The Changing Face of the Canadian P&C Insurance Industry

By Graham Segger and Joel Baker

In this article we will examine Canadian P&C insurance industry consolidation from a slightly different perspective – how have recent transactions affected the location of ultimate control and ownership of the industry?

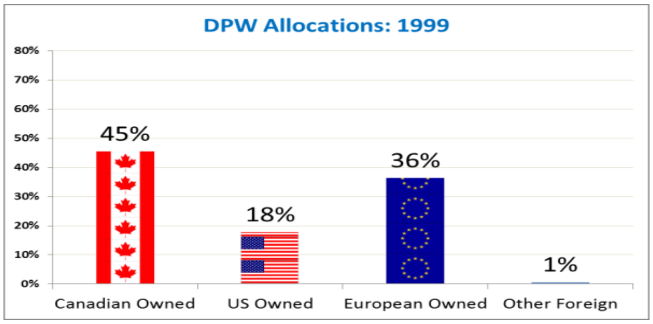
In the Q1 2010 issue of the MSA Quarterly Report we produced an extensive family history of the Canadian property and casualty industry which highlighted the significant changes in concentration within the industry over the previous 30 years. The charts showed that in 1979 the top 10 groups (excluding the provincial government auto insurers) had represented 36.5% of net premiums written while by 2009 that share had grown to represent 57.7% of the industry total. As a point of interest, that concentration total has now grown to 66% on a 2013 pro forma basis (including the Desjardins acquisition of State Farm).

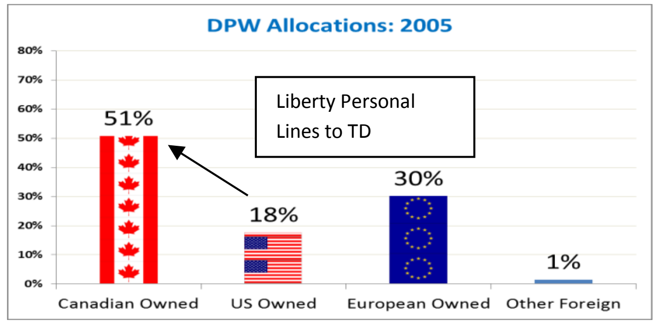
One of the ancillary observations of that article was that the wholesale changes in the composition of the top 20 groups in the country also produced a change in the location of ultimate ownership. Without the domestication of Intact, European company ownership had remained quite consistent, dropping only 1% from 44.5% to 43.5% over the 30 years. Factoring in the Intact domestication, European ownership of the top 20 dropped to 30%. US ownership of the top 20 had declined from 21.5% to 13.5% and Canadian ownership had grown from 34% to 56.5% (including Intact). Some of the contributors to this change were the sale of the Canadian, primarily personal lines, operations of US companies like Fireman's Fund, Travelers, Safeco, Liberty, Progressive and CNA. In addition to the domestication of Intact, Canadian ownership increases were fueled by market share gains by TD Insurance, Economical, Wawanesa, Desjardins and Northbridge.

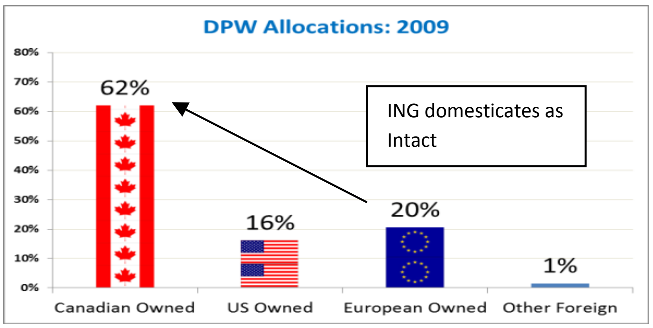
MSA has looked at the ownership of the industry again in 2014 using a slightly different lens. All groups (excluding Lloyds) are included in the new analysis. Ultimate ownership of Lloyds is hard to pin down given its syndicate structure. The 2013 year end has also been modeled on a pro forma basis to include the effect of the Desjardins acquisition of State Farm.

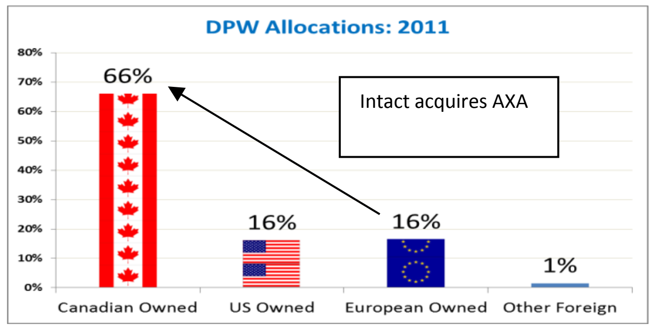
The following six charts show snap shots of the industry in 1999, 2005, 2009, 2011, 2013 and 2013 pro forma with a selection of representative transactions which affected the ultimate ownership location of the companies involved.

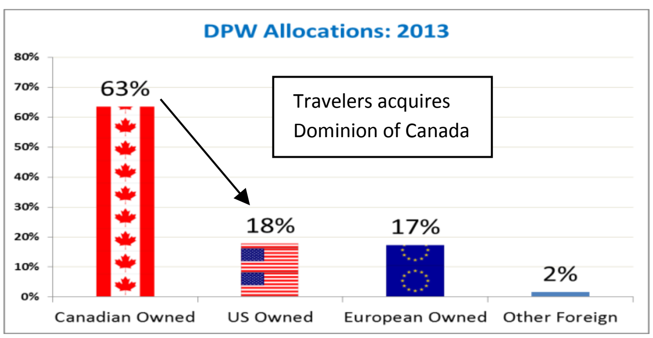
The final chart shows that two thirds of the Canadian P&C insurance industry is now under Canadian control. This is still a far cry from the Canadian ownership share of the banking and life insurance sectors where the top five players, all Canadian owned, dominate the market.

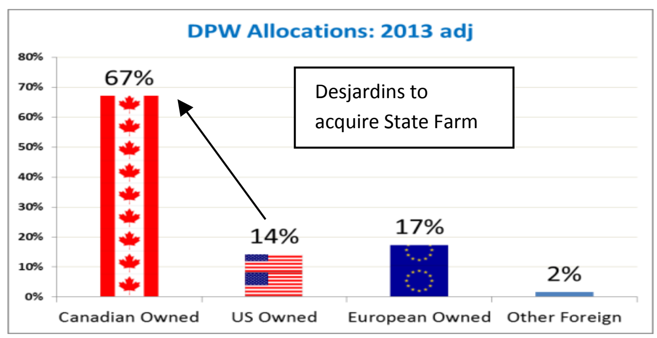












Source: MSA Research Inc.

What then is driving this move to more Canadian control of an industry which has historically had such deep international connections? In 2010 we identified the following five drivers of consolidation:

- 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

The sale of Dominion of Canada to Travelers fits very nicely into the fifth bullet above, combined with new growth imperatives at US public company insurers who have now rebounded after the financial crisis.

State Farm has clearly been challenged by the Canadian personal lines market. More than most players in Canada, it has been the subject of management oversight from afar, a dangerous formula for operating in the Canadian automobile market in particular. Desjardins has had a well articulated strategy of expansion outside of its base in Quebec to the "rest of Canada", and has previously been successful in resurrecting a challenged P&C insurance franchise – the CIBC insurance operations.

We have heard, at least anecdotally, that many of the earlier US departures were influenced somewhat by frustrations with the Canadian regulatory framework and the inability to operate a consolidated North American operation.

To this list we can add the growth aspirations of the "gorilla in the room" – Intact. More than most companies in Canada, Intact is under the influence of the stock market's penchant for growth. They also have excellent currency for making acquisitions, and a well oiled operating model for integrating them profitably.

What then are the implications of moving from 36% Canadian owned in 1979 to 67% in 2014? Will this trend continue until the market share matches that of the banks and lifecos? Will the new larger Canadian companies have a greater influence on policy makers in the provincial capitals and Ottawa? Will this new critical mass provide the companies with an opportunity to look internationally for new growth, as have the banks and lifecos?

To answer the question of how high Canadian ownership can go we need to look at the strategic plans of the other top ten players in the market. Will the large Europeans (Aviva and RSA) be buyers or sellers? Will any of the other large US insurers take a fresh look at Canada (Progressive or Geico)? Will the demutualization of mutual insurers like Economical result ultimately in one less Canadian company or a new aggressive acquirer?

On the subject of more domestic influence on policymakers, we are somewhat skeptical. Insurance, and auto insurance in particular, is not an easy horse for regulators and politicians to back.

On the topic of international growth, it is hard to make a case that critical mass in Canada necessarily drives this type of strategy. It is interesting to note that Canada's best, and only significant, international P&C insurance success story is Fairfax, whose Northbridge Canadian operations do not even break into the domestic top ten. Clearly international success is not dependant upon local critical mass.