

Niche players show strength during market crisis

While many of the major insurers hit rough waters in 2008, results signal the opposite trend for a number of small mutual companies and other niche players which were buoyed by specialized markets and conservative investments.

Unity Life demutualized last year, but its status of niche player continues to serve it well. Since being acquired by the Canadian fraternal benefits society **Foresters** in 2008, Mississauga-based Unity Life has been receiving financial support from the parent company, which it is using to make acquisitions.

In 2008, Unity Life took over the Canadian operations of **Washington National**, the business segment of **GeniSys Management Solutions**, and the Canadian insurance operations of **Forethought Financial Group**.

In May this year, Unity Life bought out **MetLife Canada**, a subsidiary of the American giant **MetLife**, which included its 100,000 life and health insurance policies, and a handful of group annuity contracts.

Over the past few years, Unity Life bought the individual life and accidental death insurance policies from the *Canadian Professional Sales Association*, along with the remaining Canadian business of **Prudential of America**.

The Ontario insurer continues to specialize in particular niches such as creditors and insurance, term at preferred rates and simplified issue policies for the family market.

"Given what's happening in the economy, 2008 will go down in the records as the most profitable year ever. We did better than our



Tony Poole

planned profits," said **Tony Poole**, President and CEO of Unity Life

Mr. Poole credits the enviable 2008 results mainly to the acquisition of **Forethought** and **Washington National**. Net earnings surged by 60.0%, to reach \$6.764 million in 2008 versus \$4.227 million in 2007. Return on shareholder

ers' equity was 10.6% in 2008.

"Both acquisitions played a role... Second, we have a very conservative investment portfolio and we haven't been impacted on the equity side. We don't do segs (segregated funds), so we didn't have the need to shore up the reserves. We're impacted to a degree because of downgrades in our corporate bond portfolio. But we did so well on insurance side that it covered the downturn in investment side," Mr. Poole explains.

He says the company's success is the result of the niche strategy introduced eight years ago. "If you're going to be a little or mid player, you need a unique strategy that brings an added value."

Mr. Poole is banking on products that may appear unremarkable, but that stand out either because of their design or distribution. For example, Unity Life has one of the rare term products that uses a debit-credit system to grant preferred rates. This means, for example, that clients with high cholesterol but a spotless family history would not be penalized to the same degree. Under this system, 80% of non-smoking insured obtain a better rate than the standard category.

As for added value, Unity Life policyholders can obtain free benefits usually reserved for members of the fraternal society **Foresters**. They include monthly payouts for children that lose a parent, an orphan scholarship program and members' benefits in case of critical illness or terminal illness

Richard Gagnon, President and Chief Executive Officer of Quebec-based mutual

insurer **LS Mutual** (also known as **La Survivance** in Quebec) believes specialization was the key to its successful year.

Net earnings for LS Mutual grew by almost 52% between 2008 and 2007, from \$1.660 million to \$2.519 million. The Quebec-based mutual also delivered its members a 13.2% return on their investment in 2008, quite respectable under the circumstances. LS Mutual maintained its liquidity ratio at 195% in 2008 (minimum continuing capital and surplus requirements or MCCR, whose target level is set at 150% by the *Office of the Superintendent of Financial Institutions*).

Mr. Gagnon weathered the economic slowdown by focusing on his main strategy: expanding the product line each year by trying to fill "holes" in the market.

"The growth of our gross income is powered directly by our living benefits niche," Mr. Gagnon points out. LS Mutual acquired **TourMed** from **ACA Assurance** and this travel insurance block drove nearly half of the 40% growth in sales volume between 2007 and 2008. During this period, 15% of the mutual's travel insurance sales came from Ontario, a key province in its development plan outside Quebec.

Assumption Life is also pleased with its results. The small New Brunswick-based mutual reported income of \$94.5 million in 2008 and policyholders' equity of \$81.1 million, increases of nearly 4.1% compared with 2007.

The mutual also posted net earnings of \$4.3 million in 2008 for growth of 7.4% versus 2007. The insurer's annual report confirms that it reached a new record in life insurance, with sales of \$4.4 million in 2008, 10.7% higher than in 2007.

President and Chief Executive Officer **Denis Losier** attributes this financial vitality to **Assumption Life's** Canada-wide presence and the continuous expansion of its distribution network. "Some 50% of Assumption Life's sales currently take place outside of Atlantic

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— **Tony Poole**

Canada. Its total number of advisors also increased by 23%. In addition, to solidify its captive sales network in New Brunswick, the company created the new sales subsidiary **AVie** through a strategic alliance with **Acadie Vie**," the insurer confirms via a press release.

Net earnings decline

Other mutuals claim to have done well despite a decline in earnings. Net earnings at **La Capitale** plunged to \$39.420 million in 2008 from \$65.805 million in 2007, a dramatic drop of 40.1%.

Robert St-Denis, President and Chief Operating Officer of **La Capitale Financial Group**, puts the results in perspective. "Growth was robust. What hurt was the 50% increase in taxes in 2008 because of changes in the Federal tax laws that will take effect later."

La Capitaes' income slipped by 2.7%, from \$1.090 billion to \$1.061 billion between 2007 and 2008. **La Capitale** maintains an MCCR of 216%.

Its life and health insurance sector saw solid results. In individual insurance, combined sales of **La Capitale Civil Service Insurer**, **La Capitale Insurance and Financial Services** and its subsidiary, **PennCorp**, approached \$14 million, equal to growth of 13.2% between 2007 and 2008.

Sales growth outside Quebec was particularly strong, Mr. St. Denis confirms. Its subsidiary **PennCorp** hiked its sales volume by 19.2% in 2008 versus the previous year. "PennCorp hired 20 representatives, and since 2008, PennCorp representatives can access all **La Capitale** products," Mr. St. Denis explains.

"In group insurance, our sales outside of the public and para-public sectors were up 27.4% from 2007. I was worried about group because of difficulties in the manufacturing sector, but these difficulties were offset by new sales," he continues.

Mr. St. Denis proclaimed the 2008/2009 RRSP campaign the best one ever. "Up to now, we have sidestepped the market turbulence, and we have just had our best year in group savings." Because much of **La Capitale's** investments are in stock market GICs, the guaranteed portion of the funds dampened the effects of the market meltdown, as did new sales.

At **UL Mutual**, net earnings rose by 10.1%, from \$11.465 million in 2007 to \$12.625 million in 2008. However, income was dragged down by a decline in investment income, which dropped from \$93.605 million in 2007 to \$80.708 in 2008, a 16.0% decrease. The return on equity of the mutual's members was 13.0%. The Quebec-based mutual had a solvency ratio of 300%.

"The stock market crisis also ushered in a host of buying opportunities for investments in 2008, with a particularly favourable window in October," **Jacques Desbiens**,

President and Chief Executive Officer of **UL Mutual** explains.

Business development remained vigorous in 2008, but 2009 is getting off to a rocky start, although Mr. Desbiens says the results are in line with his objectives. "People are putting off buying insurance. But investment product sales are strong."

Mr. Desbiens points out that buying blocks of business has been the main growth engine since he took the helm of the mutual in 1993. "When I got there we had a \$13 million surplus. During the summer we passed the \$116 million mark. But 2008 was calmer in acquisitions. Our growth came mainly from our operations," he says.

Alain Thériault

FINANCIAL RESULTS OF THE MAJOR LIFE INSURERS IN CANADA (\$000)

	Total direct premiums	Net investment income	Other income	Total revenue	Assets (no segs)	Net income
STANDARD LIFE CANADA						
2008	1,289,834	264,694	188,342	1,743,327	16,193,714	-247
2007	1,365,700	757,634	188,609	2,343,133	16,576,887	196,201
2006	1,511,112	1,004,108	163,043	2,642,359	15,903,769	207,524
STANDARD LIFE ASSURANCE LIMITED						
2008	35,041	2,723	-4,516	-1,793	58,776	300
2007	31,390	2,119	-2,049	70	60,569	263
2006	27,056	188	0	188	5,226	188
STATE FARM INTERNATIONAL LIFE						
2008	116,449	48,828	374	165,627	1,099,026	-13,107
2007	106,027	47,558	350	153,926	997,734	17,816
2006	0	46	0	46	5,046	28
SUN LIFE ASSURANCE COMPANY OF CANADA						
2008	7,035,205	1,868,723	467,676	7,718,861	45,274,801	1,506,414
2007	6,671,836	2,112,543	447,406	284,380	45,071,522	1,388,915
2006	6,332,309	3,006,311	394,834	9,587,182	50,906,682	1,411,118
SUN LIFE INSURANCE (CANADA) LIMITED						
2008	42,759	16,003	203	798,081	10,330,224	157,036
2007	70,308	251,052	378	9,153,651	10,885,010	89,301
2006	19,486	420	4	168,674	195,271	-192
TD LIFE						
2008	55,253	1,072	17,052	55,770	43,942	1,542
2007	39,857	1,171	13,963	38,273	27,487	1,448
2006	36,070	882	9,617	27,409	23,580	1,305

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	Total direct premiums	Net investment income	Other income	Total revenue	Assets (no segs)	Net income
TRANSAMERICA LIFE CANADA						
2008	704,761	-111,135	112,669	430,344	6,460,035	-583,436
2007	706,156	18,211	127,163	609,375	5,907,994	-307,318
2006	707,553	303,993	0	903,335	5,121,228	24,541
UL MUTUAL*						
2008	74,450	7,309	2,173	56,634	629,552	12,625
2007	66,425	31,082	2,262	71,602	612,913	11,465
2006	68,257	32,122	1,816	75,015	490,331	10,667
UNITY LIFE						
2008	111,839	-18,531	303	68,349	637,346	6,764
2007	110,871	13,955	499	100,897	566,373	4,227
2006	105,643	19,690	288	103,210	471,632	9,667
WAWANESA LIFE						
2008	96,390	-11,364	0	76,681	493,230	4,662
2007	92,103	17,267	0	103,137	496,704	4,457
2006	86,326	26,459	0	107,180	445,472	2,342
WESTERN LIFE						
2008	47,270	-891	42	31,705	74,892	1,009
2007	41,416	2,653	35	30,961	73,221	3,333
2006	33,124	2,721	72	26,355	61,951	2,057

*Results obtained from the insurance company.

1: AIG Assurance Canada merged into BMO Life Insurance Co. (formerly AIG Life Insurance of Canada) on Oct. 1st 2008

2: Revenues are from Ontario and Quebec

3: BMO Financial Group acquired AIG Life Insurance in 2009 and changed its name to BMO Insurance.

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