

The Battle of the North Atlantic

By Graham Segger

At one time, the Newfoundland and PEI insurance markets were characterized by competition among a group of smaller insurance companies, many of them broker-controlled. The last small company in Newfoundland recently announced it was to be acquired and a stalwart of the PEI insurance scene has yet again had a change in control.

Intact announced on February 21 that it would acquire Metro General Insurance Company. Metro General is a broker company which wrote approximately \$27 million of primarily personal lines business last year in Newfoundland and rural Nova Scotia. Intact was also the indirect recipient of the business of another small Newfoundland company when it acquired AXA in 2011. In 2007, AXA Insurance amalgamated with Insurance Company of Newfoundland which it had acquired earlier.

It is not unusual for books of P&C insurance business to move around, and we have certainly seen a plethora of insurance company transactions in recent times (see separate article on the Desjardins – State Farm announcement), but the case of Insurance Company of Prince Edward Island (“ICPEI”) stands out, even in this busy M&A scene. On March 28, EGI Financial (parent company of specialty company Echelon General Insurance Company) announced that it would purchase from Saskatchewan General Insurance (“SGI”) the shares it holds in ICPEI. EGI will be the fifth majority owner of ICPEI in the twenty-one years since it began operations. It was initially established by the Charlie Cooke brokerage organization which retains a minority stake, with majority interests subsequently acquired in succession by ING (now Intact), CGU (now Aviva), SGI and now EGI.

Looking back in time, these transactions are a continuation of a process which has been underway for many years, particularly in Newfoundland. The largest of the Newfoundland based broker / insurers to be acquired was the Johnson Corp. / Unifund organization by RSA in 1997. Other smaller acquisitions have included Colonial by then Co-operators subsidiary Canadian Union (now part of RSA) and Cabot Insurance by CGU (now Aviva).

Not all large companies are bulking up in Newfoundland in 2014. Economical Group announced recently that its Economical and Federation companies would be discontinuing writing new business in Newfoundland and Labrador later in 2014. Economical picked up the majority of its Newfoundland and Labrador exposure when it acquired Federation and its MGA relationships in 2000. Together they wrote just over \$20 million of direct premiums in 2013.

There are now no small independent insurance companies left in Newfoundland. There remain a dozen or so small mutual insurers scattered throughout the other three Atlantic Provinces.

The Newfoundland & Labrador and PEI insurance markets, though small (N&L contributed 1.4% and PEI 0.3% of Canada wide GWP in 2013 based on MSA data), are relatively concentrated compared to other parts of the country as shown in the following chart.

Proforma Newfoundland percentage of Direct Premiums in 2013:	
RSA/Johnson group	23.7%
Intact group (incl Metro)	16.8%
Aviva group	13.1%
Co-op group	9.7%
Travelers/DofC	5%
Top 5 groups	68.3%

In contrast, PEI is less concentrated with eight groups writing more than 5% each of the direct premiums in with the largest two, Prince Edward Island Mutual Insurance Co. and Co-operators, coming in at 11.3% each followed by Travelers/DofC, Aviva and Wawanesa. Intact comes in at eighth place in PEI with 5.2%.

For Intact, the acquisition of Metro was a relatively small bolt-on deal bolstering its second place position in Newfoundland, while for EGI – the acquisition of ICPEI was a relatively larger deal giving them a solid foothold in Atlantic Canada.