Document generated on 12/31/2024 3:10 a.m.

Assurances

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Volume 45, Number 2, 1977

URI: https://id.erudit.org/iderudit/1103936ar
DOI: https://doi.org/10.7202/1103936ar

See table of contents

Publisher(s)

HEC Montréal

ISSN

0004-6027 (print)
2817-3465 (digital)

Explore this journal

Cite this document

Robey, C. (1977). The state of canadian general insurance in 1977. *Assurances*, *45*(2), 104–116. https://doi.org/10.7202/1103936ar

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The state of canadian general insurance in 1977

by

CHRISTOPHER J. ROBEY

Property and casualty insurance companies in Canada can look back on 1976 with considerable satisfaction, although mixed with concern over political developments during the year, since although 1976 saw them subject to the guidelines of the anti-inflation board and the election in the province of Quebec of a Parti Québécois government, part of the policy of which was the nationalization of automobile insurance, they showed a profit for the first time in 5 years. Certainly the profit, at $10.9 million, was little better than break-even, being only 0.22% of the total premium written of $4.859 million however it followed by only 2 years the record loss of $352.1 million, suffered in 1974. The loss ratio improved more than 7% over 1975, from 74.26% to 67.04%. The following table gives the results for the 5 years up to 1976; it should be noted that, unless otherwise stated, all statistics are taken from Canadian Insurance magazine (1) and do not include the results of life and accident and sickness specialty companies, nor do they include the results of some companies which filed too late to be included in the statistics:

Year	Net premiums written	Net premiums earned	Underwriting results	Loss ratio
1972	2,346	2,218	— 31.0	68.39%
1973	2,595	2,498	— 135.8	73.06%
1974	3,093	2,942	— 352.1	79.63%
1975	3,869	3,514	— 237.5	74.26%
1976	4,859	4,535	+ 10.9	67.04%

(All figures in millions of dollars).

The above figures include the results of provincial government companies, however in view of their monopoly position in automobile

[1] *Canadian Insurance*, annual statistical issue, available from Stone & Cox Limited, 100 Simcoe Street, 2nd floor, Toronto, Ontario M5H 3G2; a similar statistical issue is published by *Canadian Underwriter* and is available from Wadham Publications Limited, Insurance Division, 109 Vanderhoof Ave., Suite 101, Toronto, Ontario M4G 2J2.

insurance in their province, the exclusion of their results gives a better indication of the improvement in the general industry since 1974:

Year	Net premiums written	Net premiums earned	Underwriting results	Loss ratio
1974	2,745	2,615	— 290.9	76.91%
1975	3,461	3,130	— 142.4	71.48%
1976	4,262	3,961	+ 3.7	66.66%

(All figures in millions of dollars).

Premium growth for private industry slowed during 1976, to 23.14% from 26.08% in 1975, while the growth of the provincial government insurers increased from 17.37% in 1975 to 33.88% in 1976 — this latter figure would be higher still were it to include the Insurance Corporation of British Columbia (the results of which were not available when the magazine was published), since their growth rate for the year was approximately 100%. Amongst private companies, the greatest growth was with the British companies, including their Canadian subsidiaries, at 28.56%; Canadian domestic companies increased by 24.86% and other foreign companies by 18.61%. All three categories of companies had loss ratios between 66% and 67%, however a higher expense ratio for British companies produced for them an underwriting loss of $15 million, while Canadian domestic companies had an underwriting gain of $15.7 million and other foreign companies of $3 million.

Although commissions have been reduced for certain types of risk during the last eighteen months, the total commissions paid as a percentage of written premium increased from 15.12% in 1975 to 15.48% in 1976 and the total expense ratio increased from 30.99% in 1975 to 31.18% in 1976.

66 of the 100 companies listed in *Canadian Insurance* had a combined index below 100%, the American Home Group having the largest underwriting profit for the third year in succession with $10.3 million. Another remarkable record is that of the Pilot, which has been amongst the top 10 profit makers for the last six years, although it ranked only 37th in premiums written in 1976.

The following are some of the results shown, the percentage in brackets being the combined index for 1975. It is important to note that not all companies are shown on the same basis, net premiums being less all reinsurance for domestic companies but less licensed reinsurance only for other companies:

Company	Net premiums written	Underwriting result	Combined index
	$	$	%
Royal Insurance	400,183,176	— 6,958,906	100.35 (102.51)
Lloyd's Non-Marine	200,105,797	— 4,101,968	101.68 (108.21)
Commercial Union	173,088,101	— 1,569,752	100.36 (102.79)
Groupe Commerce	105,838,367	+ 4,027,833	94.38 (96.35)
Co-operators	103,138,928	+ 2,173,907	96.45 (97.58)
Groupe Desjardins	70,070,212	— 2,454,094	102.78 (107.78)
Co-operative F & C	63,116,255	— 2,280,552	98.21 (101.48)
Groupe La Laurentienne	55,518,120	— 511,856	100.54 (101.72)
Prévoyants du Canada	53,438,155	— 170,509	98.52 (99.43)
American Home	41,083,621	+ 10,307,150	74.52 (73.59)
Pilot	35,479,100	+ 2,018,397	93.83 (94.03)
Sovereign General	22,133,465	+ 38,794	98.79 (104.32)
Union Canadienne	16,629,418	+ 188,048	97.37 (102.98)
United Provinces	13,075,875	+ 208,621	96.34 (117.80)
United Canada	10,484,642	+ 340,824	90.25 (94.04)
Waterloo Mutual	8,793,593	+ 863,733	89.51 (113.18)
Personal	6,307,397	— 280,056	101.86 (114.62)
Canada West	4,371,179	— 42,744	100.49 (100.88)
Pitts	3,383,320	+ 962,039	70.86 (101.94)

As is usual, reinsurers ran behind the insurance companies in recovery, however their underwriting loss was reduced from $24.7 million in 1975 to $12 million in 1976. The results of the 15 largest are as follows:

Company	Net premiums written	Underwriting result	Combined index
	$	$	%
Canadian Reinsurance Group	52,977,658	— 1,985,063	103.49 (117.78)
Universal Reinsurance Group	50,018,158	— 2,894,844	103.23 (112.67)
Munich Reinsurance Group	39,050,293	— 296,274	97.75 (107.97)
American Re-insurance	32,857,348	— 1,905,835	105.06 (98.82)
Mercantile and General Gr.	26,061,433	— 1,214,886	103.68 (113.77)
Gerling Global Reins. Co.	19,128,938	— 464,973	102.46 (103.58)
SCOR Canada	16,924,560	— 271,286	99.13 (—)
General Reinsurance Corp.	14,086,581	— 994,634	113.47 (108.06)
Skandia Group	12,412,779	+ 28,150	98.64 (110.92)
Mercantile & Gen. Reassu.	8,736,262	— 1,259,095	110.28 (103.80)
Continental Casualty Co.	7,834,497	+ 503,288	93.94 (129.40)
Employers Reinsurance Co.	7,695,821	+ 234,093	96.27 (106.33)
Nationwide Mutual Ins. Co.	6,148,079	— 1,075,581	117.56 (131.81)
Canadian Reassurance Co.	4,650,614	— 83,351	97.05 (90.72)
Soc. Anonyme Française de Ré.	4,420,479	+ 282,328	92.14 (—)

It is clear that the industry has made a remarkable recovery from the disastrous year of 1974 and the figures reported for the first quarter of 1977 suggest that the improvement is continuing, so that this year companies are more likely to be concerned with meeting the guidelines of the anti-inflation board than showing a reasonable return on their investment.

Many of the trends in the industry affect Canada as a whole, however in view of the size of the country and the diversity of its different regions, it may be as well to look more closely at the situation province by province.

Newfoundland

On the basis of direct premiums written, i.e. before reinsurance assumed and ceded, the insurance business in this province is dominated by the two largest companies in Canada, the Royal group and Lloyd's, each writing over $10 million of premium, while their nearest competitor is the Co-operative Fire and Casualty, writing $4.1 million. However, the figures published by Canadian Insurance do not include the local Newfoundland companies, of which there are now several, the two largest writing over $4 million of direct premiums each.

Newfoundland in fact is the best example of a trend which has been felt through all of the Atlantic provinces, as a result of the desire of the larger companies to control their underwriting expenses; this was traditionally the territory of the general agencies, underwriting for one or more large national writers, however in recent years these large companies have tended to cancel their general agency contracts and replace them in certain areas only by branch operation; Newfoundland was not one of those areas favoured by a branch operation and, therefore, a number of provincial companies were formed by the former general agents to fill the gap. These companies now exert a considerable influence on the industry in the province, even though they are very small companies when measured on the national scale.

The reduction in capacity which resulted from the withdrawal of the large companies has not been entirely replaced by the formation of local companies, consequently the market situation is tight in the province and appears likely to remain so for some time to come, particularly since the newer provincial companies, which have experienced very rapid growth since their formation, are now likely to seek to consolidate their position and control their growth more tightly in the future.

The minimum statutory limit for automobile liability business is $75,000 and insurance in this class became compulsory for Newfoundlanders on the 1st January 1976. All companies must file their automobile liability rates with a rating board and have all modifications approved by this board. Premium tax is 2% and there is no Fire Marshall's tax.

Prince Edward Island

This is the smallest province in Canada and again, the Royal and Co-operative Fire and Casualty appear amongst the largest companies, with $2.1 million and $2.9 million of premiums respectively, however the largest company in the province is the Commercial Union, with $3.6 million of premiums.

Automobile liability insurance is compulsory, for a minimum limit of $50,000, however there is no rating board in existence at the present.

Premium tax is 2% and the Fire Marshall's tax, on property premium only, is 0.75%.

Nova Scotia

In the conversion from general agency to branch operations in the Atlantic provinces, this province probably benefited the most from the point of view capacity and, as a result, is suffering the most from the point of view of rate competition. As is true in almost all provinces, the company with the largest volume is the Royal Group, with $20.9 million and the importance of the Co-operative Fire and Casualty and the Commercial Union in the Atlantic provinces is again indicated by their respective volumes in Nova Scotia of $12 million and $10.6 million.

Automobile liability insurance is compulsory in the province and all rates must be filed with a rating board. The minimum statutory limit is $50,000.

The premium tax is 2% and the Fire Marshall's tax, on property premium only, is 0.75%.

New Brunswick

This province suffered the same experience as Newfoundland in the conversion from general agency to branch operations, although to a substantially lesser extent because of its proximity to Halifax, Nova Scotia, the centre of the branch operations of the national companies. The creation of local companies, although again to a much lesser extent than in Newfoundland, can also be seen here, but the trend started later than in Newfoundland and the influence of these companies on the business in the province is much less.

As elsewhere in the Atlantic provinces, the largest writers are the Royal, the Commercial Union and the Co-operative Fire and Casualty, with $22.6 million, $15.9 million and $13.2 million respectively.

Automobile liability insurance is compulsory, for a minimum limit of $50,000 and all rates must be filed with a rating board.

The premium tax is 2% and the Fire Marshall's tax, on property premium only, is 1%.

Quebec

This province is the least typical of any in Canada, because of the strength of the local companies and it is also the latest province to feel the encroachment of government into the insurance industry.

In November 1976, the Parti Québécois won a surprise election victory in this province and immediately began a study to permit the implementation of one of its election promises, the nationalization of automobile insurance. The reform proposed in the spring of 1977 provides for the nationalization, on a complete no-fault basis, of the bodily injury coverage only, leaving all other coverages to private industry.[1]

This reform, which is mild compared to the changes brought about in Manitoba and British Columbia, will nonetheless result in a loss of over $300 million of premiums to the private sector in 1978 and it is to be expected that competition will ensue amongst the companies to increase their share of the premium which remains — in fact, this competition can already be felt. However, the companies should be able

[1] A résumé of the proposed reforms may be obtained from le Blanc Eldridge Parizeau Inc., Reinsurance Brokers, 2, Complexe Desjardins. Bureau 1700, Casier Postal 183, Succursale Desjardins, Montreal, Quebec, Canada H5B 1B3.

to continue their growth in other lines and it is also to be expected that those companies which have operations in the province but have never been able to really penetrate into the market (such as the Kemper group) will take this opportunity to withdraw; the availability of this additional premium will undoubtedly moderate the tendency towards increased competition.

The importance of the local market in Quebec can quickly be realized by considering that the 8th largest company in Canada, the Commerce Group, writes only in this province and of the 6 companies writing over $60 million of Quebec premium, two write exclusively in the province (Commerce Group $110 million, Prévoyants du Canada $70 million) and two others write over 90% of their business in the province (Desjardins Group $107 million, Laurentian Group $66 million). The two others in the group of six are the two largest writers on a national scale, the Royal with $108 million and Lloyd's with $98 million.

The other item in the Parti Québécois programme which would have an effect on insurance companies in the Province of Quebec is their desire to seek an independent status for Quebec; the question of independence will be the subject of a referendum, and, even if independence is achieved, it is difficult to see what effect it would have on the insurance industry as a whole, since, of course, the insurance values and the need to insure them would remain; however a considerable rearrangement of the components of the market (Quebec companies, other Canadian companies, foreign companies) would seem probable. Nonetheless this issue will not be faced for another two years or so at the earliest and it is reasonable to anticipate the industry would have sufficient time to take whatever action it deems necessary.

The present minimum statutory limit for automobile insurance is $35,000 and coverage is not compulsory. The premium tax is 2% and there is no Fire Marshall's tax.

Ontario

As the most populous province in Canada and the centre of the insurance industry, this province tends to demand the most attention from the largest companies and it is not surprising that the Royal Group, which writes double the premium across Canada of its nearest competitor also writes almost double the premium in Ontario of its nearest competitor, totalling $200 million in the province out of its national total of $425.5 million.

However, the second largest company in the province is the Cooperators Insurance of Guelph, which writes only in the Province of Ontario, with a premium volume of $104 million and, although producing a substantially larger volume of premium than the Province of Quebec, Ontario has only two companies writing over $90 million, compared to four in Quebec, which indicates the extent to which the market is diversified, once the commanding position of the Royal is forgotten.

Following the Royal and Cooperators in size is the Commercial Union, with $81 million, the Travellers, with $71 million, the Shaw and Begg Group with $63 million, State Farm with $62 million, Zurich with $59 million and, in eighth place, the second of the only two Canadian companies in the top ten, the Dominion of Canada group with $57 million.

A committee of the Ontario legislature (The Select Committee on Company Law, or the Singer Committee) is currently studying the insurance industry and has published its first report on automobile insurance, in which there is a suggestion that automobile insurance should become compulsory and coverage should be unlimited. Alan Horsford, the president of the Royal Insurance Company of Canada, has suggested that automobile insurance become compulsory for a minimum limit of $1 million. With such statements being made, it is clear that changes in the automobile insurance scene in Ontario will be introduced in the not too distant future, however the general feeling is that it is unlikely they would be as great as the two proposals just mentioned. The Ontario government which set up the select committee was a minority one, with the Conservative party forming it and the New Democratic party, the socialist party in Canada forming the official opposition; there has since been a general election which produced another minority government, again formed by the Conservative party with an increased representation and the Liberal party is now the official opposition, with the New Democratic party having lost ground; since the Select committee was more representative of the views of the New Democratic party than the others, it is likely that a revised membership on the committee following the convening of the new legislature will result in a modification of some of its more radical suggestions, which in any case will require the approval of a majority of the legislature itself.

At present, the general feeling is that automobile insurance in Ontario will become compulsory and the minimum limit will be increased from the present level of $100,000 to $300,000 or possible $500,000.

The premium tax is 3% and the Fire Marshall's tax, on property premium only, is 0.5%.

Manitoba

Business in this province is of course dominated by the Manitoba Public Insurance Corporation, which has a monopoly of automobile business, producing $94.9 million of premium, and also writes $4.5 million of premium in other lines, making it the fourth largest insurer after the Wawanesa Mutual with $6.7 million, the Royal with $5.4 million and Lloyd's with $4.6 million.

The Automobile business of the Monitoba Public Insurance Corporation showed an underwriting profit of $10 million in 1976, compared with losses of $11.7 million in 1973, $12 million in 1974 and $1.7 million in 1975, therefore it is not likely that any change in the monopoly position will come about in the forseeable future.

With the nationalization of automobile insurance in the province, a number of companies withdrew completely, leaving a serious lack of capacity which has been filled in part by the growth of the general business of the Manitoba Public Insurance Corporation and in part by the creation of general agencies in the province, writing for out of province insurers, a reversal of the trend noted earlier in the Atlantic provinces.

The premium tax is 2% and the Fire Marshall's tax, on property premium only, is 1%.

Saskatchewan

More than any other, the industry in this province is monopolized by one company, the Saskatchewan Government Insurance Office. This company, the oldest of the provincial insurers, has a monopoly on the basic automobile coverage, producing premium of $77.6 million in 1976;

it also writes the bulk of the excess automobile coverage and a substantial amount of the other coverages in the Province, having a total of \$43.8 million of premium for business other than the basic automobile coverage. Its closest competitor in the Province is the Co-operative Fire and Casualty, with \$8.3 million.

The S.G.I.O.'s results on its basic automobile coverage were better in 1976 than they have been in the previous 4 years, with a loss ratio of 84.84% compared to 96.06% in 1975. However, the company lost \$3.7 million on its general insurance business, with a loss ratio of 72.72%. The loss was 50% higher than in 1975, although the loss ratio itself deteriorated by less than 1%, because of the 40% growth in the company's business during the year.

The S.G.I.O. has been the major factor in the market for so many years and its position is so well established that the market in the province is a relatively stable one.

The premium tax is 2% and the Fire Marshall's tax, on property premium only, is 1%.

Alberta

Although sandwiched between Saskatchewan and Manitoba on one side and British Columbia on the other, all having provincial government companies, Alberta is probably the most "free enterprise" province in Canada and, with Ontario, the wealthiest. The largest company is the Cooperative Fire and Casualty, headquartered in neighbouring Saskatchewan, with \$37 million, followed by the Royal with \$32 million and the Wawanesa with \$21 million. The fourth company is a local one, the Western Union, with \$19.5 million.

Automobile liability insurance is compulsory in Alberta, for a minimum limit of \$50,000 and rates must be approved by a rating board.

The premium tax is 2% and the Fire Marshall's tax, on property premiums only, is 0.33%.

British Columbia

This province is the home of the most recent and largest of the provincial government companies, the Insurance Corporation of British Columbia, with \$360 million of automobile business and \$16 million of general business.

It is the fourth largest writer of general business in the province, behind the Commonwealth with $26 million, Lloyd's with $23 million and the Royal with $19 million.

After suffering disastrous losses in 1974 and 1975 on its automobile book, $55.8 million and $147.9 million respectively, it showed a profit in 1976 for this class of $41.6 million, as a result of very substantial rate increases at the beginning of the year, which resulted in a 100.6% growth in its premium written over 1975. On general business, the Corporation showed a profit of $644,000 in 1976, compared to a loss of $4 million in 1975.

The New Democratic party, which set up The Insurance Corporation of British Columbia, was defeated at the last election by the Social Credit party, a more conservative party, which was the government which introduced the rate increases just mentioned. They are now in discussion with the industry concerning the limiting of the activities of The Insurance Corporation of British Columbia to automobile only.

The premium tax is 2% and the Fire Marshall's tax, on property premium only, is 1%.

On the national scene by far the most important event in 1976 was the decision of the anti-inflation board to bring all insurance companies under its control; previously, only the largest had been subject to control.

As a result of the guidelines of the board, several companies have been obliged to return to insureds excess profits made in 1976, which they are doing through discounts on renewal. As a result of these moves, $80 million or so of excess revenue will be returned to policy holders, although almost three-quarters of the total will come from The Insurance Corporation of British Columbia.

The provisions of the Anti-inflation board are still in force and there is no clear indication as yet whether they will continue to apply through the end of 1977, which would result in profit restrictions on insurance companies again this year — something which, based on the first quarter results, many more companies may have to deal with than was the case in 1976.

Although, the regulations probably did not affect rate increases in 1976, they will undoubtedly result in more modest increases than the market would seek otherwise in 1977; on the other hand, the increase in the consumer price index was reduced to 7.5% for the full year 1976 and, at the beginning of 1977, was running at 6.7%, a rate which, in years gone by, may have been considered excessive, but based on recent world-wide experience, is now looked on with a certain pleasure. It is also safe to say that insurance companies made every effort in 1976 to ensure that their outstanding loss reserves and IBNR's were as adequate as the taxation authorities would permit.

Despite the return to profitability, albeit marginal profitability, in 1976, it is evident that the strain put on the capacity of companies to absorb extra premium generated by the rate and value increases which have taken place in recent years has produced a discipline in the market which results in the rates recommended by the Insurers Advisory Organization being generally respected by its members. However, during 1976, 8 insurance companies broke away from the Insurers Advisory Organization to form the Association of Independent Insurers, as an alternative source of technical expertise and information for those companies not wishing to join the Insurers Advisory Organization. At the outset, the new organization limited its activities to automobile and dwelling insurance in Ontario and Alberta; like the Insurers Advisory Organization, their rates are recommended only, however the membership rules state that companies may only deviate by 10% upward or downward from these recommended rates. Although both organizations only recommend rates, rather than impose them as did their predecessors, the Canadian Underwriters Association and the Independent Insurers Conference, it is doubtful that the existence of a second rate-making body will introduce undue competition into what is still a tight market.

Although the activities of the anti-inflation board, the Parti Québecois government and the Singer Committee are undoubtedly causing concern to the insurance industry in Canada, the profit, however modest, in 1976 and the results experienced in the first few months of 1977 have imbued the market with a cautious optimism, which was reflected in the views of the senior officers of 8 professional reinsurers in Canada, in interviews with them which appeared in the February 1977 issue of Canadian Underwriter magazine.

Although future results will depend on the maintenance of the discipline in the market which currently exists, despite the loss of automobile premium in the province of Quebec and, also, on the possibility of the industry to obtain the rate increases it requires in future years, under whatever guidelines will replace the anti-inflation board, when it is phased out, a year of increased profits in 1977 appears likely, and the outlook for 1978 and 1979 is promising.