

## Commentary

# Growth Opportunities and Geographic Diversification — Intact Partners with Tryg in Potential Joint Bid to Acquire RSA

**DBRS Morningstar**  
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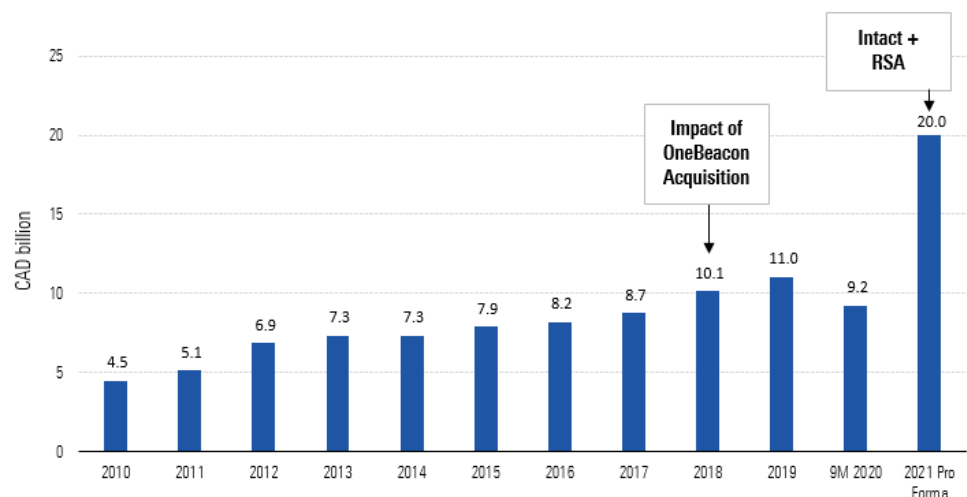
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### Key Highlights:

- RSA provides an opportunity for Intact to further diversify by product and geography.
- The disclosed terms of the proposal state that Intact would acquire RSA's Canada and UK & International businesses and obligations while Tryg would acquire RSA's businesses in Norway and Sweden.
- Potential challenges to the deal include multiple regulatory oversight, increased operational, and integration risk.

On November 5, 2020, Intact Financial Corporation (Intact or the Company; rated "A" with a Stable trend by DBRS Morningstar) announced a proposal for a nonhostile 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). RSA's board indicated that it would recommend the proposal, subject to satisfactory resolution of other terms in the proposal, including a period of due diligence that is currently underway. If successful, this transaction would further strengthen 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 from CAD 12.0 billion if the deal goes through, an increase of about 67% (see Exhibit 1). This deal would also enhance Intact's presence in the global P&C specialty lines market. DBRS Morningstar projects that premiums written from specialty lines will grow by CAD 1.1 billion to about CAD 4.0 billion annually with the new entity targeting a combined ratio in the low 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 UK and Europe; however, based on the recent 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



Source: DBRS Morningstar and company documents.

The deal would also expand Intact's P&C insurance markets outside Canada and the United States, enhancing the Company's product and geographic diversification. Even with the potential transaction's significant diversification, Canada would remain Intact's most important market, with Canada still comprising more than half of its direct premiums written on a pro forma basis. Already the largest P&C insurance company in Canada, the acquisition would increase Intact's Canadian market share to approximately 22% from 17% based on 2019 direct premiums written. While the proposal would enhance the franchise and bolster diversification, it would also be the Company's largest acquisition to date and add operational complexity because this is a joint bid with another company that would also entail working across various geographies, some of which are new for Intact.

### **Target: RSA Provides an Opportunity for Intact to Further Diversify by Product and Geography**

RSA is a British multinational P&C insurance company headquartered in London with major operations in the UK, 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 6.4 billion in 2019 (see Exhibit 2). 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 sixth-largest P&C insurer in Canada, with a 5.2% market share in 2019. 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 recent UK court case brought up by the Financial Conduct Authority regarding business interruption claims of small and medium-size enterprises.

**Exhibit 2** Select 2019 Performance Data of RSA

<b>Region</b>	<b>Scandinavia</b>	<b>Canada</b>	<b>U.K. &amp; International</b>	<b>Total Company</b>
Net Written Premium	£1.8 billion	£1.7 billion	£2.9 billion	£6.4 billion
Combined Ratio	87.4%	94.5%	95.0%	93.6%
Personal Lines Business	59.0%	72.0%	48.0%	
Commercial Lines Business	41.0%	28.0%	52.0%	
Customer Retention	83.0%	83.0%	75.0%	

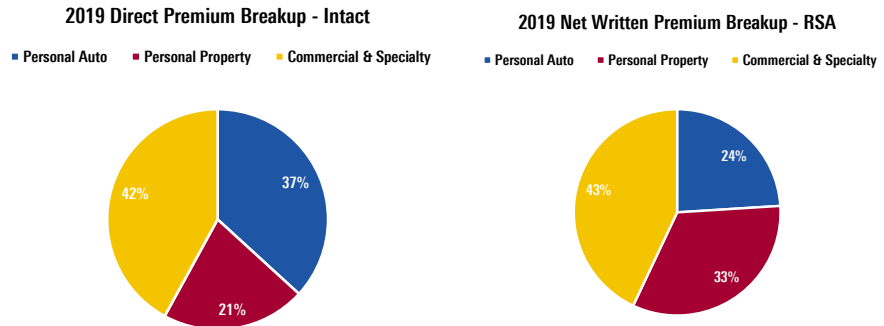
Source: RSA Insurance Group plc 2019 Annual Report.

### **RSA: Profitable Business with Some Underwriting Risk in Commercial Lines**

RSA's product underwriting risk profile is similar to that of Intact (see Exhibit 3), with both organizations offering similar products and competing for the same business in Canada. RSA's Personal lines business (57% of premium) reported strong underwriting results in 2019 with a combined ratio of 88.5% partly because of reduced weather-related claims across all geographies. Conversely, although profitable, the Commercial lines business (43% of premium) had weaker results with a combined ratio of 98.5% in 2019. RSA has taken extensive pricing and underwriting actions to improve profitability in its Commercial lines

business, especially in Canada. RSA also noted that it intends to take similar actions to improve the performance of its Commercial lines businesses in Scandinavia.

**Exhibit 3** Direct Premium Written by Major Lines of Business: Intact vs. RSA



Source: DBRS Morningstar and company documents.

**The Deal: Joint Proposal from Intact and Tryg**

The disclosed terms of the proposal state that Intact would acquire RSA's Canada and UK & International businesses and obligations while Tryg would acquire RSA's businesses in Norway and Sweden. At the same time, Intact and Tryg would enter into a co-ownership agreement to acquire RSA's operations in Denmark. Intact and Tryg are offering 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 would pay GBP 3.0 billion of the total transaction cost while Tryg would pay GBP 4.2 billion. Intact intends to finance its portion of the proposed transaction mostly with equity and a combination of debt and preferred shares. The Company has publicly announced that it would structure the funding of the transaction to support its current ratings. Intact plans to do this using a combination of equity and debt to finance its portion of the deal to mitigate 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 was 31.2% at the end of Q3 2020.

**Potential Challenges: Multiple Regulatory Oversight, Increased Operational, and Integration Risk**

If completed, this will be Intact's largest acquisition to date and the largest deal so far by a Canadian P&C insurer in history. Given the size and international scope of this potential acquisition, it poses some challenges such as dealing with the higher product risk associated with UK specialty insurance lines, integrating organizational cultures, managing the increased operational risk of crossborder 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. Since then, we note that 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 and Brexit pose would be additional hurdles for the integration of both companies in the short to medium term.

**Related Research**

- *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.

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