Intact Financial Corporation Is Ready to Take on the World

Description

If there's anything drier than a discussion about the insurance industry, I'd love to know what that is. It honestly bores me to death.

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So, when I saw something online about **Intact Financial Corporation** (TSX:IFC) and its CEO Charles Brindamour, I almost took a pass. I didn't, and I'm glad, because since taking the helm of Canada's largest property and casualty firm in 2008, Brindamour has delivered nothing but straight A's for shareholders.

The executive, who worked himself up the corporate latter at ING Canada over the span of 15 years before being appointed CEO on January 1, 2008, has achieved a total annualized return of 13.4% since taking the helm — 910 basis points better than the **iShares S&P TSX 60 ETF**.

Underwriting profits are the key

When most people talk about insurance companies as investments, they do so because of what's known as the "insurance float" — the money that's collected as premiums that are invested until they're needed to pay out claims.

Famously, **Berkshire Hathaway** has grown its float from $39 million in 1970 to $91.6 billion at the end of 2016, a compound annual growth rate of 18%. It's a big reason why there are so many smiling disciples of Buffett. But to grow the float in such a tremendous fashion, a property and casualty company can't just be good at picking stocks; it also has to be good at underwriting insurance policies.

"If our premiums exceed the total of our expenses and eventual losses, our insurance operation registers an underwriting profit that adds to the investment income the float produces. When such a profit is earned, we enjoy the use of free money — and, better yet, get paid for holding it," wrote Buffett in the 2016 Berkshire Hathaway letter to shareholders. "Unfortunately, the wish of all insurers to achieve this happy result creates intense competition, so vigorous indeed that it sometimes causes the P/C industry as a whole to operate at a significant underwriting loss. This loss, in effect, is what the industry pays to hold its float."

Since 2003, Berkshire Hathaway's property and casualty businesses have generated an underwriting profit every year, producing pre-tax gains of $28 billion. The company was essentially paid $2 billion per year to borrow almost $92 billion in investment capital.

That's some deal.

Not all companies view their businesses in quite the same fashion and are willing to lose money on their underwriting side of the business.

Brindamour isn't one of them.

In the nine years at the helm, Intact has only had one quarterly underwriting loss in 2013. Otherwise, Intact has been paid to invest its float in the same vein as Berkshire Hathaway, which has allowed IFC to grow its investment portfolio from $7.2 billion at the end of 2007 to $14.9 billion as of June 30.

Using the Berkshire Hathaway example from above, Intact was paid $293 million annually to borrow $14.9 billion in investment capital. That's pretty darn close to Berkshire Hathaway.

Acquisitions driving growth

Intact's latest acquisition — it acquired U.S. specialty insurer OneBeacon Insurance Group, Ltd. on September 28 for $2.3 billion — is probably its most important to date because it gives Intact's Canadian customers access to U.S. products and OneBeacon customers access to Canadian products. Equally important, it's accretive to net operating income within 24 months.

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The company's acquisition criteria are to buy domestic businesses with $500 million or more in direct premiums written. Since Brindamour has taken over, it's made four in Canada, the biggest being its $2.6 billion purchase of AXA Canada. It has the largest property and casualty market share in the country at 17% but expects to bump that up to more than 30% over the next 10 years.

Down in the U.S., it's made just the one major acquisition, but you can expect it to make more once OneBeacon is fully integrated into the company.

It's a great stock that flies under the radar

My Foolish colleague Joey Frenette had nice things to say about Intact at the end of August, including mentioning its healthy 2.5% dividend yield. Frankly, I'd always shied away from Intact, because I thought it was just another insurance company, but looking under the hood, I see that couldn't be further from the truth.

Intact is both a growth and value stock that belongs in almost every kind of investment portfolio.

Who knew?

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