pilot and Prudential UK's Canadian subsidiary. Consolidation at the GA parent company level produced the other two components of Aviva - Commercial Union and Norwich Union.

TD Assurance

TD Bank, which was not in the P&C insurance business in 1979, built their organization, now the fourth largest private P&C insurance group in Canada, through a single minded focus on acquiring and building direct distribution capability. The Meloche Monnex (Security National and Primum Insurance) acquisition provided a company specialized in affinity marketing. Canada Life Casualty was primarily an employer group insurer and was acquired in a barter transaction for a business TD no longer considered core. Liberty Mutual and its recently acquired Prudential of America P&C business added to the direct distribution capability of the TD assurance group.

At the recent CIFF, Jordan Solway of Munich Re relayed a message from a seminar he had attended which suggested that companies should consider hiring historians rather than accountants and mathematicians so that they might better learn from the experience of the past. I hope that this brief history of the evolution of the Canadian P&C insurance marketplace, by an accountant no less, will be helpful to companies planning their own MAD (mergers, acquisitions and divestitures) strategies. In a future article we may examine the question of whether 1 + 1 has equaled more or less than 2 in these historical combinations.

Graham Segger recently retired after a thirty-five year career at Deloitte, where he participated in many of the transactions listed in the charts below.

The Europeans are Coming!

Chart 2

<p>AXA Assurances</p> <ul style="list-style-type: none">➤ Anglo Canadian➤ Provinces Unis➤ Laurentian<ul style="list-style-type: none">➤ Boreal / Laurentian General (Les Prévoyants, La Prévoyance)➤ Laurentian Pacific (Paragon)➤ Laurentian Casualty (Aetna)➤ Laurentian Shield (La Paix)➤ Laurentienne Agricoles➤ Norgroupe➤ Insurance Corporation of Newfoundland➤ Citadel<ul style="list-style-type: none">➤ Chateau➤ Kent	<p>Aviva</p> <ul style="list-style-type: none">➤ Canadian General➤ Traders / Toronto General➤ Victoria➤ Scottish & York / Eaton-Bay➤ USF&G➤ Cabot➤ General Accident➤ Prudential Assurance UK / Prudasco➤ Pilot➤ Contingency Ins Co➤ Commercial Union<ul style="list-style-type: none">➤ Stanstead & Sherbrooke➤ Canada Accident & Fire➤ Crum & Forster (Herald, United States Fire)➤ GAN / Simcoe & Erie / Bay City / Elite / UAP New Rotterdam➤ Norwich Union➤ National Home Warranty <p>Munich Re</p> <ul style="list-style-type: none">➤ American Re➤ Temple➤ Boiler & Inspection / Hartford Steam	<p>Royal & Sunalliance</p> <ul style="list-style-type: none">➤ Quebec Ins. / Western Ins.➤ Phoenix➤ Union Marine & General➤ Marine Indemnity➤ Royal Exchange (Fortress)➤ Sun Alliance / London➤ Toro Assicurazioni➤ Unifund➤ Kemper➤ Hartford – Personal lines➤ Canadian Northern Shield <p>Swiss Re</p> <ul style="list-style-type: none">➤ Canadian Re➤ North American Re➤ Union Re➤ Union Italiano➤ Mercantile & General➤ Employers Re / Westport➤ Frankona Re➤ Underwriters Re <p>Zurich</p> <ul style="list-style-type: none">➤ Alpina➤ Travelers Indemnity➤ PeoplePlus➤ ING (large commercial)➤ Transit
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The Canadian Response

Chart 3

<p>La Capitale</p> <ul style="list-style-type: none">➤ L'Unique➤ Orleans General➤ York Fire <p>Co-operators Group</p> <ul style="list-style-type: none">➤ Co-operators Insurance Association (Guelph)➤ Cooperative Fire & Casualty➤ Sovereign➤ Coseco➤ John Deere (renamed Echelon and spun off to EGI)➤ L'Union Canadienne➤ Equitable General (Norman Insurance)➤ Security Casualty➤ Colonial Fire➤ Cumis <p>Desjardins</p> <ul style="list-style-type: none">➤ Assurances Générales des Caisses Desjardins Inc. / La Sécurité d'Assurance des Caisses Populaires)➤ Security General Ins Co of Canada➤ Certas Direct➤ CIBC / Personal General	<p>Dominion of Canada General</p> <ul style="list-style-type: none">➤ Canadian Indemnity➤ Safeco / First National / General Ins Co of America➤ Chieftain <p>Economical</p> <ul style="list-style-type: none">➤ Missisquoi➤ Perth➤ Waterloo➤ Galt➤ Federation / Helvetia / Switzerland General➤ Family Ins U/W➤ Langdon (Hartford Commercial lines)<ul style="list-style-type: none">➤ London-Canada➤ London & Edinburgh➤ Great Eastern <p>Fairfax</p> <ul style="list-style-type: none">➤ Markel➤ Otter Dorchester➤ Sphere Re (Chequers)➤ Commonwealth➤ Federated / Federated Mutual➤ Lombard (Continental, Dominion)➤ Odyssey Re (Skandia Re)➤ Zenith➤ Compagnie Transcontinentale	<p>Intact (European controlled when major acquisitions made)</p> <ul style="list-style-type: none">➤ Halifax Insurance➤ Groupe Commerce (La Générale de Commerce, Canadienne Mercantile, La Canadienne Nationale)➤ Belair➤ Western Union➤ La Métropolitane Générale➤ Constitution➤ La St-Maurice➤ Wellington (Fireman's Fund)➤ Guardian (Nordic) / Cdn Group U/W (Novex)➤ Pafco commercial lines➤ Zurich (personal lines and small commercial)➤ Allianz Ins Co of Canada<ul style="list-style-type: none">➤ Cornhill / Cdn Provincial / Unity / Cdn Commerce➤ Trafalgar➤ Canadian Surety / Canada West / Edmonton Cdn / Olympic / Transamerica➤ Adriatic / Canadian Home <p>TD Bank</p> <ul style="list-style-type: none">➤ Meloche Monnex (Security National, Primum)➤ Canada Life Casualty➤ Liberty<ul style="list-style-type: none">➤ Prudential of America General
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<p>ACE INA</p> <ul style="list-style-type: none">➤ Cigna➤ INA➤ Connecticut General <p>Allstate</p> <ul style="list-style-type: none">➤ Pembrige / Pafco	<p>Berkshire Hathaway</p> <ul style="list-style-type: none">➤ General Re / National Re➤ Cologne Re➤ National Liability & Fire➤ NRG Victory <p>CNA</p> <ul style="list-style-type: none">➤ Continental Casualty➤ Maritime	<p>St. Paul</p> <ul style="list-style-type: none">➤ Seaboard Surety➤ Northern Indemnity➤ Travelers Indemnity➤ Aetna➤ London Guarantee➤ United States Fidelity and Guaranty <p>White Mountain Re</p> <ul style="list-style-type: none">➤ Folksamerica➤ Christianna Re➤ UNI Storebrand➤ New Zealand Re➤ CNA Re (Niagara)➤ MONY Re
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