

Current problems of the canadian private property/casualty industry

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Article abstract

Le Bureau d'assurance du Canada croit que 1982 sera une autre année difficile. L'inflation, l'insuffisance des primes et l'augmentation de la criminalité expliquent les très mauvais résultats des deux derniers exercices. Des hausses de tarifs s'imposent. Elles contribueront à redonner aux opérations d'assurance la rentabilité nécessaire, d'ici la fin de l'exercice, sinon en 1983, pense le président du B.A.C., M. John L. Lyndon. Nous le remercions d'avoir bien voulu nous donner cet article sur les problèmes actuels de l'assurance autre que vie, au Canada.

Current problems of the canadian private property/casualty industry

by

JOHN L. LYNDON

President of Insurance Bureau of Canada

Le Bureau d'assurance du Canada croit que 1982 sera une autre année difficile. L'inflation, l'insuffisance des primes et l'augmentation de la criminalité expliquent les très mauvais résultats des deux derniers exercices. Des hausses de tarifs s'imposent. Elles contribueront à redonner aux opérations d'assurance la rentabilité nécessaire, d'ici la fin de l'exercice, sinon en 1983, pense le président du B.A.C., M. John L. Lyndon. Nous le remercions d'avoir bien voulu nous donner cet article sur les problèmes actuels de l'assurance autre que vie, au Canada. A.

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A very perceptive but perhaps pessimistic observer once noted that the trouble with our times is that the future is not what it used to be.

Many people in Canada's property/casualty industry are feeling that way as we enter 1982. They would probably add as well that the past is not what it used to be either. Past, present and future, from the industry's perspective, reflect one of the most difficult periods the industry has experienced in many years. Perhaps not even the Anti-Inflation Board controls imposed some five years ago had such a devastating effect on the industry as the buffeting experienced in 1981.

Part of the industry's problems result from the fact that we came out of the Anti-Inflation control period with rates lower than they ought to have been. Together with excess capacity and soaring inflation rates, these factors set the tone for one of the worst years ever experienced by the industry in Canada.

Like many other industries, the property/casualty insurance business was hit by the decline that hit the economy generally last year. Although high interest rates had a beneficial effect on investment income

it did not appear, as we began 1982, that this would offset the devastating effects of rate inadequacies and inflation.

By now, most companies have increased rates for automobile and home insurance. But capacity remains high and there is still considerable uneconomic rate competition in the commercial market. In the last year, and continuing to the present, the overwhelming aspect of the industry was this widening gap between premium income and claims costs. As the year began, the industry was expecting an underwriting loss of between \$800,000,000 and \$1 billion compared to a 1980 underwriting loss of \$513 million and a \$192 million loss for 1979.

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Even with the high investment income levels resulting from the current high interest rates, the expectation as 1982 began was that the industry could experience a \$100 million overall loss this year.

Early indications are that this unsettling situation will continue into 1982 until still overdue rate increases are implemented. Optimistically, by the latter part of this year, it is possible that things may turn around to the extent that some of those companies which have registered either underwriting or overall losses will either break even or report some profitability. It is obvious that the effects of inflation are made worse by increased claims costs resulting from property crime. Property crime this year will cost Canadians more than \$1 billion. I cannot fail to be struck by the irony that this figure totals the approximate loss that the industry expects should the worst possible scenario materialize.

Inflated replacement and repair costs for homes, autos and personal possessions are further driven upward by arson, car theft, burglaries and increasing fraudulent insurance claims. National statistics reveal that a property crime is committed in Canada once every 27 seconds. Car theft alone will cost more than \$130 million this year; arson losses will probably surpass 1981's \$160 million and add another \$600 million in direct costs such as lost production, wages and taxes. Other property crime, totalling \$275 million in 1981, is almost certain to surpass that level this year because of inflation alone.

Stats-Can tells us that although the murder rate dropped by almost 10 per cent from 1979 to 1980, non-violent property crimes rose by more than 12 per cent. House-breaking increased by more than 25 per cent; thefts over \$200 by almost 32 per cent and thefts of over \$200 from motor vehicles by 42 per cent. Other offenses show increases as well.

It is ironic that, at a time when the industry is bruised and battered from this criminal assault on the premium dollar, it has also been hit by unusually severe natural disasters.

The worst of these natural disasters occurred during a 20 minute interval when Calgary's worst recorded hail storm swept across that city resulting in one of the greatest losses for a single incident ever experienced by the Canadian insurance industry. When all claims were finally added up, we found more than \$100 million had been paid for damage to cars, homes and businesses.

With escalating legitimate claims, crime, excess capacity and premium inadequacy, it is little wonder that during the past year two companies were forced to cease operations and two others were taken over by stronger companies to prevent collapse. The failure of the Strathcona and the Pitts insurance companies raises questions of minimum capitalization requirements, unlicensed re-insurance, the level of minimum retention and adequacy of policy reserving. These issues will be a major concern of the industry at the Federal level during 1982.

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There are those who speak of an industry guarantee fund, but I would remind them of the historically sound regulatory framework in Canada which has worked effectively in the past. I would suggest that a firm administration of this body of legislation and regulations is preferable to the establishment of such a fund. As our board chairman, Alan Saville, said at the annual IBC meeting last September: "We cannot be convinced that it is equitable that responsible insurers should be required to provide the back up funds to enable their irresponsible competitors to create havoc in the market." From our perspective we believe that the Strathcona and Pitts affairs demonstrate the unsuitability of such a method of dealing with the problem of insolvency.

The Strathcona/Pitts affairs focus attention on the entire question of government regulation and intervention. This will continue to be a major concern of the industry for 1982 and into the decade. As well as the question of financial responsibility, there is the matter of various human rights issues. Existing human rights legislation can be expected to have an impact on the industry in the future as it has in the past. The new Canadian constitution when it is returned to Canada along with the Bill of Rights may have major implications for us as well.

The great challenge to the industry in these areas will be to attempt somehow to resolve legitimate social concerns while maintaining,

to a large degree at least, the integrity of established insurance principles as they have been developed over many years.

Along with government regulation and intervention, the consumer movement will achieve a higher profile in response to some of the same economic issues facing the industry. Inflation, value (premium cost justification) and service will be of increasing concern to consumers as well as to the industry.

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As costs and claims continue to soar the industry's loss reduction/loss prevention programs will become even more important and relevant to efforts to contain costs. Educational programs such as The National Driving Test and The National Crime Test broadcast on national network television will continue to perform a vital consumer education function.

IBC's national anti-arson, anti-car theft and anti-vandalism programs represent yet another facet of consumer education and information programs designed to help reduce claims and costs. All will become increasingly important during the difficult period ahead.

Le dix décembre, à la faculté des sciences de l'administration de l'Université Laval, a eu lieu un colloque portant sur la recherche en assurance. Dans le programme, nous voyons ceci d'abord: impact du poids des automobiles sur la mortalité dans les accidents de la route, par Denis Moffet et Gilles Groleau; assurance et furetage, par Georges Dionne; assurance-vie, épargne et placements: compléments ou substituts, par Louis Eeckhoudt; l'immunisation: historique et développements récents, par Claude Turcot et enfin, stratégies de recherche en économie du risque et de l'assurance, par J.-François Outreville.

À l'Université Laval, la recherche en assurance traverse une première période. Il ne faut pas juger, mais simplement s'incliner devant cet effort fait dans un domaine où règnent généralement non pas la fantaisie, mais des règles établies au cours des siècles. Il y a place pour d'autres solutions auxquelles on parvient petit à petit et avec une méthode de travail qui, parfois, rebute, mais est sûrement excellente. Elle donnera, croyons-nous, des résultats précis au fur et à mesure que les travaux avanceront et que les conclusions sortiront de la théorie pure pour en montrer les applications.

Dans l'intervalle, nous désirons signaler ces travaux à nos lecteurs.