

The State of Canadian General Insurance in 1991

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Article abstract

Nous remercions notre collaborateur Mr. Christopher J. Robey qui, selon une tradition bien établie, présente annuellement aux lecteurs de la Revue, les résultats de l'assurance générale au Canada. Son étude nous donne une vue globale et détaillée des résultats pour l'année 1991. Il démontre que dans l'ensemble les résultats sont similaires à ceux de l'année 1990, notamment en ce qui a trait au rapport sinistres à primes. Selon Mr. Robey, le signal d'une reprise en assurance sera donné par la reprise économique dans l'ensemble des secteurs. Dans la prochaine parution, l'auteur analysera les résultats provinciaux et ceux de la réassurance.

The State of Canadian General Insurance in 1991

by

Christopher J. Robey*

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Part 1: Insurers Results and Results by Class

After three years of deteriorating results, from a loss ratio of 74.28% in 1986 to 80.17% in 1989, insurers on the Canadian market saw a small recovery in 1990, to 78.35%. The underwriting loss remained over \$1 billion, but it dropped by more than 18% while earned premiums rose by nearly 7%.

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The results of private property and casualty companies during the last five years have been as follows¹:

Year	Direct Premiums	Net Premiums Written	Net Premiums Earned	Loss Ratio	Underwriting Result
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)
1990	\$14,948,084	\$14,212,769	\$13,826,850	78.35%	(\$1,274,813)

All figures in thousands of dollars

Investment income on operations dropped from \$2,516 million to \$2,505 million, but the final result improved by \$276 million, to a profit of \$1.23 billion, the fourth time in five years it has exceeded \$1 billion.

The return on equity climbed back up over 10%, to 10.38%.

The down cycle just over, from 1986 to 1990 was not quite as bad as that from 1981 to 1985, the loss ratio over the later five year period being 76.78%, compared to 77.45% for the earlier one.

Insurers

Eighty-seven companies and groups² met the following criteria in 1990:

¹ 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 IAO Actuarial Consulting Services Inc.
The Stone & Cox Brown Chart.

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

² Not all groups have been consolidated.

Direct premiums written of at least \$15,000,000.

Net premiums written of at least \$10,000,000.

At least 50% of net written premium in automobile, property and liability.

This compares with eighty-three in 1989, but is two less than in 1988. Net written premiums increased by 13% during the two years.

Seventy-six of the eighty-seven, or 87%, had an underwriting loss, compared with 88% in the previous year. The improvement in the results of the market as a whole resulted in the average loss for these companies dropping from \$20 million to \$15 million. The average profit for the remaining eleven increased from \$4 million to \$6 million.

Lloyd's had the largest underwriting profit, at \$34.8 million, continuing its pattern of alternating profit and loss years since 1985, a result which goes completely against the market.

Chubb topped \$10 million profit for the third year, with \$12.6 million in 1990.

Other companies with an underwriting profit were:

Company	1990	1989	Consecutive profitable years
Allendale Mutual	\$6.8 million	\$8.3 million	5
Pilot	\$4.6 million	\$3.7 million	5
Commonwealth	\$2.8 million	\$1.6 million	2
Personal	\$2.4 million	(\$3.2 million)	1
Commerce Group	\$2.2 million	\$2.8 million	9
Nova Scotia General	\$1.3 million	(\$3.3 million)	1
Kingsway General	\$1.0 million	(\$0.5 million)	1
Lumbermens' Mutual Casualty	\$0.5 million	\$1.2 million	5
Capitale	\$0.1 million	(\$2.9 million)	1

Both the Commerce Group and Pilot have had an underwriting profit in nine of the last ten years.

The largest underwriting losses were again produced by companies with substantial amounts of Ontario automobile in their portfolios, although that class did improve with the introduction of the Ontario Motorist Protection Plan at the end of June. Companies with an underwriting loss in excess of \$50 million were as follows:

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Company	1990	1989
Co-operators	\$105.5 million	\$132.7 million
Zurich Canada	\$79.3 million	\$80.4 million
Royal	\$78.3 million	\$46.3 million
Dominion of Canada	\$61.9 million	\$40.9 million
Wawanesa Mutual	\$54.6 million	\$51.8 million
Allstate of Canada	\$52.8 million	\$63.4 million

Only Allendale Mutual (36.13%) and Commonwealth (46.22%) had loss ratios below 50%. Chubb (51.82%), Lloyd's (55.11%) and Lumbermens' Mutual Casualty (59.88%) were under 60%.

At the other end, four companies had loss ratios over 100%, Arkwright Mutual (156.79%), Protection Mutual (113.09%), Markel (112.44%) and Alberta Motor (103.60%). For Arkwright Mutual, Protection Mutual and Markel, it was their second consecutive year over 100%.

The following table gives the 1990 results of selected insurers.

Company	Direct		Growth	Net		Underwriting		Loss Ratio	
	Premiums	Written		Premiums	Written	Result			
						1990	1989	1990	1989
	(\$)		(%)	(\$)		(\$)	(\$)	(%)	(%)
Zurich Canada	906,857	(1)	18.35	886,131	(79,393)	(80,415)		77.88	77.65
Royal	821,523	(2)	5.60	757,836	(78,342)	(46,317)		80.92	77.47
Co-operators	755,910	(3)	1.39	744,248	(105,589)	(132,751)		89.26	93.52
Economical	572,483	(4)	8.24	555,834	(24,146)	(75,786)		81.79	88.09
Wawanesa	437,738	(8)	13.11	434,488	(54,607)	(51,871)		87.64	86.67
Laurentian	423,546	(9)	6.73	358,886	(34,056)	(26,901)		73.94	69.46
Allstate Canada	419,518	(10)	5.42	395,184	(52,846)	(63,486)		87.92	91.43
Dominion of Canada	377,433	(12)	6.23	365,949	(61,934)	(40,941)		86.77	81.18
Canadian General	350,355	(14)	64.18	317,603	(29,045)	(19,033)		79.76	82.16
Lloyd's	348,273	(15)	-66.41	530,303	34,845	(27,224)		55.11	68.93
Prudential UK	309,619	(17)	-18.65	300,432	(22,029)	(40,510)		75.47	80.47
Wellington	304,762	(18)	13.77	277,698	(43,565)	(49,646)		80.64	84.06
Desjardins	267,977	(19)	33.55	250,704	(14,277)	(20,459)		69.89	76.04
Simcoe Erie	267,465	(20)	35.65	164,443	(30,353)	(42,731)		83.41	104.99
Commerce Group	249,417	(21)	3.32	249,771	2,270	2,857		70.76	69.86
Canadian Surety	137,785	(33)	5.35	115,632	(10,113)	(5,924)		75.28	72.65
Gore Mutual	122,610	(35)	-3.97	91,966	(12,764)	(13,935)		88.33	84.50
AXA Home	116,569	(36)	30.65	115,572	(14,940)	(6,886)		85.05	79.24
Provinces Unies	88,806	(38)	-0.99	95,886	(2,518)	(2,305)		70.00	71.92
Federation	87,706	(40)	8.54	73,633	(7,460)	(10,567)		80.88	85.23
Sovereign	77,200	(44)	10.82	49,196	(3,899)	(2,035)		69.97	69.43
Anglo Canada	58,590	(52)	22.03	45,424	(4,225)	(1,813)		73.97	73.54
Commonwealth	52,575	(55)	-7.03	15,051	2,799	1,685		46.22	52.98
Union Canadienne	44,086	(62)	2.51	39,392	(9,442)	(6,700)		88.30	82.86
Société Nationale	30,248	(70)	-7.00	15,933	(1,465)	(1,821)		68.68	70.15
Equitable	30,195	(71)	9.94	25,860	(3,538)	(2,923)		78.70	80.63
Saint Maurice	27,936	(74)	10.88	14,651	(358)	(1,560)		66.24	73.67
Coopérants	27,366	(76)	9.34	15,839	(1,354)	(2,147)		82.28	80.18
Unique	20,430	(83)	6.45	14,758	(1,140)	(1,926)		74.63	80.31

Based on ownership at the end of 1990, 75 Canadian companies wrote 38.66% of the direct premiums, the largest national group. 58 American companies were next, at 22.46%, followed closely by 20 British companies with 21.97%. Only the Swiss, with 4 companies and 7.11% of the market, also had more than a 5% share. The European Community as a whole, including the United Kingdom, had 36 companies and 31.66% of the market.

Since the end of that year, there have been a number of changes in ownership, with more anticipated.

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Metropolitan closed down its operations, the Ontario company running off and the Quebec operations being sold to the Commerce Group. Loyalist, a small Ontario insurer, ceased operations and its renewals were issued by Chequers, part of the Fairfax Financial group.

The business of Crum & Forster was sold to General Accident, continuing the withdrawal of American companies.

However, the biggest change was the sale of the operations of Safeco, twenty-third largest by direct premiums in 1990, to Dominion of Canada, twelfth largest before the sale, fifth after.

The sales are not yet over, the most recent announcement being that Allstate have put their Canadian operations up for sale.

Personal Property

Personal property business continued to deteriorate in 1990, as it has every year since 1987. By the end of 1990, the loss ratio had reached 68% and by the third quarter 1991, the loss ratio for the most recent four quarters was eight points worse, at 76.7%. The third quarter itself, affected by the Calgary hailstorm, the largest insured loss so far recorded in Canada, reached nearly 90%.

Results for the last five years have been as follows:

Year	Net Premium Written	Net Premium Earned	Loss Ratio
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	2,153,916	66.12%
1990	2,483,406	2,391,652	68.08%

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All figures in thousands of dollars

Quarterly results have been as follows³:

Year	1st	2nd	3rd	4th
1986	62.0%	60.3%	61.7%	54.2%
1987	59.4%	58.0%	69.1%	55.6%
1988	64.6%	61.5%	71.0%	61.0%
1989	66.6%	59.8%	69.3%	68.8%
1990	68.0%	61.2%	73.6%	70.3%
1991	73.5%	73.0%	89.2%	

Commercial Property

After bouncing back and forth since 1985, commercial property has taken a marked turn for the worse, 1990 giving a higher loss ratio than 1985, the bottom of the last cycle. 1991 is worse still, making this now the poorest line for insurers. However, the third quarter 1991 was significantly better than the first two and was virtually unaffected by the Calgary hailstorm, which hit primarily personal lines policies.

³ Quarterly loss ratios are taken from *The Quarterly Report*, published by IAO Actuarial Consulting Services Inc. Their figures come from Statistics Canada, which changed its basis of compiling the figures at the end of 1991. Because of this, the quarterly loss ratios for all classes are different from those shown in earlier reports.

Results for the last five years have been as follows:

Year	Net Premium Written	Net Premium Earned	Loss Ratio
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%
1989	1,892,394	1,878,048	63.50%
1990	1,883,412	1,909,582	72.27%

All figures in thousands of dollars

The quarterly results show the rapid deterioration in 1989 and its continuation in 1990 and 1991:

Year	1st	2nd	3rd	4th
1986	65.2%	59.1%	52.8%	48.3%
1987	54.0%	52.8%	64.6%	69.8%
1988	58.3%	52.8%	57.3%	46.9%
1989	62.7%	63.8%	62.3%	65.5%
1990	75.6%	67.7%	69.1%	77.2%
1991	85.7%	85.6%	76.7%	

Automobile

In automobile, insurers had their best year since 1984, though the 1990 loss ratio of 90.73% only underlines how lean the years in between have been.

The introduction of the Ontario Motorist Protection Plan in June 1990 reversed the trend in Ontario, by far the largest market in the country. The improvement has continued into 1991, however claims reserving for the new plan remains untested and some

deterioration could come in the fourth quarter as companies revise their estimates before closing their books.

Results for the last five years have been as follows:

Year	Net Premiums Written	Net Premiums Earned	Loss Ratio
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%
1990	9,666,265	9,296,162	90.73%

All figures in thousands of dollars

The quarterly results show the extent of the improvement beginning with the third quarter 1990:

Year	1st	2nd	3rd	4th
1986	90.2%	81.9%	86.1%	96.4%
1987	83.3%	81.8%	88.9%	99.5%
1988	91.4%	82.1%	91.0%	106.9%
1989	94.7%	87.4%	91.3%	107.8%
1990	95.0%	85.7%	81.9%	89.0%
1991	80.0%	74.3%	76.9%	

Liability

Liability results remain the best of the major classes, showing a small improvement in 1990 over 1989 and still much better than the loss ratios in the middle of the eighties. The first three quarters of 1991 were worse, with the third particularly poor, which suggests the full year will be the worst of the last four.

Results for the last five years have been as follows:

Year	Net Written Premium	Net Earned Premium	Loss Ratio
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%
1990	1,337,825	1,328,420	62.77%

All figures in thousands of dollars

Quarterly results have been as follows:

Year	1st	2nd	3rd	4th
1986	64.2%	72.3%	73.0%	95.4%
1987	65.5%	64.3%	61.1%	98.0%
1988	60.4%	71.9%	54.7%	56.4%
1989	73.0%	64.1%	56.7%	66.7%
1990	63.5%	66.9%	70.8%	51.0%
1991	66.2%	65.2%	77.0%	

Other Classes

Of the other classes, only fidelity improved. Surety deteriorated substantially, a dangerous sign at what was then only the beginning of the recession. Hail had its third bad year in a row and 1991 was probably no better.

Class	Year	Net Premium Written	Net Premium Earned	Loss Ratio
Surety	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%
	1990	131,305	133,237	70.15%
Aircraft	1986	82,595	77,167	42.50%
	1987	88,290	87,351	47.33%
	1988	70,085	69,819	46.93%
	1989	55,653	58,298	97.83%
	1990	43,823	48,096	102.73%
Marine	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%
	1990	92,889	92,025	81.99%
Class	Year	Net Premium Written	Net Premium Earned	Loss Ratio
Fidelity	1986	70,627	59,431	23.99%
	1987	80,588	79,968	26.65%
	1988	82,744	84,105	35.81%
	1989	83,879	82,425	44.67%
	1990	69,441	74,109	39.39%
Hail	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%
	1990	19,166	19,147	98.90%

Conclusion

Following what looked like the first year of recovery for insurers in 1990, 1991 has been mixed.

The IAO Actuarial Consulting Services is forecasting a loss ratio for the year of 78.5%, very close to that of 1990. Since the Calgary hailstorm alone represented more than 2 points of loss ratio, this would in fact be a small improvement. To add to the positive for insurers, the Ontario government decided not to proceed with its planned takeover of automobile insurance.

36 On the other hand, property loss ratios will certainly be in the eighties, ten points worse than in 1990. Calgary can take the blame for much of the deterioration in personal property, but commercial property will probably be in the mid-eighties, with little impact from the hail. And although the industry will keep Ontario automobile, the price could be high.

A long slow recovery from the economic recession may well signal a long slow recovery for insurers, since the only lasting solution to the competitive cycle in which they are now buried is the emergence of new risks to insure. The alternative is to continue cannibalizing their competitors, the results of which the eighties make clear.