

## The state of Canadian General Insurance in 1981

Christopher J. Robey

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## The state of Canadian General Insurance in 1981

by

Christopher J. Robey  
Senior Vice-President and General Manager  
le Blanc Eldridge Parizeau, inc.

198 Investment income continued to stay ahead of the underwriting losses of the Canadian general insurance industry in 1980, but only just. While net premiums written increased by 8.6% and investment income by 14.7%, claims rose by 17.5%. As a result, the net margin was reduced from \$521.4 million to \$219.8 million, less than 4% of the net premiums written and barely enough, even before taxes and dividends, to absorb the increase in premium required to cover inflation alone.

The following table shows the results of private property and casualty companies during the last five years<sup>(1)</sup>.

| Year | Net premiums<br>written | Net premiums<br>earned | Underwriting<br>result | Loss<br>ratio |
|------|-------------------------|------------------------|------------------------|---------------|
| 1976 | 4,262                   | 3,961                  | + 3.7                  | 66.66%        |
| 1977 | 4,836                   | 4,550                  | + 72.7                 | 64.16%        |
| 1978 | 4,733                   | 4,682                  | + 46.1                 | 64.95%        |
| 1979 | 5,138                   | 4,946                  | - 185.7                | 70.26%        |
| 1980 | 5,577                   | 5,356                  | - 591.0                | 76.26%        |

All figures in millions of dollars.

Once again, there was some small comfort to be derived by private industry in comparing its performance to that of Government insurance companies, which saw their claims ratio deteriorate from 93.10% in 1979 to 104.77% in 1980, with a loss after investment income increasing from \$20 million to \$89 million. Interestingly enough, their operations in competition with the

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<sup>(1)</sup> All statistics are taken from the annual statistical issues of *Canadian Insurance magazine*, unless otherwise stated.

## A S S U R A N C E S

general market produced better results than the business in which they have a monopoly position.

The results of the property and casualty industry as a whole, including government insurers, have been as follows over the last five years:

| Year | Net premiums written | Net premiums earned | Underwriting result | Loss ratio |
|------|----------------------|---------------------|---------------------|------------|
| 1976 | 4,859                | 4,535               | + 52.5              | 67.04%     |
| 1977 | 5,450                | 5,142               | + 31.6              | 66.71%     |
| 1978 | 5,384                | 5,328               | + 4.3               | 67.38%     |
| 1979 | 5,851                | 5,556               | - 282.8             | 72.76%     |
| 1980 | 6,395                | 6,113               | - 783.7             | 79.79%     |

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All figures in millions of dollars.

The loss ratios shown by Canadian Insurance in the list of the top hundred companies (by net premiums written) show the best combined index at a remarkable 41.99% by Pool Insurance and the worst 153.81% by Factory Mutual System. However, the average is about 110%, with 23 of the 100 being below 100%. The following are the results of some selected companies, showing their ranking based on net premiums written (including reinsurance assumed) before the name and by gross direct premiums written after the name, and with their 1979 combined index in brackets:

| Company                | Net premiums written | Underwriting result | Combined Index (%) |
|------------------------|----------------------|---------------------|--------------------|
| 1. Royal Insurance     | (1) 470,767,357      | - 61,972,881        | 113.34 (107.90)    |
| 2. The Co-operators    | (2) 308,171,602      | - 17,884,355        | 105.88 ( - )*      |
| 3. Lloyd's             | (5) 231,614,547      | + 2,981,085         | 98.65 ( 97.51)     |
| 8. Economical Group    | (7) 145,261,446      | - 14,109,707        | 110.44 ( 98.55)    |
| 10. Guardian of Canada | (8) 139,765,000      | - 7,730,000         | 105.88 (103.43)    |
| 11. Wawanesa Mutual    | (10) 138,053,997     | - 5,109,484         | 104.02 ( 95.94)    |
| 14. Dominion of Canada | (14) 116,336,909     | - 7,775,880         | 107.09 (101.80)    |

\*Shown separately in 1979 as Co-operators Insurance Association, 101.70% and Co-Operative Fire and Casualty, 100.15%.

## A S S U R A N C E S

|                                |       |             |   |            |        |          |
|--------------------------------|-------|-------------|---|------------|--------|----------|
| 15. Groupe Commerce            | (16)  | 111,058,689 | - | 3,436,102  | 103.24 | ( 98.20) |
| 16. State Farm                 | (18)  | 107,390,460 | + | 4,353,914  | 95.87  | ( 97.79) |
| 18. Canadian General           | (21)  | 83,828,830  | - | 9,324,736  | 110.99 | (106.65) |
| 20. Les Prévoyants du Canada   | (17)  | 76,899,177  | - | 29,614,880 | 142.30 | (107.80) |
| 21. Groupe La Laurentienne     | (24)  | 70,151,418  | - | 5,817,266  | 108.91 | (106.13) |
| 22. Canadian Indemnity         | (20)  | 68,791,743  | + | 347,212    | 99.21  | ( 88.06) |
| 23. Groupe Desjardins          | (19)  | 67,306,800  | - | 19,511,107 | 124.81 | (118.06) |
| 35. Canadian Home              | (30)  | 45,648,023  | + | 741,797    | 98.30  | (100.80) |
| 37. L'Union Canadienne         | (57)  | 39,523,065  | - | 3,400,881  | 109.14 | (105.09) |
| 40. Guarantee Co. of N.America | (41)  | 36,947,808  | + | 1,764,537  | 95.28  | ( 87.77) |
| 42. Factory Mutual             | (39)  | 33,206,371  | - | 25,488,604 | 153.81 | (153.33) |
| 49. Simcoe & Erie Grp          | (25)  | 25,999,023  | - | 2,001,582  | 108.82 | (101.24) |
| 50. Belair Insurance           | (58)  | 25,989,887  | - | 4,611,637  | 118.15 | (110.72) |
| 51. Commonwealth               | (23)  | 24,929,759  | - | 116,007    | 100.50 | (100.77) |
| 52. Sovereign General          | (55)  | 23,545,395  | - | 3,919,479  | 116.84 | (103.87) |
| 53. Provinces-Unies            | (45)  | 22,154,704  | - | 4,322,691  | 126.45 | ( 84.48) |
| 55. Federation Ins. Group      | (52)  | 21,183,310  | - | 2,489,230  | 112.52 | (101.30) |
| 58. Personal Ins. of Canada    | (64)  | 17,921,802  | - | 4,767,344  | 127.98 | (101.94) |
| 61. Equitable General          | (65)  | 16,992,875  | - | 3,499,998  | 118.79 | (106.80) |
| 67. American Home              | (22)  | 12,179,291  | + | 1,294,131  | 89.09  | ( 65.07) |
| 73. Northumberland General     | (35)  | 10,360,559  | - | 885,110    | 109.92 | (100.00) |
| 74. Scottish & York            | (40)  | 9,866,179   | - | 2,204,764  | 122.56 | (116.56) |
| 75. Les Coopérants             | (92)  | 9,070,379   | - | 1,259,638  | 114.16 | (110.52) |
| 80. La St. Maurice             | (82)  | 7,987,364   | - | 971,931    | 111.58 | (107.71) |
| 81. La Capitale                | (95)  | 7,771,628   | - | 1,421,507  | 121.21 | (106.71) |
| 82. Canada West                | (86)  | 7,023,520   | - | 726,575    | 108.76 | (103.06) |
| 85. Markel Insurance           | (61)  | 6,351,098   | - | 2,986,679  | 149.87 | (115.08) |
| 87. D.M.L. Management          | (73)  | 5,753,182   | - | 561,909    | 109.23 | (117.70) |
| 88. Nova Scotia General        | (103) | 5,512,669   | + | 132,928    | 97.57  | ( 89.30) |
| 91. Symons General             | (70)  | 4,844,801   | - | 773,088    | 115.07 | (188.77) |
| 92. L'Industrielle             | (110) | 4,734,929   | - | 382,067    | 107.92 | (113.53) |
| 96. Société Nationale          | (96)  | 3,413,042   | - | 531,531    | 119.15 | ( 96.66) |

Six companies with over \$1 million of net written premiums in 1979 had made an underwriting profit in every year of the seventies and four of them, Emmco, Grain Insurance and Guarantee, Pafco and Pilot continued their profitable ways in 1980. A fifth, Western Surety, had a combined index of 102.16%, while the results of the sixth, the Ontario Mutual, were not available. American Home and Boiler Inspection both had their 10th consecutive year of underwriting profit.

## A S S U R A N C E S

While most companies saw a steady deterioration in their underwriting results in 1980, a few showed a significant improvement, particularly for a bad year. Some of them were, not surprisingly, specialty companies – Aviation and General, 81.63% in 1979, 68.90% in 1980; Co-operative Hail, 83.04% to 68.17%; Ecclesiastical 117.89% to 99.16%; Insmor Mortgage 134.65% to 81.44%. However, a number of companies with a general portfolio, while still the wrong side of 100% in most cases, nonetheless managed to go significantly against the tide, for example, Chateau 133.27% to 115.74%, Concorde 142.79% to 122.56%, Kent General 106.08% to 88.99%, Symons General 188.77% to 115.07%.

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As the following table shows <sup>(1)</sup>, reinsurers fared no better than the industry as a whole in 1980.

| Year                | Net premiums<br>written | Net premiums<br>earned | Underwriting<br>result | Loss<br>ratio |
|---------------------|-------------------------|------------------------|------------------------|---------------|
| 1977                | 341.2                   | 330.6                  | – 0.4                  | 67.40%        |
| 1978                | 336.7                   | 339.3                  | – 12.2                 | 67.42%        |
| 1979                | 362.4                   | 346.9                  | – 21.0                 | 69.75%        |
| 1980 <sup>(2)</sup> | 424.3                   | 392.9                  | – 53.9                 | 76.63%        |

All figures in millions of dollars.

It must be borne in mind that these figures and the following table do not include reinsurance written on the unlicensed market, nor by companies which also write insurance.

While the news for reinsurers generally was no better than for the market as a whole, there were some bright spots – American Re improving from 104.40% in 1979 to 95.43% in 1980, Prudential Re 134.30% to 91.70%, Philadelphia Re 122.30% to 106.02%, AGF Réassurances 120.59% to 103.70%.

<sup>(1)</sup> Statistics on reinsurance are taken from *Canadian Underwriter Magazine*.

<sup>(2)</sup> Excluding Continental Casualty, which showed an underwriting loss of \$2,178,646 on net premiums written of \$24,059, and Hartford Steam Boiler, which showed an underwriting profit of \$887,377 on net premiums written of \$712,273.

## A S S U R A N C E S

The results of individual reinsurers were as follows, with the 1979 combined index in brackets.

| Company                        | Net premiums<br>written | Underwriting<br>result | Combined<br>index (%) |
|--------------------------------|-------------------------|------------------------|-----------------------|
| Universal Re Grp               | 69,284,590              | - 12,506,770           | 119.90 (124.80)       |
| Munich Re Grp                  | 56,278,625              | - 3,276,395            | 105.69 ( 99.05)       |
| Canadian Re Grp                | 52,660,274              | - 15,531,270           | 130.52 (102.96)       |
| Mercantile & General           | 35,634,864              | - 4,067,472            | 112.10 (109.30)       |
| 202 Gerling Global Re          | 33,419,031              | + 196,760              | 99.85 ( 99.21)        |
| General Re                     | 28,587,534              | + 171,412              | 100.80 ( 67.67)       |
| Reinsurance Mgt. Co. of Canada | 26,009,677              | - 6,205,173            | 127.02 (117.75)       |
| Skandia                        | 13,487,983              | - 1,604,653            | 112.65 (112.02)       |
| SCOR Re of Canada              | 12,039,274              | - 2,360,765            | 119.37 (101.05)       |
| American Re                    | 12,011,627              | + 531,305              | 95.43 (104.40)        |
| Employers Re                   | 9,945,399               | - 396,915              | 102.70 ( 95.55)       |
| Prudential Re                  | 9,341,012               | + 688,856              | 91.70 (134.30)        |
| Philadelphia Re                | 9,031,622               | - 577,400              | 106.02 (122.30)       |
| S.A.F.R.                       | 9,009,754               | - 1,984,605            | 124.40 (107.47)       |
| A.G.F. Réassurances            | 7,192,239               | - 247,964              | 103.70 (120.59)       |
| Kanata Re                      | 6,786,291               | - 1,614,781            | 124.70 (110.94)       |
| Prudasco Assurance             | 6,131,218               | - 772,490              | 119.30 ( - )          |
| Farm Mutual Re                 | 5,995,529               | - 1,231,406            | 120.80 (105.97)       |
| Nationwide                     | 5,614,290               | - 599,143              | 110.80 (112.20)       |
| Sphere Re                      | 5,029,410               | - 934,734              | 125.80 ( - )          |
| Great Lakes                    | 4,425,046               | - 247,730              | 105.97 (104.16)       |
| Co-operative Ins. Soc.         | 2,703,758               | - 111,013              | 104.21 (118.70)       |
| General Security of N.Y.       | 2,150,623               | - 588,229              | 131.90 (100.50)       |
| Reinsurance Corp. of N.Y.      | 1,209,027               | - 53,025               | 104.40 (111.71)       |
| Transatlantic Re               | 357,496                 | - 195,615              | 268.70 ( - )          |

It is worthy of note that, in this worst of years, the Gerling Global Group succeeded in showing a profit in both its insurance and reinsurance operations.



The share of the market written by Canadian companies slipped slightly in 1980, from 35.78% to 35.38%, the 0.4% being picked up more or less equally by the British and other foreign companies. However, there are more Canadian giants appearing. The Co-operators, formed from the co-ordination of the opera-

tions of the Co-operators Insurance Association and the Co-operative Fire and Casualty, now appears as second on the basis of gross direct premiums written, with 5.43% of the property and casualty market. The Economical Group, seventh largest has 2.63% of the market, compared with 1.95% in 1979. The Wawanesa Mutual has increased its share from 2.27% to 2.31% and is the tenth largest. Dominion of Canada, the fourteenth largest has seen a small increase in its market share to 1.96% and the Prévoyants du Canada, seventeenth largest, has increased its market share from 1.44% to 1.77%. In fact, if the business of this company's subsidiaries are added to it and those of the Groupe La Laurentienne, of which they now form part, their gross direct premiums written would have been in excess of \$212 million, which would place them in fourth place, ahead of the Allstate, with 3.48% of the market.

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Once again it was the smallest of the three major lines, liability, which went against the general trend, with an improvement in the loss ratio from 60.20% to 56.96%. Results in liability for the last five years have been as follows:

**LIABILITY**

| Year | Net premiums<br>written | Net premiums<br>earned | Loss<br>ratio (%) |
|------|-------------------------|------------------------|-------------------|
| 1976 | 276,156,823             | 256,012,916            | 72.89             |
| 1977 | 347,939,449             | 318,188,772            | 86.37             |
| 1978 | 370,724,857             | 357,907,277            | 77.84             |
| 1979 | 403,749,524             | 380,543,511            | 60.20             |
| 1980 | 442,093,421             | 413,896,366            | 56.96             |

Not surprisingly then, four of the five largest writers of liability insurance, based on net premiums written, made an underwriting profit overall – Canadian Indemnity, Motors Insurance Corp., Lloyd's, Gerling Global – and the fifth and largest, the Royal, had a liability loss ratio of 48.45%, compared to its overall loss ratio of 76.34%.

## ASSURANCES

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Automobile and property business were primarily responsible for the deterioration in results in 1980, although again the liability section of the automobile business showed much less deterioration than either property or the physical damage part of automobile coverage. Interestingly enough, most of the larger reinsurers showed higher loss ratios in both automobile liability and general liability than the market as a whole, which suggests that they suffered more from their excess of loss book than their proportional writings.

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Results in automobile and property business have been as follows over the last five years:

### PROPERTY

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| Year | Net premiums written | Net premiums earned | Loss ratio (%) |
|------|----------------------|---------------------|----------------|
| 1976 | 1,479,641,283        | 1,381,188,591       | 59.77          |
| 1977 | 1,768,010,669        | 1,619,522,690       | 52.28          |
| 1978 | 1,818,590,277        | 1,758,731,290       | 54.14          |
| 1979 | 1,946,725,060        | 1,872,138,043       | 63.68          |
| 1980 | 2,096,905,700        | 2,003,482,099       | 72.56          |

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### AUTOMOBILE - ALL SECTIONS

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| Year | Net premiums written | Net premiums earned | Loss ratio (%) |
|------|----------------------|---------------------|----------------|
| 1976 | 2,435,443,543        | 2,192,972,015       | 71.09          |
| 1977 | 2,495,627,865        | 2,409,561,141       | 69.94          |
| 1978 | 2,367,296,081        | 2,433,318,273       | 72.11          |
| 1979 | 3,007,751,909        | 2,854,433,394       | 81.07          |
| 1980 | 3,324,322,428        | 3,169,285,857       | 89.23          |

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### AUTOMOBILE - LIABILITY

| Year | Net premiums written | Net premiums earned | Loss ratio (%) |
|------|----------------------|---------------------|----------------|
| 1976 | 1,417,384,203        | 1,316,096,305       | 78.38          |
| 1977 | 1,489,932,220        | 1,432,586,755       | 79.62          |
| 1978 | 1,368,294,834        | 1,444,035,835       | 76.97          |
| 1979 | 1,282,694,028        | 1,262,696,412       | 72.27          |
| 1980 | 1,379,844,308        | 1,339,890,107       | 74.65          |

### AUTOMOBILE - DAMAGE TO THE VEHICLE

| Year | Net premiums written | Net premiums earned | Loss ratio (%) |
|------|----------------------|---------------------|----------------|
| 1976 | 782,899,429          | 719,029,457         | 60.35          |
| 1977 | 901,720,986          | 870,061,778         | 55.56          |
| 1978 | 900,424,557          | 892,255,708         | 65.10          |
| 1979 | 998,413,124          | 968,303,090         | 84.87          |
| 1980 | 1,113,516,573        | 1,059,423,029       | 97.25          |

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Clearly it is automobile and property business, which produce nearly 90% of the total property and casualty premiums, which must be attended to if the industry's results are to improve and, following many false starts through 1980, when companies felt obliged to withdraw their tentative rate increases in order to protect their renewals, increases brought in in 1981 are being generally accepted throughout the market, at least in personal lines. By the end of 1981, personal lines rates in Québec could have increased by as much as 40%, along with an increase in deductibles, and those in the rest of Canada will not be far behind. Already much of this increase has taken effect or has been announced.

As far as concerns the other property lines, there is not likely to be much more than adjustments for inflation in small commercial business, since the results in this category have proven acceptable, while other sectors of the market were causing major losses. It is perhaps because there is neither the ability to write a large volume with minimal underwriting, as is the case with personal lines, nor the large premium per policy, as is found in industrial

## A S S U R A N C E S

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business, which has left this size of risk in the middle and relatively free from the fierce competition going on all around it.

Industrial business however remains the area where competition is still fiercest and there is, with half the year gone, no signs of it easing.

206 The other lines of business tend to respond more to their own environment than the state of the market as a whole and, with the exception of aircraft, mortgage and wet marine, they all produced good loss ratios. Even aircraft and mortgage business improved substantially over 1979, although wet marine slipped back after a recovery last year. The results of these branches over the last five years have been as follows:

| Class              | Year | Net premiums<br>written | Net premiums<br>earned | Loss<br>ratio (%) |
|--------------------|------|-------------------------|------------------------|-------------------|
| Surety             | 1976 | 45,455,685              | 43,819,166             | 34.16             |
|                    | 1977 | 50,149,765              | 44,115,510             | 36.77             |
|                    | 1978 | 57,684,358              | 50,854,144             | 19.11             |
|                    | 1979 | 56,979,470              | 56,912,760             | 26.38             |
|                    | 1980 | 62,148,786              | 60,844,539             | 32.20             |
| Boiler & Machinery | 1976 | 41,972,586              | 36,434,469             | 56.13             |
|                    | 1977 | 49,556,774              | 41,555,979             | 45.99             |
|                    | 1978 | 48,866,799              | 46,997,115             | 38.09             |
|                    | 1979 | 59,571,285              | 53,726,596             | 61.97             |
|                    | 1980 | 60,683,778              | 58,344,620             | 33.35             |
| Marine             | 1976 | 41,740,800              | 40,794,062             | 66.07             |
|                    | 1977 | 38,164,155              | 37,104,861             | 74.95             |
|                    | 1978 | 36,626,792              | 36,838,482             | 88.22             |
|                    | 1979 | 43,694,460              | 42,520,129             | 74.09             |
|                    | 1980 | 46,939,524              | 46,072,347             | 78.20             |
| Aircraft           | 1976 | 34,524,198              | 33,582,751             | 92.64             |
|                    | 1977 | 27,626,070              | 29,336,092             | 60.49             |
|                    | 1978 | 24,781,018              | 23,926,830             | 97.57             |
|                    | 1979 | 37,077,045              | 35,181,123             | 97.83             |
|                    | 1980 | 43,495,013              | 42,200,087             | 89.74             |

## A S S U R A N C E S

|          |      |            |            |        |
|----------|------|------------|------------|--------|
| Mortgage | 1976 | 28,560,792 | 11,400,461 | 38.32  |
|          | 1977 | 43,462,624 | 16,304,221 | 69.35  |
|          | 1978 | 57,363,950 | 23,010,563 | 119.46 |
|          | 1979 | 53,269,683 | 26,296,285 | 132.18 |
|          | 1980 | 35,793,449 | 42,175,437 | 115.12 |
| Fidelity | 1976 | 15,959,716 | 15,763,838 | 55.05  |
|          | 1977 | 20,843,633 | 18,169,484 | 100.98 |
|          | 1978 | 21,191,441 | 20,849,809 | 53.83  |
|          | 1979 | 24,088,783 | 23,436,076 | 35.03  |
|          | 1980 | 26,170,000 | 23,977,749 | 59.67  |
| Hail     | 1976 | 6,756,862  | 6,748,808  | 71.72  |
|          | 1977 | 10,494,632 | 10,518,779 | 64.45  |
|          | 1978 | 13,461,294 | 13,190,280 | 64.78  |
|          | 1979 | 16,059,656 | 16,037,730 | 85.89  |
|          | 1980 | 13,830,474 | 13,752,816 | 53.14  |
| Credit   | 1976 | 1,305,488  | 1,312,864  | 48.41  |
|          | 1977 | 1,362,179  | 1,386,054  | 58.81  |
|          | 1978 | 1,954,270  | 1,830,472  | 56.62  |
|          | 1979 | 1,720,306  | 1,768,597  | 10.34  |
|          | 1980 | 2,196,713  | 1,972,782  | 35.34  |

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Almost overshadowing talk of the results of the industry was discussion over what is perceived by many to be a major cause of those results – irresponsible and often under-capitalized capacity, usually connected with the use of unlicensed reinsurance and highlighted by the circumstances surrounding the Strathcona General Insurance Company.

In 1978, its first year of operation, the Strathcona had gross premiums of \$4.3 million, but retained only about 4% of them; in 1979, its gross premiums had increased more than sixfold, to \$27.6 million, with net premiums only about 6%. 1980 figures are not yet published, however they will probably be similar to those of 1979. Since it was taken over by the Department of Insurance and its winding down begun, the Strathcona has come to typify, in comments from many in the industry, the type of irresponsible competition which has brought on the current huge underwriting loss. And yet, in 1979, it had only 0.46% of the total property and

casualty market, so it cannot have been alone in competing hard for business, or the other companies could have lost business to it, while barely feeling the effect.

In fact, despite the fierce competition which has existed over the last two years, other much larger companies nonetheless managed not only to hold their own but to increase their market share. In particular, amongst the largest companies, the following can be noted:

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|                      |                |
|----------------------|----------------|
| Commercial Union     | 3.76% to 3.92% |
| Allstate of Canada   | 2.97% to 3.34% |
| Zurich               | 2.12% to 2.21% |
| Wawanesa Mutual      | 2.18% to 2.31% |
| Guardian             | 2.33% to 2.53% |
| Dominion of Canada   | 1.85% to 1.96% |
| General Accident     | 1.95% to 2.18% |
| Prudential Assurance | 1.90% to 2.60% |

To have shown such an increase in market share suggests that, when it comes to competition, if they wish, the largest companies can dish it out just as energetically as the smallest.

There is no doubt that the difficulties in recovering from some unlicensed reinsurers was the death blow for the Strathcona and it is equally true that the further away a reinsurer is from Canada, the less it is likely to be aware of the market activities of its ceding company. However, to lay the blame for the deterioration in results on the increased use of unlicensed reinsurance seems to ignore the fact that the licensed market has increased its market share from 7.52% in 1978 to 8.02% in 1980, while the loss ratio deteriorated by almost 10%. Certainly some of the increase has come from reinsurers which have become licensed only in the last two or three years, such as Philadelphia Re (1980 net premiums written \$9 million) and Prudential Re (\$9.3 millions), however in the table published by Canadian Insurance, the thirty reinsurance companies listed increased their net premiums by 16.86% over 1979, whereas the hundred insurers listed increased theirs only by 7.94%. Indeed, some reinsurers already well established in Canada had substantial growth rates – Universal Re

29.55%, Mercantile and General 19.22%, General Re 33.57%, Reinsurance Management Company 44.91%, SAFR 30.01%, AGF Re 35.44%. It would seem, then, that if the unlicensed market is getting more than its fair share of the Canadian reinsurance dollar, the licensed market is not letting it go easily.

In fact, the licensed market is maintaining the expansion it saw in the seventies, with the addition in 1981 of Frankona Ruck, Hanover Ruck and Cie Transcontinentale from Europe and New England Reinsurance Corporation from the United States. In addition, the formation of a new Canadian company, Chancellor Reinsurance Company, has recently been announced.

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The situation is well summed up in the following paragraph from a letter written by Phillip W. Rolfe, chairman of the Commonwealth Insurance Company, to Canadian Underwriter Magazine and published in their April 1981 issue:

“ If insolvencies occur, then without question they result from a mixture of inadequate financing, over-extension, and generally overall inept management. Gross and net underwriting, net retentions, reinsurance cessions whether licensed or unlicensed, are a part of the function of management and all can be successfully handled by good management but obviously not by bad management”.



Insurance in Canada is regulated by the Department of Insurance of each of the provinces and by the Department of the Federal Government. However this latter office has jurisdiction over companies writing 80% or more of property and casualty premium, so its activities are of most immediate concern to the industry as a whole and it was discussing, both publicly and privately and before it took over the Strathcona General, the need for some changes in present regulations. Spurred on by the Strathcona affair, new legislation or regulation can be anticipated from the Federal Department within the next year or two in any or all of the following areas:

- Creation of an insolvency fund. There is presently no provision in Canada for policyholders to be protected in the case of the insolvency of their insurance carrier. In the case of the Strathcona, policyholders are assured full recovery following the voluntary creation of a consortium

of companies and brokers, as well as at least one non-insurance interest, providing sufficient funds to cover any short-fall in assets. However, such was the resistance to this scheme in some quarters that it would be understandable if the Department did not rely on such voluntary action in the future.

- Increase in minimum capital required. At present, a new federally licensed insurance company must have a capital of at least \$1,500,000 and this amount has not been increased for ten years. The Department is talking of an increase to \$5 million, however conflicting legislation may make it difficult to go beyond \$2 million for the time being. Nonetheless, there seems little argument that an increase is due.
- Actuarial certification of the adequacy of reserve. At present, there is no independent test of the adequacy of an insurance company's reserves, other than that exercised by the company's auditors and the Department's own examiners. The possibility of requiring a certificate from an actuary, as is now done for life companies, is being considered. However, not only will the actuarial basis for establishing an outstanding loss reserve have to be considerably less scientific than the basis used for the mathematical reserve of a life company, but the possible requirement that the unearned premium reserve reflect the higher of what would have to be returned in case of cancellation or what the claims cost would be as the premium is earned will further tax actuarial science.
- Restrictions on the use of unlicensed reinsurance. It has been proposed that a newly formed company should limit its reinsurance arrangements to the licensed market for the first few years of its existence.
- Establishment of minimum retained premium levels. With a view to controlling those companies which act more as fronts than genuine insurers, it is suggested that every company should retain no less than 35% of its gross writings. This provision could be modified in the first few years of existence for a new company, beginning perhaps at 15% and increasing year by year until the 35% is reached.

As is its wont, the Department is consulting extensively with the industry about these changes, so that their introduction will not be rushed in as a panic measure following the Strathcona affair. However, some will certainly see the light of day in the not too distant future.

Since the Strathcona was a federally licensed company, it is worth noting the performance of the Federal Department as a regulatory agency. The last failure of a Federal company was in 1967 and, because of the co-operation of certain segments of the

industry, encouraged by the Department, none of Strathcona's policyholders should lose any money. No more than a handful of companies have collapsed since the formation of the federal department in 1865, a record of which any regulatory agency in a developed insurance market would be envious.



Anyone even slightly familiar with the Canadian insurance scene is well aware of its cyclical nature and anyone presently involved in it knows that, in 1980, it was at or near the bottom of another cycle. However, forgotten in the size of the underwriting loss is the fact that it is not the worst year the market has known, the loss ratio in 1974 having been about half a percent higher.

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In 1980, some 40% of the underwriting loss came in the fourth quarter and the first quarter 1981 loss is higher still, with a loss ratio not much under 90%. With this beginning, it will be too much to anticipate any real improvement over 1980 for the year as a whole. However, with two consecutive quarters of underwriting losses in excess of investment income behind them, it would be a foolish manager indeed who did not stick to the rate increases already announced, with the hope of producing a more encouraging picture in 1982. The extent to which this cycle will follow the same pattern as previous ones is dangerous to predict in a world of economic uncertainty, but it must be clear to all that, even with today's high interest rates, a return to a combined index closer to 100% is essential for the long term health, indeed the survival, of the industry.<sup>(1)</sup>

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<sup>(1)</sup> *À nouveau, notre collaborateur, M. Christopher J. Robey, analyse la situation de l'assurance autre que vie au Canada. On lira sans doute avec beaucoup d'intérêt ses conclusions, à l'effet que l'année 1980 a été très dure, l'une des plus dures depuis plusieurs années. Il suffirait d'une augmentation des tarifs suffisamment élevée et d'un retour au bon sens pour permettre aux assureurs de rétablir l'équilibre.*

## Documentation

### L'avenir des relations entre assureurs et courtiers

Un très curieux article écrit par Lynn Brenner s'intitule "*Must brokers and underwriters merge to survive?*" Paru dans la revue *Institutional Investor*, cet article nous paraît intéressant, même si nous ne partageons pas l'opinion de son auteur.

212 En somme, celui-ci prévoit que courtiers et assureurs se fondront éventuellement en un tout, tant la concurrence deviendra âpre et impossible à soutenir. À cette première idée, l'auteur ajoute celle de l'intégration forcée des petits, moyens et gros courtiers comme une première étape.

Si nous partageons son opinion au sujet de la fusion des cabinets de courtage moyens et très gros, nous pensons que le petit courtier devra, lui, céder devant l'assureur et devenir l'agent exclusif de celui-ci, comme tente de le faire une grande compagnie américaine en particulier, avec un succès relatif, il est vrai, et comme l'ont fait certains *direct writers* qui, comme les compagnies françaises, comptent sur leur réseau d'agents exclusifs pour leur expansion.

Le courtier et l'assureur nous apparaissent personnellement comme deux entités entièrement différentes, qui ne sont pas nécessairement en conflit, chacune ayant son utilité : la première alimentant la seconde, quoi qu'il arrive et quoi que ce dernier fasse. S'il n'y avait que trois ou quatre assureurs dans le marché américain, par exemple, nous admettrions l'opinion de Lynn Brenner, mais devant la multiplicité des compagnies d'assurances, nous ne voyons pas comment les grands bureaux en particulier accepteraient d'être englobés pour devenir la force de frappe d'un ou de plusieurs assureurs particuliers. Peut-être notre point de vue manque-t-il d'ampleur mais, encore une fois, nous trouvons tellement différents les intérêts de chaque groupe que nous ne voyons pas la possibilité d'une fusion. À notre avis, l'assuré continuera d'avoir besoin de quelqu'un pour défendre son intérêt, même si le nombre des mutuelles ou des *direct writers* augmentait. Nous l'avons dit souvent et nous le répétons, si l'on veut que l'assuré reçoive un traitement équitable, il faut qu'il ait un représentant assez fort pour faire valoir son point de vue. Nous ne pensons pas, en particulier, à l'assurance individuelle, mais à l'assurance des entreprises grandes ou petites où l'ensemble des affaires de l'entreprise doit relever d'un seul intermédiaire agissant comme courtier-placeur, aussi bien que comme conseiller.

J.D.