

## Le phénomène d'intégration dans l'assurance au Canada

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## Le phénomène d'intégration dans l'assurance au Canada (1)

*par*

Robert Parizeau (2)

C'est avec le plus grand plaisir, Monsieur le Président, que j'ai accepté votre aimable invitation à venir vous parler de la situation de l'assurance générale au Canada. Ce n'est pas à cet auditoire que j'apprendrai que l'industrie de l'assurance n'est pas en bonne santé, que les remèdes sont très loin d'être évidents et que des transformations profondes sont présentement en cours. L'industrie de l'assurance, comme d'ailleurs l'ensemble des services financiers, va devoir acquérir une discipline beaucoup plus rigoureuse qui ressemblera, à bien des égards, à celle qui existe dans l'industrie manufacturière. La concurrence ne diminuera pas et nous devons nous habituer aux changements continuels et à un climat d'incertitude qui, je le crains, persistera longtemps. Alors que, par le passé, notre industrie a été surtout dominée par des techniciens de l'assurance, les secteurs de la finance, du marketing, de l'actuariat, de l'informatique et de l'admi-

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(1) Texte d'une conférence donnée à l'Association Canadienne des Comptables d'assurances, le 20 septembre 1984, à Sherbrooke.

(2) M. Parizeau est le président du groupe Sodarcam Inc.

nistration occuperont dorénavant une place de plus en plus importante dans l'assurance générale, ce qui transformera la structure actuelle de nos entreprises. Au cours de ce congrès, vous abordez un ensemble de sujets qui sont d'actualité et qui représentent bien le genre de défis auxquels notre industrie doit faire face.

Au cours des quelques minutes qui vont suivre, j'essaierai de broser un tableau de l'évolution du marché canadien et plus particulièrement du phénomène de concentration qui s'est amorcé depuis quelques années et qui aboutit maintenant au grand débat sur le décloisonnement des institutions financières.

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During the last twenty years <sup>(3)</sup>, the Canadian market has had six years of underwriting profits and fourteen of underwriting losses, and the losses have far exceeded any underwriting profits which were made from 1965 to 1968 and in 1977 and 1978. While in the past, cycles had a relatively small amplitude, the situation has changed drastically since 1974. With Australia, Canada's insurance market probably has the worst performance in the industrialized world. The market is very fragmented and, contrary to the situation in the United States, England, France, Germany, Japan and the Nordic countries, it is dominated by foreign interests. These shareholders have often tolerated from their Canadian subsidiaries or branches in Canada results that they could never have accepted for any length of time in their homeland. Further, this situation has often delayed the development in Canada of proper technical skills in terms of management and of research.

The situation is, in fact, very different in the Life insurance industry where Canadian companies do dominate the market and have developed all the functions a proper head office must have. While the Canadian government had a very specific policy to encourage Canadian ownership in the Life sector, such a policy has never really existed in the Property and Casualty field.

Our industry is capital intensive. The instability of the Canadian insurance market makes it difficult for Canadian companies to attract investments from the public. Banks, Trust and Life companies have a much more stable performance and have been able to obtain much broader public support. A financial institution, by

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(3) L'auteur suit ici une coutume assez répandue au Canada. Comme il parle à un auditoire bilingue, il passe du français à l'anglais et vice versa.

definition, should not be subject to such huge fluctuations from one year to the next, as is the case in our industry. Financial stability is a pre-requisite for any financial institution.

However, despite a very difficult environment, a certain number of Canadian-controlled companies have emerged in the Property and Casualty field over the past twenty years. It is interesting to note that the largest are owned by the cooperative movement or are mutuals. Most of the others are owned by families or controlled by a small group of individuals. Very few are quoted on the stock market, contrary to the situation in the United States or in England.

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One can only hope that over the years the public, as policyholders or as shareholders, will be able to participate in Property and Casualty insurance companies. The portfolio of most Canadian-owned companies is made up of personal lines, small and medium size commercial accounts. Personal lines are affected considerably by the political environment. In the long term, it is important that the Canadian public acquire a greater interest in Property and Casualty companies, as politicians rarely stand up to defend foreign interests or the interest of a few individuals or families. A few years ago, one of the leaders of this market suggested that 25 to 30% of the capital of Canadian subsidiaries of foreign companies be sold to the Canadian public in order to associate better the latter to our industry. That idea never reached first base, but I am convinced that it would go far towards moderating, in the long run, Government interference into our business.

The two adverse cycles of the past ten years have brought about greater concentration among Canadian companies. The Cooperators Insurance Association and the Cooperative Fire & Casualty, La Prévoyance and Les Prévoyants, le Groupe Commerce and la Bélair are but a few examples.

The capital needed for expansion, the difficulty of obtaining it in Canada, and the concentration which now exists in other countries, will force further concentration in our own country.

The emergence of large Canadian-owned corporations is a very important factor for the stability of the Canadian market and this fact is beginning to be accepted by certain governmental authorities. Bill 75, passed in June by the Quebec National Assembly, is a clear

example of this : by giving mutual life insurance companies the possibility of issuing preferred equity shares, the Quebec government enables mutual companies to possess the means of continuing their development by having access to public financing.

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While British and other foreign companies have always had, in Canada, the power to write Life and non-Life business within the same legal entity as long as it was authorized in their homeland, it is interesting to note how, gradually, through different corporate entities, many Canadian groups are active in both Life and non-Life business. The Cooperators and Le Groupe Desjardins have been doing it for years ; Le Groupe Prêt et Revenu and the Laurentian Group are other examples, as are Traders Group and the Dominion of Canada. Several life insurance companies have gone into general insurance : l'Industrielle, Les Coopérants, La Mutuelle-Vie des Fonctionnaires, to name but a few in this province.

Furthermore, many of these groups now include a trust company in addition to a Property and Casualty insurance company and a Life insurance company. Take for instance, Le Groupe Desjardins, the Laurentian Group with La Banque d'Épargne et le Crédit Foncier, Le Groupe Prêt et Revenu – i.e. Aeterna-Vie, La Saint-Maurice, La Fiducie Prêt et Revenu – La Mutuelle-Vie des Fonctionnaires, which includes La Capitale and la Société Nationale de Fiducie, E.L. Financial Group which includes the Dominion of Canada, Empire Life, Victoria and Grey which, recently, merged with National Trust.

In other cases, such financial groups include a Trust company and a Life company but no Property and Casualty company, at least for the moment : Power Corporation with Great West Life<sup>(4)</sup> and Montreal Trust, Trilon<sup>(5)</sup> with London Life, and Royal Trust, and more recently, Alliance and Trust Général.

In practice therefore, over the past ten to fifteen years, a significant number of Canadian financial institutions in different sectors of activities have grouped together under the same financial umbrella. However, in most cases, the initiative to form such groups did not

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(4) Great West Life owns however a small property and casualty company, The Gold Circle Insurance Company :

(5) Since then Trillon acquired The Fireman's Fund Insurance Company of Canada.

originate from the Property and Casualty companies but from Life and Trust companies.

Bill 75 now allows an insurance company in Quebec to become a financial holding and most probably, in time, such an approach will be authorized by other governments in Canada. This is a major change which will accelerate the trend towards much greater concentration than we have seen over the past few years.

Until now, each component of such a group – Property and Casualty, Life, Trust, and recently, even Investment Brokers – have been working independently and with very little interaction in terms of marketing and sales. However, this will change within the next few years. It will not happen overnight, but data processing and marketing techniques will, in the future, allow much more synergy and organic growth among the different entities of a same group. In the long run, smaller insurers will have to be specialists or have a very special market niche to fare well on the market.

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In this perspective, what could be the consequences on our industry if Canadian banks were authorized to enter the insurance field? In some states south of the border, banks can now own insurance companies. As you well know, our banking system is much more concentrated than in the United States and operates through a branch system which extends all over Canada. If banks were authorized directly or through subsidiaries to conduct Property and Casualty business, they could probably take over a major part of the Personal Lines and the small Commercial Risk markets which represent the backbone of activities of Canadian-controlled companies. The consequences of such a decision would be enormous for the whole industry and it would obviously accelerate the process of acquisitions and mergers and result in a much greater concentration in the hands of relatively few powerful players.

Should the Federal Government authorize banks to carry out Life and non-Life insurance operations, it would, no doubt for several years, create a major shake up on the market both at the level of insurers and intermediaries. While I do not see an immediate move in that direction, I also do not think that we can entirely discard such an approach in the long term. We have to realize that it would be a very easy way to “canadianize” the Property and Casualty business and to create huge groups which could not only resist interna-

tional competition but which would have the financial basis to develop their business outside the country and to benefit from the geographical spread, a situation which has been achieved by many Canadian Life companies.

Je voudrais maintenant toucher deux autres aspects de cette question : la réassurance et les intermédiaires.

Le marché de la réassurance au Canada s'est développé de façon considérable dans les années '70. Le nombre de réassureurs agréés au Canada a probablement triplé durant les derniers quinze ans. Cela correspond à une période d'expansion du marché international, un grand nombre d'assureurs ayant créé des sociétés de réassurance. C'est le cas, par exemple, des Assurances Générales de France, du Groupe Abeille-Paix, du Groupe Norwich Union et Winterthür, pour ne citer que quelques noms. Si les opérations d'assurance sont très contrôlées dans le marché commun, la réassurance ne l'est pas, dans la mesure où elle est pratiquée par une société de réassurance.

Durant cette période, un certain nombre de sociétés canadiennes, à l'instar des grands groupes internationaux, ont développé leurs acceptations en réassurance et assumé des affaires canadiennes et étrangères. Même si leur implication est encore très limitée, nous avons maintenant au Canada une expertise en réassurance qui n'existait pas auparavant. Les résultats techniques au cours des dernières années, tant au Canada que sur le marché international, ont néanmoins ralenti bien des enthousiasmes.

Sur le plan international, assurance et réassurance sont intimement liées. Un grand nombre d'assureurs, comme je viens de le mentionner, ont créé, dans les années '70, des sociétés de réassurance, d'autres en ont acheté. À titre d'exemples, la Prudential of America a créé La Prudential Re, qui est devenue aujourd'hui un des grands réassureurs américains ; de son côté, la Prudential of England a fait l'acquisition de la Mercantile & General. À l'inverse, des compagnies de réassurance ont acquis le contrôle de compagnies d'assurance. C'est ainsi que la Compagnie Suisse de Réassurance achetait la Switzerland General.

En somme, et c'est le point que je veux faire ressortir, le phénomène de concentration et d'intégration sur le plan financier touche

également la réassurance ; un nombre de plus en plus grand d'assureurs ont dans leur groupe une société de réassurance ou, tout au moins, un service de réassurance ; par ailleurs, plusieurs sociétés de réassurance possèdent des compagnies d'assurance ou font elles-mêmes des opérations d'assurance, souvent dans des secteurs spécialisés, tel qu'Employers Re.

The concentration and integration within insurance companies can also be noticed at the intermediary level. It is interesting to see how, in the past fifteen years, a few major insurance broking groups have emerged in Canada. Reed Stenhouse, Marsh & McLennan, Dale-Parizeau, Tomerson Saunders and Johnson Higgins are by far the largest brokers in Canada. Each of these groups has made a number of acquisitions over the years to reinforce their position. To be present in the fields of Life, Accident and Sickness and Pension Funds, these brokers are all associated with an actuarial consultancy firm or have established a special department for these activities.

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As insurers and reinsurers are often associated, it can be noted that all the large reinsurance intermediaries in Canada – as is generally the case in the United States and in Europe – are linked financially to an insurance broking firm. In the same way that insurers and reinsurers operate independently, these large reinsurance intermediaries also conduct their business entirely separate from insurance broking.

In the past ten years, insurance companies have merged and groups were formed in Canada to include a Property and Casualty insurance company, a Life insurance company, a Trust company and more recently, investment brokerage and investment council. Many of these same groups have gone into reinsurance business. During the same period, similar associations were made at the intermediary level to include insurance broking, actuarial consultancy and reinsurance broking. Other developments have also taken place recently where major insurance groups have taken over major intermediaries. Reliance of Philadelphia took control of The Crump Cos. Inc., the ninth largest insurance broking operation in the United States ; in 1982, Rollins Burdick Hunter, number seven in the U.S., were acquired by Combined International, while Fred S. James, fifth largest, was taken over in the same year by Transamerica which, as



you know, owns Canadian Surety in Canada. This is another aspect of vertical integration.

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Our world is becoming more and more complex, more and more international. Groups are being formed here and in other major markets of the world to serve all facets of financial services and this trend will continue and will accelerate. It is, at this time, essential for all corporations to define their goals and their strategies very clearly ; it is one thing to group companies under the same financial umbrella and an entirely different challenge to make these various components work together towards the same goals, each one, however, keeping its professional autonomy ; the ideal formula has not yet been found and this is probably the greatest challenge for any management team.

The implications of EDP in our industry will be far-reaching ; the market will become increasingly segregated and the public will demand much more personalized services. Although we are heading towards much greater financial concentration, we are also heading, because of the tools that we now have at our disposal, towards creating a much more personalized product, tailor-made to the needs of each of our customers. However, during this period when our business is going through radical changes, when computerization and finance are playing such a major role, success will ultimately depend on the management of human resources and the quality of communications within companies and with the various types of clientele to be served.

### **Conclusion**

En somme, Monsieur le Président, le cycle des années '74-75 et celui des années '80 à '82 ont entraîné de nouvelles concentrations au Canada, dans le secteur de l'assurance générale. Durant cette période, à l'initiative principalement des compagnies d'assurance-vie et des sociétés de fiducie, des groupes canadiens se sont constitués pour faire des opérations d'assurance générale, d'assurance-vie et de fiducie, et tout récemment, des opérations de courtage mobilier. Le débat sur le décloisonnement des institutions financières est l'aboutissement de ce phénomène de concentration et de diversification. L'entrée des banques pourrait modifier complètement l'échiquier. La même évolution est intervenue au niveau du courtage qui comprend le courtage d'assurance, l'actuariat-conseil et le courtage de

réassurance. Tout récemment, de grands groupes d'assureurs ont fait l'acquisition de grands groupes de courtage. De l'intégration horizontale, nous sommes passés à l'intégration verticale. La Loi 75 du Québec, en permettant aux mutuelles d'aller chercher des fonds par des actions privilégiées et en permettant aux compagnies d'assurance d'être elles-mêmes des holdings financiers, donne le signal d'une accélération de ce phénomène de concentration et de diversification.

Nous vivons certes une période de grande incertitude, mais, par contre, avec des défis aussi stimulants, nous nous trouvons dans un marché qui offre des possibilités considérables.

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**Umbrella Liability Insurance in Canada**, by Frank J. Huntley.  
Second Edition. October 1983.

Dans son livre, M. Huntley présente la police globale de responsabilité civile dite "*Umbrella Liability*", telle qu'on la pratique au Canada. Il note une chose que nous ignorions, pour notre part, à savoir que la première police de ce genre a été émise au Canada par les courtiers Marsh & McLennan. Cette police a pour objet de coiffer une assurance de premier rang, afin de mettre l'assuré à l'abri, dans les cas où la police initiale ou la police de base est pour un montant peu élevé. Comme question de fait, avec cette formule, il est possible non seulement d'avoir une garantie considérable, mais, dans l'ensemble, meilleur marché que le serait l'augmentation du montant initial. Cette police a sûrement sa place non seulement au Canada, mais aux États-Unis et en Angleterre, en tenant compte des montants considérables que les tribunaux et, en particulier les jurés, ont tendance à accorder à la suite d'un accident dont l'assuré est responsable.

Dans son entrée en matière, l'auteur note pourquoi cette police a immédiatement eu du succès auprès des courtiers et de leurs clients. Voici ce qu'il en dit :

"First of all, their clients obtain higher liability limits for all their liability policies. A \$1,000,000 Umbrella increases a \$500,000 Auto policy to \$1,500,000, a \$1,000,000 General Liability policy to \$2,000,000 and the same with other liability policies such as Non-owned Aircraft Liability. Secondly, the Umbrella gives broader coverage than the primary policy. Thirdly, it is less expensive to buy a \$1,000,000 Umbrella than several excess \$1,000,000 coverages. . . "