

The State of Canadian General Insurance in 1983

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Article abstract

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The State of Canadian General Insurance in 1983

by

CHRISTOPHER J. ROBEY⁽¹⁾

À nouveau, M. Christopher J. Robey présente à nos lecteurs les résultats comparatifs de 1982. S'il note une certaine amélioration, il ne peut que souligner la perte technique qui s'est élevée, l'année dernière, à \$521 millions. Même si le chiffre se compare à \$942 millions en 1981, il n'y aurait pas lieu de se réjouir, si le premier trimestre de 1983 ne confirmait vraiment une amélioration sensible; amélioration qui, comme nous le notons ailleurs, permet d'éviter le déficit technique et, par conséquent, laisse aux assureurs un bénéfice substantiel pour ce premier trimestre de l'année en cours.

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Measured by any standard other than the 1981 results, 1982 would be considered a disastrous year for the Canadian property and casualty insurance industry. However, any year which saw a 14½% growth in earned premiums and almost a 6½% improvement in loss ratio must be looked upon with at least some pleasure. Certainly, the results were still very bad — the 74.43% loss ratio was higher than any year in the seventies, except for 1974 — but it was still the best year of the eighties so far and, coming at the same time as the economy climbs out of a recession, the management of the majority of insurance companies can begin again to look at the future with some optimism.

The following table shows the result of private property and casualty companies during the last five years⁽²⁾.

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⁽²⁾ All statistics are taken from the annual statistical issues of *Canadian Insurance Magazine*, unless otherwise stated.

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YEAR	NET PREMIUMS WRITTEN	NET PREMIUMS EARNED	UNDERWRITING RESULT	LOSS RATIO
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%
1981	6,420	6,043	- 942.5	80.84%
1982	7,242	6,917	- 521.8	74.43%

All figures in millions of dollars.

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With net investment income of \$1,120 million, up from \$1,066 million in 1981, the net profit to the industry increased from \$ 124.0 million in 1981 to \$ 598.5 million in 1982.

The results of the Insurance Corporation of British Columbia were not available when the statistical issues of industry magazines were published, consequently no meaningful comparison can be made with prior years for all property and casualty business, including government operations. However, the Manitoba Public Insurance Corporation showed a four-point improvement in its automobile division, while the combined index for its general operations increased from 114.54% to 119.74%. The Saskatchewan Government Insurance had a deterioration in both divisions, the Automobile Accident Insurance Act combined index going from 99.27% to 102.23% and the general division's results from 120.20% to 123.62%.

As would be expected, most private companies showed an improvement in their underwriting results over 1981. Amongst companies with at least \$ 50 million of net premiums written, the best combined index was posted by State Farm at 88.56%. Seven others were below 100% - Commerce Group (89.49%), Ontario Mutual (96.80%), Pilot (96.84%), Gerling Global (98.97%), Wawanesa (99.01%), Prudential (99.61%) and Continental (99.78%). At the other end of the scale, four companies still had a combined index in excess of 120%, Citadel General (126.89%), Liberty Mutual (124.76%), INA of Canada (121.33%) and Sun Alliance Group (120.83%).

The following are the results of some selected companies, showing their ranking in brackets, based on direct premiums written and net premiums written, including reinsurance assumed :

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COMPANY	DIRECT PREMIUMS WRITTEN	NET PREMIUMS WRITTEN	UNDER- WRITING RESULT	COMBINED INDEX (%)	
				1982	1981
Royal Insurance	437,023 (1)	403,547 (1)	- 40,555	109.18	125.67
The Co-operators	419,700 (2)	394,687 (2)	- 30,657	108.08	110.12
Lloyd's	267,907 (4)	334,729 (3)	- 9,364	102.87	110.62
Economical	232,501 (6)	215,577 (6)	- 4,809	102.43	109.50
Prudential	227,054 (7)	204,825 (9)	+ 761	99.61	112.00
Wawanesa	217,981 (8)	213,975 (8)	+ 2,468	99.01	103.03
Travelers	165,535 (13)	214,310 (7)	- 11,343	105.73	108.52
Dominion of Canada	159,370 (14)	155,290 (13)	- 12,818	108.30	118.42
Guardian	157,341 (15)	141,884 (16)	- 16,787	111.58	112.41
State Farm	150,681 (16)	150,374 (14)	+ 10,582	88.56	109.24
Groupe Commerce	149,346 (17)	144,058 (15)	+ 15,498	89.49	102.37
Simcoe & Eric	130,824 (18)	31,572 (51)	- 104	99.64	102.92
Canadian General	125,030 (19)	89,237 (19)	- 11,586	112.87	118.37
Gerling Global	124,790 (20)	76,904 (25)	+ 1,156	98.97	98.41
American Home	121,833 (21)	14,177 (72)	+ 292	97.24	91.50
Canadian Indemnity	119,224 (22)	83,262 (22)	- 3,519	104.23	103.22
Pilot	103,946 (24)	66,124 (32)	+ 1,802	96.84	95.31
Groupe Desjardins	100,613 (25)	77,538 (24)	- 1,924	103.08	130.65
La Laurentienne	92,650 (27)	88,181 (20)	- 2,248	102.70	107.34
Canadian Home	90,760 (28)	64,604 (33)	- 4,278	107.22	116.56
Commonwealth	88,505 (29)	28,046 (56)	- 2,266	106.57	105.31
Scottish & York	80,210 (31)	16,792 (67)	- 53	100.34	131.79
Les Prévoyants	75,316 (35)	48,596 (39)	- 7,172	114.08	140.61
Ontario Mutual	63,724 (42)	50,310 (38)	+ 1,508	96.80	90.76
Northumberland	58,621 (44)	18,068 (64)	- 330	103.48	132.95
Guarantee of N.A.	56,541 (45)	47,695 (40)	+ 6,235	87.14	89.50
Factory Mutual	56,183 (46)	44,444 (42)	- 9,968	120.29	178.24
Provinces-Unies	54,650 (47)	33,403 (50)	- 589	102.14	106.99
Canadian Universal	48,682 (49)	14,442 (71)	- 922	113.20	104.99
Federation	48,537 (50)	36,805 (46)	+ 461	98.56	105.14
Crum & Forster	34,463 (57)	25,589 (58)	- 7,539	132.73	94.78
Belair	34,151 (58)	34,408 (48)	+ 4,878	79.98	108.94
L'Union Canadienne	30,040 (61)	35,096 (47)	- 2,161	105.95	104.75
Kansa General	28,508 (63)	13,344 (75)	- 2,846	130.73	178.74
Sovereign General	27,517 (64)	22,452 (60)	- 2,702	112.05	119.04
Markel	26,382 (66)	15,743 (69)	- 1,755	112.16	125.55
Equitable General	24,333 (69)	16,066 (66)	+ 2,650	83.42	113.40
Société Nationale	22,934 (73)	12,401 (81)	+ 118	98.79	113.63
Personal	21,994 (74)	20,179 (61)	- 1,705	107.76	113.84
La Capitale	18,078 (76)	17,449 (66)	+ 2,929	79.48	108.60
La St. Maurice	17,521 (77)	8,840 (89)	- 225	102.74	109.60
Canada West	12,987 (87)	8,945 (80)	- 793	111.48	111.92
Les Coopérants	11,149 (95)	7,873 (91)	- 660	109.06	123.70
L'Industrielle	7,903 (97)	7,741 (92)	+ 594	91.14	109.24

All figures in thousands of dollars.

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Of the one hundred companies with the largest net premiums written in 1982, twenty-six had a combined ratio less than 100%, seventy-four more than 100%. The best combined index of any company was recorded by Lumbermen's Underwriting Alliance, at

71.40%, while the worst was that of the Mortgage Insurance Company of Canada, at 230.96%. Both these companies are specialized : amongst those writing a general book, La Capitale (79.48%) and Belair (79.98%) showed up best, not surprisingly, since their business is concentrated in personal lines in the Province of Québec, the sector of the market where corrective measures were taken first. The worst results of general companies were produced by the Chateau (135.50% on \$ 10.5 million of net premiums), Crum & Forster (132.73% on \$ 25.6 million) and the Kansa (130.73% on \$ 13.3 million).

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Of forty-four companies with at least \$1 million of net premiums written, which showed a profit in 1982, twenty-nine recovered from a loss in 1981.

The most remarkable recovery was that of the Affiliated F.M. Insurance Company, improving its combined index from 248.93% in 1981 to 94.82% in 1982. Five other companies improved by more than thirty points, Utica Mutual (160.25% in 1981, 94.53% in 1982), Jevco (140.97% to 80.02%), Tokio Marine (118.38% to 75.22%), Omaha Indemnity (124.81% to 89.32%) and Co-operative Hail (123.23% to 91.13%). Omaha Indemnity should probably be considered more a reinsurer, since it had only \$ 145,000 of gross premiums written, but \$ 2,694,000 of net premiums written, suggesting that the bulk of its business was reinsurance assumed.

None of these six companies had net premiums written of more than \$ 10 million ; it is understandably more difficult for a larger company to achieve a dramatic improvement in combined index from one year to the next, which makes the performance of the Continental and State Farm, both with over \$ 100 million of net premiums written, particularly notable — Continental improved from 120.64% to 99.78% and State Farm from 109.24% to 88.56%. Prudential also showed a significant recovery on more than \$ 200 million of net premiums written, from 112.00% in 1981 to 99.61% in 1982 — despite having more than doubled its direct premiums written since 1979.

Not surprisingly, in a year of improvement, perennial profit-makers almost all continued to be profitable. Ten companies with more than \$1 million of net premiums written in 1982 have now had five or more years of consecutive profit — American Home

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(since 1971), Boiler Inspection (1971), Grain Insurance and Guarantee (1965), Guarantee Company of North America (1976), Insurance Company of North America (1977), London and Midland (1973), Lumbermen's Underwriting Alliance (1977), Ontario Mutual Insurance Association (1970), Pilot (1962 or earlier) and Seaboard Surety (1977). Two have dropped off the list; Emmco, since their net premiums written have now fallen below \$1 million, and Pafco, which saw its combined index increase from 95.49% in 1981 to 113.07% in 1982, its first loss since 1966. The most consistent profit maker of all, the Pilot, nonetheless saw its combined index increase, from 95.31% in 1981 to 96.84% in 1982, primarily because of a deterioration in its personal property business from a loss ratio of 66.26% to 74.82%. The case of the Insurance Company of North America is also interesting, since its subsidiary, INA of Canada, has had only one profitable year since taking over most of the old Canadian branch business in 1978.

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Canadian-owned companies increased their market share in 1982, to 36.36% from 34.04% in 1981; American and other foreign-owned companies increased, from 36.18% to 38.60%, while British-owned companies dropped their share from 27.78% to 25.04%.



Reinsurers loss ratio recovered somewhat less than that of the property casualty market as a whole, 4.20 points compared to 6.41 points. The results of reinsurers for the last five years have been as follows (licensed reinsurers only and excluding reinsurance assumed by companies also writing insurance)⁽³⁾:

YEAR	NET PREMIUMS WRITTEN	NET PREMIUMS EARNED	UNDERWRITING RESULT	LOSS RATIO
1978	336.7	339.3	- 12.2	67.42%
1979	362.4	346.9	- 21.0	69.75%
1980	424.3	392.9	- 53.9	76.63%
1981	516.6	479.3	- 108.0	83.79%
1982	561.8	550.1	- 73.2	79.59%

All figures in millions of dollars.

⁽³⁾ Statistics for this table are taken from *Canadian Underwriter Magazine*.

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Amongst thirty professional reinsurers listed below, only five were profitable and, surprisingly, twelve posted poorer results in 1982 than in 1981.

The following shows the results of the individual reinsurers :

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COMPANY	RE- INSURANCE ASSUMED	NET PREMIUMS WRITTEN	UNDER- WRITING RESULT	COMBINED INDEX (%)	
				1982	1981
Canadian Re	145.462 (1)	75.402 (3)	- 19.240	127.06	133.08
RMCC	108.230 (2)	38.557 (5)	- 7.134	118.70	134.82
Munich Re	90.121 (3)	82.396 (2)	- 12.421	115.37	107.01
Universal Re	87.099 (4)	86.004 (1)	- 1.791	102.11	139.04
Mercantile & General	65.759 (5)	40.096 (4)	- 6.416	116.01	117.97
Gerling Global Re	54.482 (6)	35.730 (6)	+ 489	98.88	97.63
SCOR Re of Canada	48.399 (7)	23.897 (9)	- 1.025	104.51	125.13
American Re	28.964 (8)	28.964 (7)	+ 585	97.47	97.77
General Re	26.500 (9)	21.451 (10)	- 12.178	146.27	123.95
S.M.R.Q.	26.498 (10)	24.545 (8)	- 1.810	109.24	120.94
Transatlantic Re	23.308 (11)	3.598 (24)	- 1.587	142.76	122.64
Allstate	20.941 (12)	19.075 (11)	- 1.130	106.72	91.14
Prudential Re	19.369 (13)	15.648 (12)	- 2.177	114.40	145.56
Skandia	16.731 (14)	15.141 (13)	- 2.594	116.62	114.19
Victory	16.111 (15)	12.665 (15)	- 324	102.32	-
Sphere Re	13.957 (16)	6.676 (18)	- 1.676	127.03	124.77
Farm Mutual Re	13.563 (17)	9.889 (16)	+ 272	97.65	125.33
Employers Re	11.793 (18)	14.203 (14)	+ 507	96.28	108.95
Nationwide	7.618 (19)	5.665 (21)	- 2.121	137.76	105.95
S.A.F.R.	6.957 (20)	6.935 (17)	- 27	100.52	123.43
Great Lakes	6.672 (21)	6.596 (19)	+ 295	94.82	110.85
Storebrand	6.165 (22)	6.165 (20)	- 131	102.38	-
Transcontinentale	4.654 (23)	4.636 (22)	- 417	109.79	146.62
Gen. Security of N.Y.	4.374 (24)	4.374 (23)	- 1.483	144.15	115.74
New England Re	4.264 (25)	1.691 (27)	- 1,377	219.84	-
Hannover Ruck	3.456 (26)	3,025 (25)	- 481	112.67	108.97
Unigard Mutual	2.984 (27)	2.984 (26)	- 1,937	168.13	102.26
MONY Re	1.757 (28)	957 (30)	- 164	130.62	-
Reins. Corp. of N.Y.	1.737 (29)	1.337 (29)	- 419	129.69	124.61
Frankona Ruck	1.662 (30)	1.662 (28)	- 7	100.48	112.05

All figures in thousands of dollars.

Amongst the five profitable reinsurers, Gerling Global added a fourth year of consecutive profit in both its insurance and reinsurance operations, an outstanding record in the four years when the industry as a whole has made record losses. American Re had its third consecutive profitable year, while Employers Re and Farm

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Mutual Re came off a loss in 1981. For American Re, 1979 remains the only year of loss in the last six.



Since 1979, direct premiums written have increased by little more than 28%, less than would have normally been accounted for by inflation. While some companies have increased their premiums by more than the market average, a significant number have moved more slowly, some actually writing less business in 1982 than in 1979.

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Looking only at the forty-eight companies with more than \$50 million of direct premiums in 1982, eight increased at less than the market average and three reduced their writings, as the following table shows :

	1979		1982		PREMIUM INCREASE 1979/82 %
	GROSS DIRECT PREMIUM	LOSS RATIO %	GROSS DIRECT PREMIUM	LOSS RATIO %	
Royal	509,320	74.81	437,023	71.54	- 14.19
Commercial Union	211,292	67.16	268,735	77.39	27.19
Travelers	152,064	78.02	165,535	79.49	8.86
Guardian	136,226	68.75	157,341	76.53	15.50
Gerling Global	117,759	69.07	124,790	66.68	5.97
Groupe Desjardins	128,399	80.12	100,613	51.59	- 21.64
Commonwealth	75,960	86.91	88,505	92.85	16.52
Prévoyants	85,750	73.23	75,316	73.49	- 12.17
Aetna Casualty	60,432	55.33	72,617	72.43	20.16
Northumberland	52,327	78.69	58,621	74.18	12.03
Factory Mutual	51,582	123.10	56,183	84.87	8.92

All figures in thousands of dollars.

In interpreting these figures, it should be noted that the premiums are gross direct written, whereas the loss ratios are calculated on net premiums earned ; also, loss ratios are not necessarily comparable from one company to another, nor from one year to another for the same company, since the mix of business can influence them considerably. Nonetheless, it gives a reasonable idea of how these companies have fared. Unfortunately, however, it does not offer much of a guide to other insurers, since there is no consistent pattern. This is underlined by the following table, which

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shows the same figures for companies which have increased their gross writings by significantly more than the average.

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	1979		1982		PREMIUM INCREASE 1979/82 %
	GROSS DIRECT PREMIUM	LOSS RATIO %	GROSS DIRECT PREMIUM	LOSS RATIO %	
Lloyd's	155,354	64.21	267,907	67.13	72.45
Economical	116,072	68.55	232,501	74.07	100.31
Prudential	109,353	64.68	227,054	66.78	107.63
General Accident	118,186	67.17	211,320	74.62	78.80
Continental	75,744	60.56	172,565	69.18	127.83
Simcoe & Erie	63,674	70.64	130,824	76.22	105.46
Home of New York	36,119	70.14	108,831	74.75	201.31
Pilot	51,419	64.36	103,946	64.53	102.15
Halifax	52,042	73.66	99,967	75.10	92.09
Canadian Home	47,963	76.35	90,760	76.54	89.23
Scottish & York	39,235	106.10	80,210	111.33	104.43
U.S. Fidelity	36,513	55.20	79,864	79.17	118.73
Safeco	39,420	53.40	79,739	63.58	102.28
I.I.M.	31,132	62.15	64,695	74.74	107.81
Provinces-Unies	30,169	59.14	54,650	59.39	81.15
Canadian Surety	29,323	60.43	53,126	66.87	81.18

All figures in thousands of dollars.

About all that can be deduced with any certainty from these two tables is that each company must find its own way, built on its own strengths and adapted to its own market-place.



The following table shows the same figures for property / casualty reinsurers :

	1979		1982		PREMIUM INCREASE 1979/82 %
	REINSURANCE ASSUMED	LOSS RATIO %	REINSURANCE ASSUMED	LOSS RATIO %	
Canadian Re	103,954	69.19	145,462	95.46	39.93
R.M.C.C.	58,027	78.93	108,230	85.92	86.52
Munich Re	85,340	65.15	90,121	76.86	5.60
Universal Re	53,478	80.35	87,099	72.40	62.87
Mercantile & General	48,273	70.42	65,759	78.40	36.22
Gerling Global Re	49,174	71.97	54,482	68.99	10.79
SMRQ	0		26,498	72.01	
SCOR Re of Canada	25,369	66.15	48,399	75.76	90.78
American Re	12,046	73.57	28,964	54.53	140.44
General Re	21,403	35.17	26,500	109.14	23.81

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	1979		1982		PREMIUM INCREASE 1979/82 %
	REINSURANCE ASSUMED	LOSS RATIO %	REINSURANCE ASSUMED	LOSS RATIO %	
Transatlantic Re	0		23.308	122.00	
Allstate	0(4)		20.941	70.54	
Prudential Re	8.131	94.36	19.369	76.78	138.21
Skandia	14.082	74.41	16.731	80.51	18.81
Victory	0(5)		16.111	73.44	
Employers Re	9.599	59.90	11.793	61.73	22.86
Sphere Re	0		13.957	92.13	
Farm Mutual Re	6.073	86.64	13.563	79.71	123.33
Nationwide Mutual	8.108	87.81	7.618	111.68	- 6.04
SAFR	6.950	71.17	6.957	66.90	0.10
Great Lakes(6)	4.737	61.67	6.672	57.40	40.85
Storebrand	0(5)		6.165	60.52	
Transcontinentale	0		4.654	73.63	
General Security of NY	1.572	62.25	4.374	96.16	178.24
New England Re	0		4.264	177.98	
Hannover Ruck	0		3.456	79.42	
Unigard Mutual	0		2.984	134.93	
Philadelphia Re	6.193	87.73	2.583	122.72	- 58.29
MONY Re	0		1.757	75.56	
Reins. Corp. of N.Y.	1.706	78.96	1.737	92.54	1.82
Frankona Ruck	0		1.662	64.43	
Kanata Re	13.795	73.25	0		
AGF Reassurances	5.713	81.22	0(7)		

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All figures in thousands of dollars.

It is interesting to note that, despite the poor results over the period, particularly of reinsurers, twelve markets have appeared on the scene, while only two have disappeared. Those which have appeared are not necessarily true newcomers to the market, some having been managed by another company in the past, others having operated for some years on an unlicensed basis. Similarly, of the two which have disappeared one has in fact simply changed to one of the two management companies and only Kanata Re has completely withdrawn.

Partly because of the new entries, but also because of the substantial increases in volume by some of the established reinsurers, the licensed reinsurance market has increased its market share from 7.17% in 1979 to 9.25% in 1982.

(4) Reinsurance figures not shown separately from insurance.

(5) Included in Universal Re figures.

(6) Canadian business only.

(7) Included in R.M.C.C. figures.

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Surprisingly, in a year of significantly better overall results, only property, automobile and aircraft showed an improvement in loss ratio over 1981, such is the predominance of property and automobile business in the property/casualty companies portfolio, representing over two-thirds of the total premium volume.

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CLASS	YEAR	NET PREMIUMS WRITTEN	NET PREMIUMS EARNED	LOSS RATIO (%)
Auto (All Sections)	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
	1981	3,984,015,167	3,698,107,767	91.36
	1982	3,889,336,491	3,683,682,777	77.48
Auto (Liability)	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
	1981	1,530,902,913	1,454,862,478	84.14
	1982	1,767,839,517	1,679,028,240	80.29
Auto (Damage to the Vehicle)	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
	1981	1,341,805,546	1,221,249,410	97.95
	1982	1,595,192,343	1,490,269,862	72.15
Property - Total	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
	1981	2,429,872,944	2,274,742,658	76.04
	1982	2,697,943,522	2,535,503,366	69.77
Property - Personal	1981	520,768,415	482,000,982	76.58
	1982	1,143,511,982	996,868,912	65.09
Property - Other	1981	408,822,675	389,900,445	76.89
	1982	926,948,688	855,700,957	73.86
Liability	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
	1981	483,925,732	458,627,067	72.57
	1982	498,083,740	495,765,929	84.42
Surety	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
	1981	73,071,907	69,321,794	22.90
	1982	76,950,925	76,954,813	32.92

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CLASS	YEAR	NET PREMIUMS	NET PREMIUMS	LOSS
		WRITTEN	EARNED	RATIO (%)
Marine	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
	1981	61,759,606	59,508,856	73.92
	1982	54,765,999	54,161,907	84.72
Aircraft	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
	1981	52,642,188	49,322,577	76.15
	1982	53,851,905	54,745,877	70.58
Fidelity	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
	1981	27,802,723	28,928,386	54.35
	1982	30,720,526	30,191,051	76.05
Hail	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
	1981	22,795,760	23,007,647	92.34
	1982	19,652,946	19,669,727	126.82

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All figures in thousands of dollars.

The separation of property results is clearly incomplete, particularly for 1981, however it is enough to show that the market recovery in 1982 was fueled by personal lines business, both property and automobile, with commercial and industrial results lagging well behind. Indeed, many may be surprised even at the three point improvement in commercial property results, since it was generally felt that end of the business, particularly at the high end of the premium range, was as competitive as ever.

Interestingly, figures included in the Insurance T.R.A.C. Report (Canada) show that Canadian companies have fared better in commercial and industrial property business, with a 1982 loss ratio of 66.4%, compared to 80.2% for British companies and 87.1% for other foreign companies. This presumably reflects the relatively smaller portion of their portfolios made up by the largest risks, where competition is greatest.

No strong recovery in large commercial and industrial business is anticipated until the economy as a whole recovers from the recession. However, all indications are that the recession is now

over and increasing business activity will result in increased use of the capacity available. This, together with the decision of some major markets, most notably the Royal, to lose market share rather than follow too competitive rating, could signal a return to more acceptable loss ratios in this class of risk, probably not in 1983, but not too long thereafter.

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The Canadian government is in the process of enacting reasonably uniform legislation regarding financial institutions under its jurisdiction. A new Bank Act is already in force and a new Trust Companies Act will follow it, incorporating many of the relevant provisions of the Bank Act. Subsequent to this, legislation governing insurance companies is anticipated.

The review of insurance legislation, preliminary to drafting of the new statute, began some years ago, however the need for greater urgency became apparent with the winding-up of Strathcona General Insurance Company and the failure of Pitts Insurance Company in 1981 and the taking over by the Department of Insurance the following year of Cardinal Insurance Company. As a result, the Department of Insurance has been asked to prepare, for consideration by Parliament, interim measures which would probably be introduced as amendments to the existing Acts (Canadian and British Insurance Companies Act and Foreign Insurance Companies Act).

After a period of preliminary consultation with the industry, the views of the Department were more formally set out in a memorandum dated the 20th September 1982, which described in broad terms the amendments under consideration. This memorandum has since been the subject of study by the Insurance Bureau of Canada, the Reinsurance Research Council and other interested parties, many of whom have made their own representations to the department.

There have been no further memoranda issued by the Department on this subject, however, the Director of the Property and Casualty Division of the Department discussed the proposed revisions in a speech to the Canadian Insurance Accountants Association in Toronto the 15th March, 1983 and thus gave the most recent public expression of the Department's current thinking. Although presentation of new legislation was anticipated in autumn 1983 at the earliest, current indications are that this will be delayed due to the congested parliamentary agenda.

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The following proposed amendments are those which would have a significant impact on property and casualty companies and their reinsurers :

- an insurer may not accept reinsurance, unless its certificate of registry authorizes it to do so.
- new companies, in the five years following their formation, and companies having assets of \$25 million or less, will be required to reinsure with registered companies only.
- minimum capital and surplus required for a new property and casualty company will be \$5 million.
- a certificate of registry would be automatically withdrawn if a company's unimpaired capital and surplus became less than \$4 million.
- a temporary exemption from the minimum capital and surplus requirements would be granted existing companies.
- in the case of winding-up of a cedent, reinsurance must remain in force until termination of the original policy.
- the solvency margin will be the larger of the following three separate calculations :
 - the existing test, basically 15% of outstanding losses and between 0% and 15% of unearned premiums.
 - 15% of premium income plus the smaller of \$ 500,000 or 5% of premium income — credit for reinsurance limited to 50%.
 - 22% of the average annual amount of claims incurred during the last three years plus the smaller of \$490,000 or 7% of such average amount — credit for reinsurance limited to 50%.
- a company must keep a minimum retention on each policy of 10% of the limit or 1% of the company's paid capital and surplus, whichever is smaller.
- after five years of operation, reinsurance ceded must not exceed 50% of premiums received ; the limit in the first five years of operation would be 75%.

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- reinsurance premiums payable to unregistered companies are limited to 50% of total reinsurance premiums payable ; this percentage may be reduced in future years.
- reinsurance contracts must contain an incontestability clause.
- settlement of balances between cedent and reinsurer must be either direct or through an agent or broker with a place of business in Canada and authorized to transact business in Canada.
- the maximum obligation under assumed reinsurance would be limited to one third of the company's capital and surplus, unless acceptable contracts of retrocession are in place.

Finally, a post-assessment guarantee fund would be established.



While forthcoming legislative changes will have a major impact on the market, particularly in the reinsurance practices of property / casualty companies, other elements, both within and outside the market, will have a more immediate impact.

Of particular interest at the moment is the prospect that the Insurance Corporation of British Columbia will withdraw from the general insurance field, where it has become a major factor in that province since its creation. This is the result of a change of government which has brought a more conservative administration to power. There are no signs of a similar move in Manitoba and the Saskatchewan Government Insurance is so long established now that a change in that province seems most unlikely ; however a change in British Columbia, should it come to pass, would have considerable impact on the market in the West.

Outside the industry, it is the improving economy which is most significant for insurers. Real growth in the first quarter was at an annualized rate of 7.3% and, although that pace is not expected to be maintained for the full year, a significant growth rate is nonetheless anticipated.

The rate of inflation has slowed more than expected, with the year-to-year consumer price index at the end of May 1983 at 5.4%.

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its lowest rate in more than a decade. Similarly, both short and long term interest rates have declined from the peaks of 1981 and the prime rate of the chartered banks has now stabilized around 11%.



Results of the last three years, quarter by quarter, tell the story of the deepening hue of red and the recovery in industry results :

		NET PREMIUMS WRITTEN	NET PREMIUMS EARNED	UNDER- WRITING RESULT	LOSS RATIO (%)
1st quarter	1980	1,167,724	1,179,520	- 136,886	77.0
2nd quarter	1980	1,423,856	1,215,369	- 60,838	69.5
3rd quarter	1980	1,336,859	1,293,282	- 133,048	75.4
4th quarter	1980	1,399,385	1,414,373	- 241,158	81.9
1st quarter	1981	1,254,033	1,294,313	- 251,146	85.3
2nd quarter	1981	1,621,478	1,367,005	- 109,079	70.7
3rd quarter	1981	1,532,832	1,442,174	- 185,500	78.7
4th quarter	1981	1,619,677	1,586,242	- 343,700	88.3
1st quarter	1982	1,495,004	1,522,829	- 283,806	84.7
2nd quarter	1982	1,943,208	1,622,583	- 122,972	72.5
3rd quarter	1982	1,762,838	1,695,217	- 30,436	68.5
4th quarter	1982	1,854,905	1,882,609	- 124,694	73.9
1st quarter	1983	1,608,966	1,726,935	+ 14,977	66.6
2nd quarter	1983	2,071,641	1,807,719	+ 47,717	63.5

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All figures in thousands of dollars.

Since the 2nd and 3rd quarters usually produce better results than the other two, it is perhaps more informative to view the results of the same quarter year to year, as the following table does.

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The recovery is now definitely underway, however, how far it will go and how long it will be sustained will depend both on the economy as a whole and the way insurers react to the prospect of a better bottom line. Hopefully, any underwriter, and even more so, any company manager, who has gone through the depths of this latest cycle will remember the black days of the early eighties and be deterred from doing anything to encourage their return; it would be too much to expect a continuously profitable underwriting result — no developed market in the world is able to sustain such a result nowadays — but return to a more normal cycle would be welcome.

September 1983.