Commentary

Intact and Tryg Complete Their Acquisition of RSA Group

DBRS Morningstar
June 1, 2021

Victor Adesanya
Vice President, Insurance
Global Financial Institutions Group
+1 416 597-7350
victor.adesanya@dbrsmorningstar.com

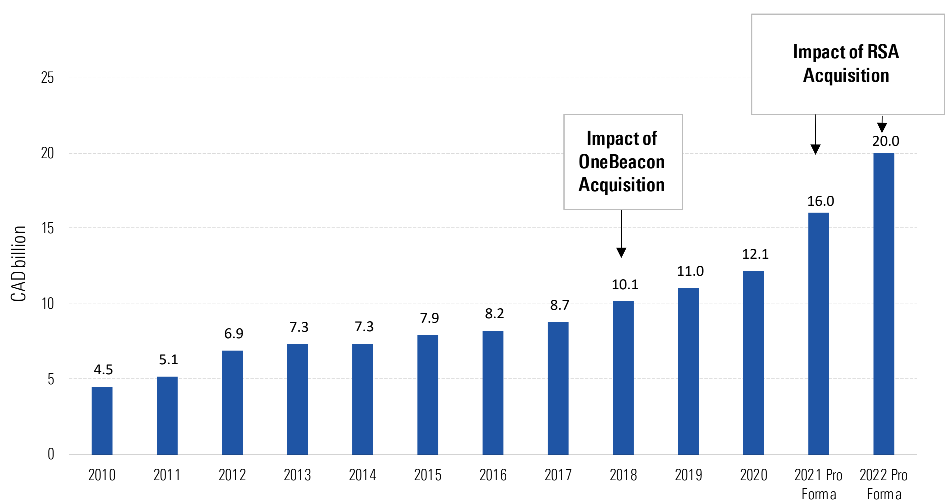
Marcos Alvarez
Senior Vice President, Head of Insurance
Global Financial Institutions Group
+1 416 597-7553
marcos.alvarez@dbrsmorningstar.com

Key Highlights:

- The deal expands Intact's access to P&C insurance markets outside of Canada and the United States, enhancing the Company's product and geographic diversification.
- This is the largest acquisition carried out by a Canadian P&C insurer in history. Given the size and international scope of this acquisition, it poses some challenges such as dealing with the higher product risk associated with U.K. specialty insurance lines, integrating organizational cultures, and managing the increased operational risk of cross-border businesses.
- In DBRS Morningstar's view, the integration of RSA is facilitated by both organizations offering similar products and competing for the same business in Canada.

On June 1, 2021, Intact Financial Corporation (Intact or the Company; rated "A" with a Stable trend by DBRS Morningstar) announced the successful completion of its joint bid with Tryg A/S (Tryg), a Scandinavian insurance company, to acquire RSA Insurance Group plc (RSA) for a total cash consideration of approximately GBP 7.2 billion (CAD 12.3 billion). This acquisition further strengthens Intact's franchise by positioning the Company as a strong multijurisdictional property and casualty (P&C) insurer. DBRS Morningstar projects that Intact's annual direct premiums written will increase to approximately CAD 20.0 billion annually going forward from CAD 12.0 billion, an increase of about 67% (see Exhibit 1). This transaction also enhances Intact's presence in the global P&C specialty lines market. DBRS Morningstar projects that premiums written from specialty lines will grow by CAD 1.0 billion to about CAD 4.0 billion annually with a target combined ratio in the low- to mid-90% range. This is similar to the current combined ratio target for the Company's North American specialty business. RSA has strong brand recognition in the U.K. and Europe; however, based on the rebranding of OneBeacon to operate as Intact Insurance Specialty Solutions, it is possible that the RSA business could be rebranded after a few years.

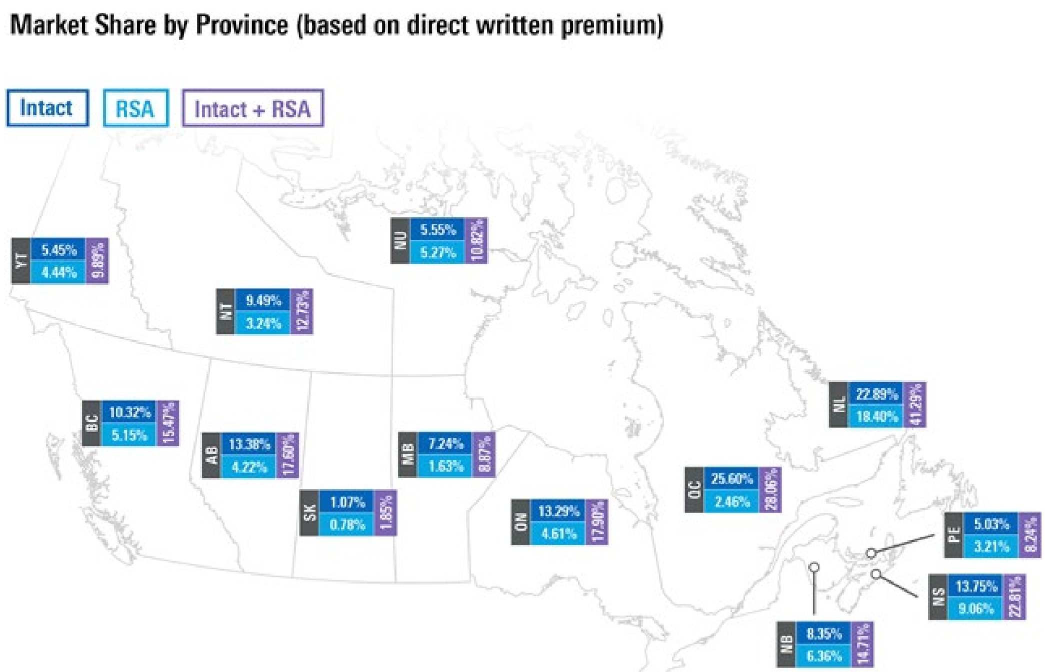
Exhibit 1 Direct Premiums Written



Sources: DBRS Morningstar and company documents.

The deal also expands Intact's access to P&C insurance markets outside Canada and the United States, enhancing the Company's product and geographic diversification. However, even with the increased diversification, Canada will remain Intact's most important market, with Canada comprising more than half of the Company's direct premiums written on a pro forma basis. Already the largest P&C insurance company in Canada, the acquisition increases Intact's Canadian market share to approximately 21.2% from 16.3% based on 2020 direct premiums written. Intact will also have significant market dominance in Albert, Ontario, and Québec (Exhibit 2), with potential market shares well above 20% in Nova Scotia (22.8%), Québec (28.6%), and Newfoundland (41.3%), when you combine the current market shares of both entities.

Exhibit 2 Canadian Market Share by Province Intact and RSA Based on 2020 Direct Written Premiums



Source: MSA Research.

The acquisition, the Company's largest to date, enhances Intact's franchise and strengthen diversification, but also adds operational complexity. Indeed, this is a joint acquisition with another entity and will also entail working across various geographies with different regulatory requirements, some of which are new for Intact.

RSA Provides an Opportunity for Intact to Further Diversify Across Geography and Products

RSA is a British multinational P&C insurance company headquartered in London with major operations in the U.K., Ireland, Canada, Scandinavia, and the Middle East. It also has small interests in other European and Asian countries. RSA's net written premiums totalled GBP 6.2 billion for F2020 (see Exhibit 3). RSA distributes its insurance products through a multichannel distribution network, similar to Intact's network. RSA ranks among the top five P&C insurers in the UK and is the seventh-largest P&C insurer in Canada, with a 4.9% market share in 2020. RSA is also one of the top five P&C insurers in the Scandinavian region. RSA's performance has improved in recent years, and its year-to-date underwriting results have been resilient, despite the impact of the Coronavirus Disease (COVID-19) pandemic and the adverse results of the U.K. court case brought up by the Financial Conduct Authority regarding business interruption claims of small and midsize enterprises.

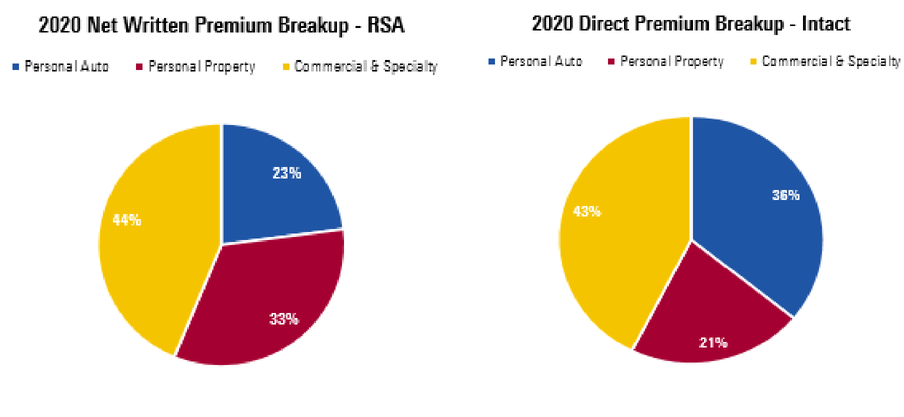
Exhibit 3 Select 2020 Performance Data for RSA

Region	Scandinavia	Canada	U.K. & International	Total Company
Net Written Premium	£1.8 bn	£1.7 bn	£2.7 bn	£6.2 bn
Combined Ratio (%)	83.2%	88.3%	96.7%	91.9%
Personal Lines Business Share (%)	58%	71%	46%	56%
Commercial Lines Business Share (%)	42%	29%	54%	44%

Source: RSA Insurance Group plc 2020 Preliminary Results.

In DBRS Morningstar's view the integration of RSA is facilitated by both organizations offering similar products (Exhibit 4) and competing for the same business in Canada. RSA's Canadian Personal lines business reported strong underwriting results in 2020 with a combined ratio of 84.9%. Although still profitable, the Canadian Commercial lines business had weaker results with a combined ratio of 97.3% in 2020. RSA has taken extensive pricing and underwriting actions in recent years to improve profitability in its Commercial lines business, especially in Canada.

Exhibit 4 Premium Written by Major Lines of Business: RSA vs. Intact



Sources: DBRS Morningstar and company documents.

The Deal: Joint Acquisition by Intact and Tryg

Intact acquired RSA's Canada and U.K. & International businesses and obligations while Tryg acquired RSA's businesses in Norway and Sweden. Concurrently, Intact and Tryg entered into a co-ownership agreement acquiring RSA's operations in Denmark. Intact and Tryg offered RSA's shareholders 685 pence in cash per RSA share, plus payment by RSA of its announced interim dividend of 8 pence per share. Intact paid GBP 3.0 billion of the total transaction cost while Tryg paid GBP 4.2 billion. On January

18, 2021, the RSA shareholders voted in favour of the acquisition. Intact financed its portion of the deal with a combination of equity and debt (see Exhibit 5). Intact may divest some of the acquired businesses in future, such as the International business outside of Canada and the U.K., including its share of RSA's business in Demark, as these businesses may not have strategic importance to the Company in the long term.

Exhibit 5 Debt Security Issued by Intact from December 2020 to May 2021

Date	Security	Rating
14-Dec-20	CAD 300 million 1.928% Series 9 Unsecured Medium Term Notes due 2030	A
	CAD 300 million 2.954% Series 10 Unsecured Medium Term Notes due 2050	A
29-Mar-21	CAD 250 million 4.125 % Fixed-to-Fixed Rate Subordinated Notes, Series 1 due, 2081	BBB (high)
14-May-21	CAD 375 million 1.207% Unsecured Medium Term Notes, Series 11, due 2024	A
	CAD 375 million 2.179% Unsecured Medium Term Notes, Series 12, due 2028	A
	CAD 250 million 3.765% Unsecured Medium Term Notes, Series 13, due 2053	A

Sources: DBRS Morningstar and company documents.

The Company had publicly announced that it will structure the funding of the transaction to support its current ratings, such that it mitigates the impact on its leverage and fixed-charge coverage ratios. DBRS Morningstar anticipates that the Company will try to maintain a financial leverage ratio (including preferred shares) of around 35% to avoid any potential negative ratings pressure. Per DBRS Morningstar's calculations, Intact's financial leverage ratio (including preferred shares) was 33.2% as at March 31, 2021.

Potential Challenges: More Regulatory Oversight, with Increased Operational and Integration Risk

This is the largest acquisition carried out by a Canadian P&C insurer in history. Given the size and international scope of this acquisition, it poses some challenges such as dealing with the higher product risk associated with U.K. specialty insurance lines, integrating organizational cultures, managing the increased operational risk of cross-border businesses in different litigation and competitive environments, as well as complying with the regulatory requirements in multiple foreign jurisdictions.

Nevertheless, the Company has an excellent track record of integrating previous acquisitions, including OneBeacon, a large U.S. specialty insurer, which Intact acquired in 2017 for CAD 2.3 billion. DBRS Morningstar notes that, since then, the Company has deftly managed the complexities of operating in two different jurisdictions while improving OneBeacon's performance, including a best-in-class combined ratio supported by solid data analytics capabilities and underwriting discipline. The successful integration of OneBeacon helps to mitigate some of our concerns about integration risk; however, the current challenges that the coronavirus pandemic will be additional hurdles for the integration of both companies in the short to medium term.

Related Research

- *Growth Opportunities and Geographic Diversification—Intact Partners with Tryg in Potential Joint Bid to Acquire RSA*, November 12, 2020.
- *Intact Financial Corporation: Strong Q3 2020 Results Driven By Robust Underwriting Performance*, November 5, 2020.
- *Initial Implications of the UK High Court Business Interruption Insurance Test Case Ruling*, September 16, 2020.
- *Canadian Insurance Companies Further Access Debt Capital Markets in 2020*, August 25, 2020.
- *Assessing Financial Strength Ratings of P&C Insurance Companies Amid the Global Coronavirus Pandemic*, April 2, 2020.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

MORNINGSTAR | DBRS

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc.