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Christopher J. Robey

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Article abstract

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The State of Canadian General Insurance in 1990

by

Christopher J. Robey [1]

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1990 was certainly a year of major concerns for insurance companies. With results deteriorating, they went through the upheaval of a new automobile plan in Ontario, only to be faced with the prospect of a government take-over of the same business in 1991. And the year ended with the need to increase technical reserves to take into account the Goods and Services Tax which came into force January 1, 1991.

The 1989 loss ratio continued the climb which began in 1987, but accelerated significantly, going from 75.54% to 80.17%, although still not to the 82.40% level of 1985.

The results of private property and casualty companies during the last five years have been as follows [2]:

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[1]Mr. Christopher J. Robey is an executive vice president of B E P International Inc., member of the Sodarcan Group.

[2]All statistics are taken from one of the following sources:

- Annual statistical issue of ***Canadian Insurance*** magazine;
- Canadian Insurance Underwriting Results, published on disc by Stone & Cox Limited.
- ***The Quarterly Report***, published by Insurers Advisory Organisation Inc.;
- The Stone & Cox "Brown Chart."

Year	Gross Direct Premiums	Net Premiums Written	Net Premiums Earned	Loss Ratio	Underwriting Result
1985	9,581,558	8,956,155	8,380,718	82.40%	(1,334,113)
1986	11,849,586	10,959,262	10,139,053	74.28%	(567,777)
1987	12,845,556	11,942,952	11,531,623	74.61%	(640,577)
1988	13,362,536	12,559,626	12,228,716	75.54%	(872,992)
1989	14,063,486	13,343,078	12,935,702	80.17%	(1,562,319)

All figures in thousands of dollars.

However, investment income of $2,516,966 again enabled the industry as a whole to show a profit, with a return on equity for the year of 8.77%.

Insurers

There were eighty-seven insurance companies and groups [3] in 1989 with direct premiums written of $15,000,000 or more and net premiums written of $10,000,000 or more, which write at least half their net premiums in the automobile, property and liability classes. This is only one more than in 1988, despite a more than 6% increase in the total net premiums written for the market as a whole, reflecting the continuing consolidation of the market. The consolidation undoubtedly continued during 1990, as more of the groups under common ownership combined their operations and the mergers in the market continued.

Of the eighty-seven, seventy-three, or 84%, suffered an underwriting loss, the same number as in 1988. However, the average underwriting loss increased from $13.5 million to almost $20 million. Only twenty-two improved their underwriting result. For those which made a profit, the average profit dropped from $12 million in 1988 to $4.3 million in 1989.

Since some of these references use different bases for preparing their information, not all the figures given are strictly comparable, however there should not be any material differences.

[3] Not all groups have been consolidated.

The largest underwriting profit was achieved by Chubb, with $15.0 million ($14.0 million in 1988). Lloyd's, which had a profit of $70.7 million in 1988, dropped to a $27.2 million loss in 1989. This probably reflected at least in part that a third of their gross premium was from reinsurance, which deteriorated much more than insurance.

No other company had more than $10 million of underwriting profit in 1989. The others which made a profit were:

	1989	1988
Allendale Mutual	$8.3 million	$9.6 million
Lumbermens Underwriting	$4.8 million	($2.9 million)
American Home	$4.0 million	$24.7 million
Pilot	$3.7 million	$4.0 million
St. Paul	$1.7 million	($1.4 million)
Commonwealth	$1.6 million	($0.3 million)
New Hampshire	$1.4 million	($0.2 million)
Lumbermens Mutual Casualty	$1.2 million	$2.6 million
Commassur	$0.9 million	$12.5 million

Amongst the companies going from a profit in 1988 to a loss in 1989 was Gerling Global General, which suffered its first underwriting loss since 1984, leaving Commassur (Groupe Commerce and Belair) alone with at least five years of consecutive underwriting profit, their last underwriting loss having been in 1981.

With so much of the market making an underwriting loss, it would not be fair to single out any individual company, the size of any company's loss depending more than anything on the amount of premiums written and the concentration in Ontario and Alberta automobile. However, nine companies reduced their underwriting loss:

	1989	1988
Safeco	$8.0 million	$50.1 million
Co-operators	$139.4 million	$149.7 million
Economical	$75.7 million	$81.9 million
Metropolitan Insurance	$5.3 million	$10.6 million
Alberta Motor	$4.3 million	$8.4 million
Peace Hills	$1.8 million	$3.7 million
Federated	$5.9 million	$7.6 million
Chateau	$2.1 million	$2.5 million
Cumis General	$0.7 million	$1.1 million

Three companies achieved a loss ratio under 50%, Lumbermens Underwriting Alliance (32.94%), Allendale Mutual (34.04%) and Chubb (49.15%). At the other end of the chart, eight were over 100%, the highest being Protection Mutual (156.67%), Arkwright Mutual (148.65%) and Kansa General (140.99%).

The following table gives the 1989 results of selected insurers; their rankings based on direct premiums written and net premiums written are shown in brackets:

Company	Direct Premiums Written	Growth Rate	Net Premiums Written	Underwriting Result		Loss Ratio	
				1989	1988	1989	1988
Co-operators	828,452 (1)	6.54%	731,802 (2)	(139,427)	(149,741)	92.77%	94.62%
Royal	777,952 (2)	4.59%	704,062 (3)	(46,317)	(28,705)	77.47%	73.31%
Zurich Canada	766,264 (3)	8.46%	748,675 (1)	(80,415)	(51,061)	77.65%	74.90%
Economical	528,912 (4)	6.34%	506,095 (4)	(75,786)	(81,990)	88.09%	88.95%
Laurentian	396,847 (9)	-0.69%	348,479 (12)	(26,901)	(19,306)	69.46%	66.71%

Company	Direct Premiums Written	Growth Rate	Net Premiums Written	Underwriting Result		Loss Ratio	
				1989	1988	1989	1988
Wawanesa	386,988 (10)	8.09%	383,609 (9)	(51,871)	(33,295)	86.67%	82.89%
Commercial Union	322,847 (13)	-4.22%	294,623 (14)	(47,613)	(28,613)	77.90%	76.78%
Lloyd's	322,181 (14)	-4.07%	490,205 (5)	(27,224)	70,729	68.93%	48.25%
Commassur	294,839 (15)	0.81%	284,546 (16)	982	12,527	71.17%	65.67%
Prudential Assurance	281,465 (17)	10.57%	274,830 (18)	(25,479)	(15,788)	77.61%	74.61%
Wellington	267,879 (18)	26.80%	280,532 (17)	(49,646)	(31,971)	84.06%	81.35%
Canadian General Group	213,401 (19)		182,582 (20)	(19,033)		82.16%	
Desjardins	200,657 (21)	49.92%	185,070 (19)	(20,459)	(6,838)	76.04%	61.23%
Simcoe Erie	197,169 (23)	1.88%	109,963 (30)	(42,731)	(9,975)	104.99%	78.09%
American Home	173,215 (24)	-13.74%	79,986 (36)	4,031	24,759	73.41%	60.48%
Gore Mutual	154,723 (27)	23.05%	143,772 (23)	(18,911)	(6,370)	84.59%	75.91%
GCNA	147,590 (28)	-6.39%	122,034 (26)	(15,924)	(4,468)	79.92%	69.33%
Canadian Surety	130,790 (31)	13.79%	110,431 (29)	(5,924)	(5,631)	72.65%	66.19%
Gerling Global General	104,255 (35)	3.93%	43,467 (50)	(1,541)	275	63.41%	64.88%
Provinces Unies	89,694 (38)	2.73%	91,575 (33)	(2,305)	(2,024)	71.92%	70.21%
AXA Home	89,220 (39)		101,844 (32)	(6,886)		79.24%	
Federation	80,806 (40)	4.12%	69,370 (40)	(10,567)	(6,828)	85.23%	82.03%
Pru of America General	77,989 (41)	12.22%	77,330 (37)	(12,450)	(9,028)	88.24%	86.10%
Pafco	63,406 (47)	1.49%	32,928 (56)	(10,971)	(761)	80.95%	54.71%
Commonwealth	56,549 (49)	-13.13%	16,617 (76)	1,685	(338)	52.98%	45.45%
Anglo-Canada	48,014 (56)	-3.53%	36,934 (55)	(1,813)	(3,387)	73.54%	70.71%
Union Canadienne	43,006 (61)	-6.53%	38,482 (54)	(6,700)	(5,067)	82.86%	79.81%
Federated	41,754 (63)	-12.03%	39,516 (53)	(5,907)	(7,626)	84.28%	90.76%

Company	Direct Premiums Written	Growth Rate	Net Premiums Written	Underwriting Result		Loss Ratio	
				1989	1988	1989	1988
Société Nationale	32,526 (67)	-2.06%	16,696 (75)	(1,821)	(1,152)	70.15%	69.49%
Maplex General	32,239 (68)		14,288 (82)	(3,808)		88.38%	
Equitable	27,465 (74)	2.34%	23,353 (68)	(2,932)	(1,836)	80.63%	74.41%
Progressive Casualty	25,487 (75)	40.27%	25,298 (64)	(1,819)	(24)	75.80%	58.61%
St-Maurice	25,194 (76)	-2.97%	16,750 (74)	(1,560)	(1,044)	73.67%	71.83%
Coopérants	25,029 (77)	-10.62%	16,768 (73)	(2,147)	(1,582)	80.18%	73.20%
Canada West	21,795 (79)	44.04%	18,483 (71)	(4,707)	(3,213)	93.65%	94.81%
Peace Hills	19,552 (81)	21.74%	15,251 (80)	(1,864)	(3,720)	83.00%	95.66%
Unique	19,192 (82)	3.08%	13,716 (83)	(1,926)	(1,183)	80.31%	73.30%

All figures in thousands of dollars.

Canadian-owned companies wrote 40.37% of the direct written premiums in 1989, based on company ownership at the end of the year. Seventy-three of the one hundred and fifty-seven companies writing mainly automobile, property and liability business were Canadian owned.

American-owned companies came next, with 26.19% of the total premium spread amongst fifty-three companies, followed by United Kingdom companies with 19.74% amongst thirteen companies.

Other countries with more than 1% of the market were Switzerland (7.22%, four companies), Germany (3.20%, three companies), the Netherlands (1.64%, two companies) and France (1.26%, four companies).

However, because of changes of ownership during 1990, the share of Canadian-owned companies of the 1989 direct premium based on ownership at the end of 1990 would have dropped to 38.67% and that of American-owned companies to 24.02%, while

Netherlands-owned companies' share would have been 3.78% and French-owned companies 2.85%.

Reinsurers

The results for professional reinsurers writing in the open market dropped back to about the loss ratio of 1987, after a significant improvement in 1988. However the underwriting loss was more than four and a half times that in 1987, despite an increase of only 2.4% in the net premiums written. Results for the last five years have been as follows:

Year	Reinsurance Assumed	Net Premiums Written	Net Premiums Earned	Loss Ratio	Underwriting Result
1985	876,020	730,020	669,763	78.51%	(85,438)
1986	1,115,574	923,064	859,764	76.28%	(53,136)
1987	1,066,994	911,053	918,776	73.10%	(17,484)
1988	1,021,374	872,621	899,739	68.44%	2,941
1989	1,110,294	933,275	908,282	73.84%	(81,015)

All figures in thousands of dollars.

The above figures only show reinsurance placed with professional reinsurers and these are the only companies for which results for assumed reinsurance are available. In the following table of licensed companies writing reinsurance on the open market, those with no results shown also write a substantial volume of insurance. The ranking shown in brackets is based on total reinsurance assumed.

Company	Reinsurance Assumed	Growth Rate	Net Premiums Written	Underwriting Result		Loss Ratio	
				1989	1988	1989	1988
Munich Re	176,120 (1)	15.65%	160,267	(13,505)	1,957	73.13%	66.47%

Company	Reinsurance Assumed	Growth Rate	Net Premiums Written	Underwriting Result		Loss Ratio	
				1989	1988	1989	1988
Canadian Re	173,672 (2)	51.47%	92,991	(16,415)	(6,319)	79.86%	71.14%
Lloyd's	168,024 (3)	4.05%					
M & G	72,036 (4)	9.81%	57,733	(537)	6,475	61.22%	50.86%
Abeille Re	64,736 (5)	4.65%	59,965	(7,442)	(7,886)	79.99%	83.72%
SCOR Re	56,589 (6)	-3.04%	40,719	(4,210)	(5,452)	74.02%	79.16%
General Re	47,263 (7)	-13.39%	39,832	1,935	14,392	67.79%	50.10%
Skandia	44,780 (8)	57.92%	41,294	(7,629)	(2,357)	68.39%	70.55%
Gerling Global Re	43,298 (9)	0.68%	30,645	2,895	769	57.30%	65.27%
Prudential Re	42,241 (10)	-0.58%	41,590	(1,456)	1,169	63.84%	68.95%
Zurich	29,565 (11)	- 40.17%					
Nationwide Mutual	28,895 (12)	190.66%	25,401	486	1,963	72.02%	50.62%
American Re	25,338 (13)	- 16.43%	25,338	(9,982)	271	102.85%	72.64%
Employers Re [4]	22,914 (14)	- 23.57%	38,491	(954)	292	72.94%	70.05%
Simcoe Erie	22,488 (15)	- 41.93%					
National Re	20,371 (16)	- 39.73%	16,348	(2,855)	1,765	81.82%	63.15%
AXA Re	19,725 (17)	- 10.73%	18,305	(379)	(1,814)	79.30%	95.51%
Great Lakes [5]	18,085 (18)	16.53%	17,680	(1,080)	(931)	68.90%	68.48%
Frankona	17,126 (19)	29.78%	17,126	(50)	(162)	79.17%	81.33%
St. Paul	16,737 (20)	- 26.10%					
SAFR	16,223 (21)	- 14.98%	16,223	(1,654)	747	73.57%	57.66%

[4]Employers Re also wrote $15,577,000 of direct business, which is included in the results.

[5]Great Lakes had total gross premiums of $119,809,000; these figures show its Canadian business only.

Company	Reinsurance Assumed	Growth Rate	Net Premiums Written	Underwriting Result		Loss Ratio	
				1989	1988	1989	1988
CIGNA	13,530 (22)	- 32.62%					
Hannover	13,491 (23)	- 18.66%	9,586	(2,778)	1,548	91.15%	62.58%
Co-operators	12,513 (24)	-55.23%					
Citadel	12,278 (25)	-30.43%					
Royal Re	12,003 (26)	29.41%	9,396	(2,284)	(2,439)	85.58%	102.48%
Victory Re	11,451 (27)	-28.85%	10,697	(976)	114	72.70%	68.47%
A.G.F. Re	10,671 (28)	28.88%	8,700	(1,230)	(1,148)	73.87%	75.66%
Transreco	10,474 (29)	-32.17%	8,143	(2,568)	(1,417)	84.24%	77.11%
N W Re	9,508 (30)	31.34%	8,424	1,016	738	62.05%	59.25%
Mutuelle du Mans	7,902 (31)	-6.89%	7,413	(1,121)	(620)	69.33%	69.92%
Christiania	7,820 (32)	-27.89%	6,251	(383)	932	61.70%	55.79%
US International	7,585 (33)		7,162	273		54.08%	
Kemper Re	7,171 (34)	18.69%	6,580	(864)	(299)	84.80%	80.76%
Union Re	6,596 (35)	38.11%	6,596	(1,560)	(519)	90.31%	76.26%
US F & G	6,153 (36)	-13.67%					
New Zealand	5,945 (37)	50.66%	4,971	(690)	(286)	79.54%	77.13%
Netherlands Re	5,451 (38)	-6.88%	5,451	10	140	61.88%	62.00%
Reco	4,434 (39)	3.50%	2,806	(649)	(871)	90.28%	98.34%
Transcontinentale	4,385 (40)	13.98%	4,385	(573)	114	78.25%	67.81%
General Security	3,934 (41)	57.80%	3,934	(29)	228	68.73%	61.77%
NAC Re	3,700 (42)	14.76%	3,219	(12)	(720)	77.86%	101.03%
Philadelphia Re	3,107 (43)	40.72%	2,780	(1,564)	(650)	120.65%	86.24%
Unione Italiana	2,905 (44)	4.76%	2,909	247	(334)	60.14%	84.03%

Company	Reinsurance Assumed	Growth Rate	Net Premiums Written	Underwriting Result		Loss Ratio	
				1989	1988	1989	1988
Nippon	2,754 (45)		2,754	(767)		100.58%	
SOREMA	2,646 (46)	-12.18%	2,403	(360)	119	71.75%	62.11%
Laurentian	2,277 (47)	-36.79%					
Pohjola	2,267 (48)	-15.19%	2,267	(337)	151	76.75%	64.76%
Reliance	2,248 (49)	-15.55%					
Allstate	2,229 (50)	6.40%	2,203	(738)	1,551	100.66%	--
Motors	1,681 (51)	-17.44%					
Baloise	1,376 (52)	123.01%					
Underwriters Re	154 (53)		145	6		--	

All figures in thousands of dollars.

Two other professional reinsurers specialize in the reinsurance of farm mutuals, the SMRQ in Quebec and Farm Mutual Reinsurance Plan in Ontario. Their results in 1989 were as follows:

Company	Reinsurance Assumed	Growth Rate	Net Premiums Written	Underwriting Result		Loss Ratio	
				1989	1988	1989	1988
Farm Mutual Re	30,823	9.19%	22,054	3,750	3,395	70.75%	68.30%
SMRQ [6]	40,135	-5.25%	41,121	(3,058)	470	74.00%	66.60%

All figures in thousands of dollars.

[6] SMRQ also wrote $8,897,000 of direct business, which is included in the results.

Switzerland General also wrote reinsurance in Canada on a licensed basis, however the published figures on their operations do not give an accurate indication of their volume.

Because of the impossibility of separating inter-group reinsurance from the statistics provided, it is dangerous to draw too firm conclusions from these figures. As an example, four of the five companies with the largest drops in gross assumed premium were all insurers and parts of groups — Co-operators (55.23%), Simcoe Erie (41.93%), Zurich Canada (40.17%) and Laurentian (36.79%). The fifth was the National Re, with a drop of 39.73% in its gross assumed premium but only 0.29% in its net.

Other professional reinsurers with drops of over 15% in gross writings were Transreco (32.17%), Victory Re (28.85%), Christiania (27.89%), Employers Re (23.57%), Hannover (18.66%), American Re (16.43%) and Pohjola (15.19%). Because of the importance which a large proportional contract can have in a reinsurance portfolio, particularly for a smaller reinsurer, and the different premium from proportional and non-proportional business, a drop in volume does not necessarily signify a significant loss of treaties. It could in fact mean, amongst other things, a switch from proportional to non-proportional treaties or a better balanced overall portfolio.

Similarly, no single conclusion can be drawn from a large increase in premium, of which there were several. Two reinsurers more than doubled their assumed volume — Nationwide (190.66% increase) and Baloise (123.01%). Four others increased by more than 50% — Skandia (57.92%, including business acquired from the Sphere Re), General Security (57.80%), Canadian Re (51.47%) and New Zealand (50.66%).

New Zealand's increase did not however stop them from being withdrawn from the market in 1990 by their ultimate parent, the General Accident, and coincidentally, the same fate awaited the two companies with the next largest increases. Philadelphia Re stopped writing altogether and was replaced in the United States by a branch of its parent, Netherlands Re, which already has a branch in Canada. Union Re withdrew after being acquired by the Swiss Re group, represented in Canada by Canadian Re.

There were thirty professional reinsurers writing more than $5,000,000 of Canadian business in 1989, compared to twenty-six in 1988. US International Re produced the best loss ratio at 54.08%, although it did them no more good than increasing volume did for others, since they were withdrawn form the market as part of the sale strategy of their parent, the Home of New York. Others with low loss ratios were Gerling Global Re (57.30%), M & G (61.22%), Christiania (61.70%) and Netherlands Re (61.88%). Eleven companies improved their loss ratio from 1988, the greatest improvements being by Royal Re from 102.48% to 85.50% and Axa Re from 95.51% to 79.31%.

Of the eighteen companies with a poorer loss ratio in 1989 than in 1988, three — American Re, Hannover and Nationwide Mutual — had a deterioration of over twenty points and five others of over ten points — National Re, General Re, SAFR, Union Re and M & G.

Munich Re took back the top spot in volume from Lloyd's, and Canadian Re, thanks to their significant increase in volume, came in second, with Lloyd's dropping to third on a 4.05% increase. Lloyd's is the only one in the top ten which is not a professional reinsurer.

Counting the members of Reinsurance Management Company of Canada as one group, twenty-two of the professional reinsurers have a Canadian office and, between them, averaged a net expense ratio after acquisition costs of 8.77%. This ranged from a low of 4.81% for Abeille Re to a high of 23.33% for Transreco, which specializes in facultative reinsurance.

Besides Abeille Re, reinsurers with a net expense ratio below 6% were Employers Re (5.01%), Munich Re (5.65%), Skandia (5.71%) and Gerling Global Re (5.90%).

No reinsurer other than Transreco had an expense ratio over 20%, but six others had one over 10% — General Re (15.59%), American Re (14.44%), M & G (13.81%), Christiania (13.22%), Prudential Re (12.84%) and Mutuelle du Mans (11.50%).

It should of course be noted that expense ratios can vary significantly with the type of business written and the level of support provided by parent companies or head offices outside Canada.

Property

The continuing fierce competition in commercial property has finally had its impact on the loss ratio, driving it from 53.94% in 1988 to 63.50% in 1989. At the same time, personal property deteriorated from a loss ratio of 64.81% to 66.12%, resulting in a total property loss ratio of 65.01%, the worst since 1985, the year of the Leamington hailstorm and Barrie tornado. In fact the results in a year devoid of a major catastrophe were worse than in 1987, the year of the Edmonton tornado, when the loss ratio was 60.48%. The Edmonton tornado was by far the largest insured loss recorded in Canada at $252,700,000, whereas the largest catastrophe loss in 1989 was the flooding in southwestern Ontario in July, for an estimated total cost of $13,250,000.

Results for property over the last five years have been as follows:

Personal Property	Net Premium Written	Net Premium Earned	Loss Ratio
1985	1,492,527	1,499,355	65.91%
1986	1,765,207	1,686,612	59.40%
1987	1,938,382	1,864,142	60.46%
1988	2,088,784	2,011,083	64.81%
1989	2,227,588	2,513,916	66.12%

All figures in thousands of dollars.

Commercial Property	Net Premium Written	Net Premium Earned	Loss Ratio
1985	1,294,531	1,188,485	71.83%
1986	1,627,171	1,546,884	55.80%
1987	1,790,001	1,767,827	60.32%
1988	1,820,725	1,833,309	53.94%

Commercial Property	Net Premium Written	Net Premium Earned	Loss Ratio
1989	1,892,394	1,878,048	63.50%

All figures in thousands of dollars.

All Property	Net Premium Written	Net Premium Earned	Loss Ratio
1985	3,259,252	3,072,807	68.21%
1986	3,715,145	3,537,519	58.10%
1987	4,002,549	3,902,419	60.48%
1988	4,160,850	4,100,033	59.40%
1989	4,277,251	4,187,722	65.01%

All figures in thousands of dollars.

With 1990 worse in every quarter through the third for both personal and commercial business, it seems to have been a far worse year than 1989, probably the worst since the 75% of 1981.

Property loss ratios by quarter since 1985 have been as follows:

Personal Property	1st	2nd	3rd	4th
1985	65.0%	70.6%	65.4%	61.9%
1986	62.0%	60.4%	61.8%	54.3%
1987	58.7%	57.2%	68.3%	54.8%
1988	64.1%	61.2%	70.6%	60.6%
1989	65.3%	58.7%	68.0%	67.5%
1990	67.4%	60.4%	72.6%	

Commercial Property	1st	2nd	3rd	4th
1985	76.7%	75.7%	66.9%	65.0%
1986	66.2%	60.0%	53.7%	49.1%
1987	54.6%	53.3%	65.3%	70.4%
1988	61.1%	55.4%	60.1%	49.2%
1989	63.1%	64.4%	62.8%	66.1%
1990	74.4%	66.3%	67.5%	

All Property	1st	2nd	3rd	4th
1985	70.0%	72.8%	66.0%	63.3%
1986	64.0%	60.2%	58.0%	51.7%
1987	56.7%	55.3%	66.9%	62.5%
1988	62.7%	58.5%	65.7%	55.2%
1989	64.3%	61.3%	65.6%	66.9%
1990	70.4%	63.0%	70.4%	

Although the results for personal property in Alberta improved significantly from 120.22% to 89.46%, Saskatchewan went the other way, from 73.27% to 122.07%, leaving the prairie provinces with still the worst results in the country. They fared somewhat better on commercial, however, where British Columbia had a 95.28% loss ratio, up from 52.77% in 1988, and New Brunswick the highest in the country at 124.86%, compared to 54.07% a year earlier.

Results by province in 1989 were as follows:

	Personal		Commercial		Total	
	Share of National	Loss Ratio	Share of National	Loss Ratio	Share of National	Loss Ratio
Newfoundland	0.97%	54.91%	1.01%	53.97%	0.97%	54.13%
P.E.I.	0.25%	97.59%	0.36%	31.56%	0.42%	62.30%
Nova Scotia	3.06%	59.26%	2.33%	54.14%	2.67%	56.91%
New Brunswick	2.47%	57.58%	2.21%	124.86%	2.30%	87.81%
Quebec	27.82%	58.99%	26.10%	61.02%	26.37%	59.91%
Ontario	40.96%	55.40%	37.81%	51.75%	38.90%	53.75%
Manitoba	3.88%	62.58%	3.53%	66.04%	3.87%	64.04%
Saskatchewan	1.75%	122.07%	3.31%	70.95%	3.93%	80.26%
Alberta	6.93%	89.46%	11.51%	53.90%	8.95%	68.38%
B.C.	11.75%	66.65%	11.31%	95.28%	11.29%	79.91%
Other	0.17%	73.23%	0.52%	78.18%	0.33%	76.07%

Reinsurers saw their results deteriorate more rapidly than did insurers, to their worst level since 1982. Their results for the last five years have been as follows:

	Personal	Commercial	Total
1985			72.03%
1986	61.40%	65.21%	63.43%
1987	60.68%	55.67%	60.34%
1988	68.42%	53.10%	55.30%
1989	80.51%	73.99%	74.04%

Automobile

The continued deterioration in automobile results for insurers has now pushed the loss ratio higher than the 95.20% level of 1985, the year before the massive rate increases of 1986 which made automobile such a major political issue for the second half of the decade.

Results in automobile for the last five years have been as follows:

Section	Year	Net Premiums Written	Net Premiums Earned	Loss Ratio
Liability	1985	2,040,322	1,917,763	111.68%
	1986	2,666,429	2,426,547	102.33%
	1987	2,980,357	2,869,733	101.85%
	1988	3,215,817	3,107,708	107.99%
	1989	3,513,140	3,382,760	109.25%
Damage to the Vehicle	1985	1,916,446	1,829,126	78.55%
	1986	2,286,916	2,136,885	73.42%
	1987	2,466,692	2,383,078	72.48%
	1988	2,740,186	2,625,211	75.29%
	1989	3,046,745	2,934,662	77.71%
All Sections	1985	5,380,867	5,138,134	95.20%
	1986	6,438,113	6,012,258	92.24%
	1987	7,120,548	6,853,381	93.47%
	1988	7,964,617	7,636,192	94.15%
	1989	8,766,773	8,432,853	95.42%

All figures in thousands of dollars.

The quarterly loss ratios show the steady deterioration, but the much improved third quarter of 1990 compared to previous third quarters offers some hope, since this was the first quarter of the Ontario Motorist Protection Plan. The loss ratios by quarter have been as follows:

Year	1st	2nd	3rd	4th
1985	91.0%	84.3%	86.3%	110.9%
1986	89.7%	81.5%	85.6%	95.8%
1987	81.8%	80.4%	87.4%	97.7%
1988	90.3%	81.1%	89.9%	105.6%
1989	92.7%	85.6%	89.3%	105.5%
1990	94.8%	85.2%	81.4%	

Automobile is of course dominated by Ontario more than any other class because of the presence of government organizations writing it to some extent or another in Quebec, Manitoba, Saskatchewan and British Columbia, and Ontario again produced very poor results at 94.09%, although it was a little better than the 95.40% of 1988.

Results by province in 1989 were as follows:

	Personal		Commercial		Total	
	Share of National	Loss Ratio	Share of National	Loss Ratio	Share of National	Loss Ratio
Newfoundland	1.01%	108.19%	1.07%	68.75%	1.00%	89.41%
P.E.I.	0.39%	119.14%	0.48%	80.60%	0.43%	100.60%
Nova Scotia	2.41%	113.90%	3.34%	83.09%	2.84%	97.21%
New Brunswick	2.71%	99.97%	3.17%	77.50%	2.84%	89.11%
Quebec	16.90%	85.47%	29.43%	83.32%	21.89%	83.75%

	Personal		Commercial		Total	
	Share of National	Loss Ratio	Share of National	Loss Ratio	Share of National	Loss Ratio
Ontario	65.13%	111.45%	49.56%	65.84%	58.38%	94.09%
Manitoba	0.46%	42.55%	0.09%	51.67%	0.43%	51.40%
Saskatchewan	0.69%	29.55%	1.02%	86.30%	0.82%	60.95%
Alberta	9.97%	100.29%	11.01%	83.76%	10.79%	91.24%
B.C.	0.11%	60.86%	0.66%	65.79%	0.35%	64.73%
Other	0.22%	51.94%	0.26%	74.72%	0.24%	62.31%

Reinsurers however have consistently been able to improve their automobile results, since most automobile reinsurance is on an excess of loss basis, which protects reinsurers to a large extent from the inadequacies of the primary pricing. In addition, the adequacy of reserves from past years plays an important part in determining the final result and this seems to have been improving.

Reinsurers' loss ratios in this class have been as follows:

1985	95.92%
1986	98.13%
1987	92.29%
1988	84.27%
1989	83.26%

Liability

The liability loss ratio increased for the first time since the liability crisis was sparked in 1985, but 1989 was still the second best of the last five years.

Results for that period have been as follows:

Year	Net Premiums Written	Net Premiums Earned	Loss Ratio
1985	812,699	679,185	88.94%
1986	1,309,876	1,109,206	77.81%
1987	1,390,393	1,321,947	73.60%
1988	1,353,508	1,365,126	61.82%
1989	1,355,689	1,330,306	64.46%

All figures in thousands of dollars.

The deterioration in fact appeared dramatically in the first quarter and, after a brief respite in the second, continued through the year. However, two of the first three quarters of 1990 have been better than the corresponding quarters of 1989, giving 1990 a slightly better loss ratio at the end of the third quarter. This is likely to have disappeared in the fourth quarter as the full impact of the Goods and Services Tax was factored into outstanding losses.

Quarterly results have been as follows:

Year	1st	2nd	3rd	4th
1985	98.8%	93.5%	93.4%	103.4%
1986	64.5%	72.7%	73.3%	95.8%
1987	65.6%	64.4%	61.2%	98.1%
1988	66.4%	79.1%	60.2%	62.0%
1989	80.4%	70.6%	62.4%	73.4%
1990	66.5%	70.3%	74.0%	

These are of course accounting year results, not underwriting year, so that they do not fully reflect the results on current business.

The results by province in 1989 were as follows:

	Share of National	Loss Ratio
Newfoundland	0.56%	45.86%
P.E.I.	0.67%	36.60%
Nova Scotia	1.96%	43.74%
New Brunswick	1.42%	55.48%
Quebec	23.26%	67.85%
Ontario	48.01%	64.02%
Manitoba	2.59%	34.42%
Saskatchewan	2.85%	41.20%
Alberta	8.39%	49.34%
B.C.	9.79%	86.84%
Other	0.49%	-28.64%

Reinsurers, on the other hand, had dramatically improved liability results in 1989, continuing the steady improvement since 1986. Their results over this period have been as follows:

1986	101.75%
1987	95.67%
1988	87.40%
1989	53.96%

Other Classes

Of the other main classes, only hail improved, although at 89.70% compared to 101.83% a year earlier, it was still not a good year, particularly considering the significant increase in premium volume which, as is usual, followed a year of heavy losses.

Surety was perhaps beginning to feel the first effects of the downturn in the economy and has probably continued to deteriorate throughout 1990.

Results for the last five years in these other classes have been as follows:

Class	Year	Net Premium Written	Net Premium Earned	Loss Ratio
Surety	1985	96,556	89,909	41.62%
	1986	95,918	94,790	47.65%
	1987	111,228	105,824	26.27%
	1988	136,468	124,661	28.84%
	1989	138,331	130,195	49.29%
Marine	1985	71,464	69,746	49.44%
	1986	75,515	73,933	57.28%
	1987	81,800	78,780	63.31%
	1988	86,860	87,298	65.17%
	1989	86,071	83,311	78.16%
Aircraft	1985	59,343	58,077	56.42%
	1986	82,595	77,167	42.50%
	1987	88,290	87,351	47.33%
	1988	70,085	68,819	46.93%
	1989	55,653	58,298	97.83%
Fidelity	1985	50,319	41,489	70.93%
	1986	70,627	59,431	23.99%
	1987	80,588	79,968	26.65%

Class	Year	Net Premium Written	Net Premium Earned	Loss Ratio
Fidelity	1988	82,744	84,105	35.81%
	1989	83,879	82,245	44.67%
Hail	1985	23,097	22,428	39.20%
	1986	17,118	17,756	51.53%
	1987	15,596	15,842	45.66%
	1988	15,849	15,755	101.83%
	1989	25,403	25,985	89.70%

All figures in thousands of dollars.

Market Structure

Consolidation of the insurance and reinsurance markets in Canada is continuing. Buyers are still the Canadian and European companies, while Americans are still more likely to be sellers.

Overall, no increase in Canadian control of the domestic insurance market seems in the offing; indeed, although the number of Canadian-owned companies has stayed the same through the buying and selling activity of 1990, their share of the market has reduced.

Over the last two years, Canadian interests have made a number of significant purchases. The Canadian General group took over the Canadian operations of United States Fidelity & Guarantee and Fairfax Holdings purchased the Commonwealth from the Home of New York and took over the Canadian operations of the Federated Mutual. Most recently, Dominion of Canada have agreed in principal to buy the Canadian operations of Safeco.

On the other hand, the Groupe Victoire of France purchased a 50% interest in the Laurentian Group's property and casualty companies. The French, in the form of the AGF, also took over the Canadian Surety and, through the Mutuelle du Mans, a half interest in UNINDAL, a new group formed by combining the property casualty operations of the Union Canadienne, the Equitable and the

Industrielle. The renewals of the General Division of the Manitoba Public Insurance Corporation were sold to the General Accident of the United Kingdom.

With the combination of poor results for some time and the threat of a take-over of at least part of Ontario automobile by the provincial government, there will undoubtedly be more mergers and companies withdrawing from the market altogether. For one, the Metropolitan group announced early in 1991 that it is closing its two Canadian operations.

The situation on the reinsurance market is considerably more complicated, because of the high level of foreign ownership, particularly European, and the impact of developments in the European financial services industry.

Four reinsurers have withdrawn from the market. Union Ruck has left the Canadian market in favour of its sister company, Canadian Re, while the Canadian business of the New Zealand was purchased by the Christiania General, an American company owned by the Storebrand of Norway. US International, a part of the Home group, stopped writing as part of that group's sale strategy and Philadelphia Re stopped writing in favour of a new United States branch of its parent, Netherlands Re, which already has a branch in Canada.

On the other hand, Kanata Re was reactivated in time for the 1991 renewals, under the name of Trygg-Hansa Reinsurance Company. In addition, Cologne Re became licensed at the beginning of 1990 and Terra Nova at the end of the year, showing that there is still considerable interest amongst international reinsurers in the Canadian market.

Further consolidation of the reinsurance market seems probable because of a number of European companies having more than one reinsurer independently active.

Although the Swiss Re group has reduced its entries by one, with the withdrawal of Union Ruck, it still has the Canadian Re and Switzerland General, as well as a significant minority interest in the SAFR.

UAP of France owns SCOR Re of Canada and General Security of New York, as well as having a significant minority interest in Groupe Victoire, which in turn owns the Abeille Re and the Cologne Re and a 50% interest in the Laurentian Group, which also writes reinsurance.

NRG of the Netherlands has ceased operations in its subsidiary, Philadelphia Re, but is licensed itself and acquired the Victory Group of the United Kingdom, which is also licensed.

GAN owns GAN Canada and Transcontinentale; Winterthur Swiss has a branch of its wholly-owned subsidiary, Winterthur Re of America, which took over the reinsurance operations of its Canadian subsidiary, the Citadel, and also owns 46.5% of Norwich Winterthur Re, which set up its own branch operation in 1990 to replace the underwriting previously handled by RMCC. Gerling has Gerling Global Re and Frankona Ruck; Munich Re has Munich Re of Canada and Great Lakes.

While any future consolidation will reduce the number of players in the market, and further consolidation in Europe could increase the overlapping interests in Canada, it is unlikely to result in any appreciable decrease in capacity, which is more than adequate for all but the largest catastrophe programmes. Indeed, the arrival of newly licensed entrants will probably ensure that there is no reduction of capacity.

Whether it will moderate the swings in the competitive cycle is also questionable, given the international size of the entities which will continue to operate here.

Outside Influences

Certainly Ontario automobile continues to be the major concern for most insurers, although in 1990 the introduction of the Goods and Services Tax by the Federal government followed closely behind.

The impact of this tax is finally significantly less than first anticipated, since insurers have established that they can settle losses net of the tax to insureds entitled to a tax credit, thus keeping the cost of most commercial property losses to their previous level, or less in some cases, since the new tax replaces an old one which insurers were paying.

However, not all claims can be settled net of tax and the increased cost applies not only to new claims but also to those not settled on December 31, 1990, forcing companies to take a significant one-time increase in their outstanding loss reserves at the end of 1990. Although not enough to cause financial difficulties to otherwise solid companies, it was enough to have some impact on the results of an already poor year.

Financial Services

The last stages of the reform of financial institutions regulation are finally being reached, after a long-running debate on the form the new legislation should take.

Although new insurance legislation is not expected until the spring of 1991, the legislation governing the ownership and powers of trust companies and banks has now been introduced and the insurance legislation is expected to follow it closely.

Even the largest of insurance companies falls well short of the $750,000,000 capital level which would require a 35% public ownership under the new rules. However, with time, and as insurers take advantage of the consolidation of their own market and the additional powers the new legislation will give them, some will reach this level.

Again because of their size, general insurers are probably the least well placed at the outset to take advantage of the wider powers they will be granted, such as ownership of trust companies, formation of a Schedule II bank and wider consumer and commercial lending powers, but some will undoubtedly seek to diversify into these fields.

Financial conglomerates which have insurers as part of their group will be in a better position to take advantage of all the new opportunities. Indeed, they may decide they no longer need the full range of separate financial institutions as each type gets more and more of the powers of the others.

One of the few areas which will remain restricted is the sale of most types of insurance by banks and trust companies. This will not be permitted through their branches, either by their counter staff or by telecommunications links with an insurer. Nor will they be allowed to use customer information to enable an insurance company to target their sales to the bank's clientele. However, they will have the right to promote insurance products of another institution to their credit card holders and, if this does not satisfy their ambitions, to have their own insurance subsidiary. These changes could require the termination of some of the existing links between insurers and other financial institutions when the legislation comes into force, but the clearer rules will undoubtedly encourage others to get into a field they had been avoiding until now.

When the new powers are effective, probably by 1992, there will certainly be a reaction in the personal lines market, which is the natural target for banks and trust companies.

If they decide to limit their activity to promoting the products of independent insurance companies to their credit card holders, there will be little change from the present position, since such marketing links are already fairly widespread. An intensification of these links will certainly increase competition, but it will be competition in the distribution network, something insurers have always worked with.

On the other hand, if they decide to create their own insurance subsidiaries, the introduction of these new and powerful players into the market would have a greater impact on insurers themselves.

The Environment

Environmental issues are also occupying more of insurance executives time, in this case at their own choice, as they seek to improve the image of the industry in the eyes of the general public.

The Insurance Bureau of Canada has recently produced "A Statement of Principles Regarding Insurance and the Environment," which, while not binding on its members, nonetheless proposes a direction which many will choose to follow. The statement proposes that insurance against pollution be readily available to those unlikely to cause accidental damage to the environment and also to "businesses whose economic activities involve clear but measurable and fortuitous environmental risks ... if such firms are willing to provide independent environmental assessment reports certifying that the necessary safeguards are in place and remain in good working order."

As the other pressing problems of the industry are resolved, environmental questions will undoubtedly require more and more attention.

Ontario Automobile

Certainly, however, Ontario automobile remained the main subject of discussion in those companies writing the class and was of more than passing interest to those which do not.

June 22, 1990 saw the introduction of the Ontario Motorist Protection Plan, which, in its first six months of operation, gave insurers a dramatic reduction in their losses while providing the insuring public with much improved service. Indeed, there is already talk of rate reductions and the State Farm has in fact announced an average 8% reduction from April 1, 1991. Six months, particularly the first six months, is too short a period to draw any firm conclusions, however it would certainly be considered encouraging by all parties were it not for the election on September 6, 1990, of a government of the New Democratic Party in Ontario, with the nationalization of automobile insurance as one of its key policies.

The party's election platform included a plan to transfer all compulsory automobile insurance coverage to a government insurer, along the lines of the action already taken by a New Democratic party government in British Columbia. However election platforms are not automatically converted into government policy and a number of possible scenarios have been put forward, either by the government or members of the insurance industry.

These include:

1. Creation of a government insurer to handle all automobile coverages.
2. Creation of a Quebec-style government fund to take over all automobile bodily injury coverage.
3. The creation of specialist cooperative insurance companies, similar to the mutual companies which have been so successful in the field in France.

4. The status-quo, at least until the Ontario Motorist Protection Plan has had a chance to prove itself.

The government's actual promise was for the formation of a "driver-owned" automobile insurance company, which any of the first three solutions would meet. However, given the economic climate, the government must be reluctant to do anything which would cause an upheaval in a sector employing some 44,000 people, and its final program, expected to be announced in the spring, will have to balance reality and ideology.

Conclusion

The new Ontario automobile plan may well result in a more rapid consolidation of insurers writing that class, because of the high cost of claims handling and compliance with regulatory requirements. Nationalization would give the consolidation even more impetus, since some companies would be barely viable without the premium they derive from Ontario automobile and would suffer further from the severe competition in all classes which would probably follow.

The probable entry of other financial institutions into personal lines insurance will make it even more difficult for the smaller general insurer to survive.

As the insurance market shifts to fewer and larger insurers, the reinsurance market, reduced in numbers but not capacity, will find itself forced into more and more volatile areas of reinsurance, with the risk that the Canadian reinsurance market will be less and less insulated from international events.

The result is likely to be a more competitive market in good times, with more violent swings between soft and hard markets than has been the case until now.

Some 1990 results are beginning to appear [7] and suggest that the market as a whole may produce a result a little better than 1989's 110%, although there are not enough companies reporting to draw a firm conclusion.

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[7] 1990 results are taken from issue no. 2 of The Skandia Report, dated March 8, 1991. It does not include the results of any reinsurers.

However, amongst the larger companies with improved results are the following:

	Net Written Premium	Combined Ratio	
		1990	1989
Economical	555,834	104.62%	115.65%
Wawanesa	485,193	111.51%	113.80%
General Accident	451,877	102.32%	110.43%
Allstate	395,184	114.45%	118.44%
Commercial Union	318,391	108.77%	116.29%
Canadian General	317,525	109.90%	110.10%
Prudential Assurance	300,432	107.46%	109.77%
Citadel	144,458	116.71%	116.79%
Halifax	137,916	106.36%	108.42%
Canadian Insurance Managers	134,214	104.40%	116.62%
GCNA	125,441	103.72%	114.05%
Prudential of America General	87,024	116.78%	118.50%

All figures in thousands of dollars.

Given the identity of these companies, it would seem that the favourable impact of the Ontario Motorist Protection Plan lasted through the fourth quarter and the Goods and Services Tax did not have the impact once thought likely. Not everyone improved their combined ratio, however. Amongst the larger companies showing a deterioration are:

	Net Written Premium	Combined Ratio	
		1990	1989
Dominion of Canada	365,949	117.49%	112.20%
Safeco	160,828	110.54%	105.77%
Sun Alliance	129,842	118.94%	114.60%
Gore	91,966	115.77%	112.62%
American Home	80,620	100.91%	94.34%
Security National	64,676	110.34%	107.42%
Alberta Motor	57,930	125.32%	108.72%

All figures in thousands of dollars.

No reinsurers have published their results as yet, however the general feeling seems to be that they will be a few points worse than in 1989.

There is no doubt that most of the market's attention is still on Ontario automobile, while it awaits the announcement by the government of its plans for that class. However, the deteriorating property results also need attention, since there is no margin for a catastrophe in them. Liability, for long the problem, is the bright spot, but is also slipping and the market has yet to come fully to grips with the issue of pollution.

1991 will not be a quiet year.