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Résumé de l'article

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The state of Canadian general insurance in 1982

by

CHRISTOPHER J. ROBEY[1]

M. Robey nous apporte à nouveau sa revue des assurances autres que vie en 1981. Il le fait avec sa connaissance ordinaire du sujet, en ne ménageant ni la chèvre, ni le chou. Pour lui, il y a des faits qui méritent d'être étudiés à leur valeur réelle, et c'est le travail qu'il nous livre aujourd'hui comme chaque année. Sa conclusion ? « Le retour à la prospérité économique sera une œuvre de longue haleine. La même idée pourrait être exprimée dans le cas de l'assurance. Heureusement, il y a certains signes, certains indices qui nous permettent de garder l'espoir d'une amélioration prochaine : le taux décroissant de l'intérêt, la légère diminution des prix aux consommateurs, malgré la hausse du coût de l'énergie et de certains éléments de la vie de tous les jours. Il faut se rappeler, entre autres, que le taux d'escompte de la Banque du Canada a atteint, ces jours derniers, le plus bas niveau depuis deux ans. »

Although few insurers, looking at their 1980 results, would have been optimistic about 1981, few would have anticipated the disaster the year turned out to be. While earned premiums increased only by about 12½%, just enough to cover inflation, incurred losses increased by more than 19½%, the loss ratio increasing by 4½% and the underwriting loss almost doubling. As a result, the amount by which investment income exceeded the underwriting loss almost halved, from $219.76 million in 1980 to $124.01 million in 1981.

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The following table shows the results of private property and casualty companies during the last five years[1] :

YEAR	NET PREMIUMS WRITTEN	NET PREMIUMS EARNED	UNDERWRITING RESULT	LOSS RATIO
1977	4,836	4,550	+ 72.7	64.16%
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%

All figures in millions of dollars, except for the loss ratio.

258 Government-owned insurers again produced a loss ratio much worse than private insurers, at 95.78%, however they did at least show an improvement from the 104.77% of 1980.

The results of the property and casualty industry as a whole, including government insurance, have been as follows over the last five years :

YEAR	NET PREMIUMS WRITTEN	NET PREMIUMS EARNED	UNDERWRITING RESULT	LOSS RATIO
1977	5,450	5,142	+ 31.6	66.71%
1978	5,384	5,329	+ 4.3	67.38%
1979	5,851	5,556	− 282.8	72.76%
1980	6,395	6,113	− 783.7	79.79%
1981	7,481	7,020	−1,076.8	82.92%

All figures in millions of dollars, except for the loss ratio.

As usual, results of individual insurers varied widely, the best combined index for companies with at least $1,000,000 of net premiums written being 42.80% for Emmco Insurance Company (gross and net premiums written $1,326,000) and the worst 248.93% for the Affiliated F.M. Insurance Company (gross premiums written $12,602,418, net premiums written $2,050,205). Amongst those writing more than $10,000,000 of net premiums, the best result was posted by the Guarantee Company of North America (89.50%), helped no doubt by their substantial volume of surety and fidelity business, and the worst by the Factory Mutual System (178.24%).

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

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

COMPANY	GROSS DIRECT PREMIUMS WRITTEN	NET PREMIUMS WRITTEN	UNDER-WRITING RESULT	COMBINED INDEX (%) 1981	COMBINED INDEX (%) 1980
Royal Insurance	538,019 (1)	503,260 (1)	−126,688	125.67	113.34
The Co-operators	364,222 (2)	339,138 (2)	− 33,158	110.12	105.88
Lloyd's	207,828 (5)	288,561 (3)	− 28,459	110.62	98.65
Economical Group	192,021 (6)	174,856 (6)	− 15,214	109.50	110.44
Wawanesa Mutual	166,441 (7)	161,483 (9)	− 4,087	103.03	104.02
Guardian of Canada	166,289 (8)	153,222 (11)	− 18,403	112.41	105.88
Dominion of Canada	150,206 (11)	146,068 (12)	− 23,756	118.42	107.09
Groupe Commerce	140,071 (14)	143,515 (13)	− 3,059	102.37	103.24
State Farm	124,792 (17)	124,529 (16)	− 10,750	109.24	95.87
Canadian General	110,743 (18)	92,312 (18)	− 15,994	118.37	110.99
Canadian Indemnity	109,722 (19)	77,679 (20)	− 2,500	103.22	99.21
American Home	104,401 (20)	15,113 (66)	+ 1,231	91.50	89.09
Commonwealth	103,471 (21)	32,339 (46)	− 1,518	105.31	100.50
Groupe Desjardins	97,265 (22)	63,669 (28)	− 20,127	130.65	124.81
Simcoe & Erie Grp	88,892 (23)	21,814 (56)	− 673	102.92	108.82
La Laurentienne	84,603 (25)	78,034 (19)	− 5,627	107.34	108.91
Les Prévoyants	80,945 (26)	51,444 (35)	− 25,570	140.61	142.30
Canadian Home	73,990 (27)	48,974 (37)	− 7,470	116.56	98.30
Pilot	73,038 (28)	70,258 (23)	+ 2,095	95.31	97.73
Factory Mutual	62,414 (35)	49,592 (36)	− 35,209	178.24	153.81
Scottish & York	54,104 (39)	12,284 (72)	− 3,747	131.79	122.56
Ontario Mutual Ass.	53,843 (40)	43,267 (39)	+ 3,776	90.76	90.01
Northumberland	49,508 (42)	7,049 (86)	− 2,931	132.95	109.92
Guarantee of N.A.	49,144 (43)	40,538 (43)	+ 4,288	89.50	95.28
Provinces-Unies	40,303 (49)	25,268 (54)	− 1,576	106.99	126.45
Federation	36,398 (52)	26,829 (52)	− 1,272	105.14	112.52
Sovereign General	30,608 (56)	26,613 (53)	− 4,936	119.04	116.84
Belair Insurance	30,579 (57)	27,075 (51)	− 2,090	108.94	118.15
Crum & Forster	28,814 (59)	20,192 (60)	+ 983	94.78	117.57
L'Union Canadienne	28,280 (60)	41,215 (42)	− 1,877	104.75	109.14
Personal	27,388 (61)	23,771 (55)	− 2,816	113.84	127.98
Markel Insurance	25,713 (62)	11,356 (74)	− 2,484	125.55	149.87
Symons General	21,735 (68)	4,379(100)	− 734	115.69	115.07
Equitable General	20,466 (69)	13,114 (70)	− 1,808	113.40	118.79
D.M.L. Management	19,447 (72)	7,972 (80)	− 1,572	121.26	109.23
La St. Maurice	16,592 (78)	7,320 (85)	− 599	109.60	111.58
Société Nationale	16,516 (79)	7,825 (81)	− 743	113.63	119.15
La Capitale	11,091 (94)	10,590 (75)	− 754	108.60	121.21
Canada West	10,145 (97)	6,465 (90)	− 938	111.92	108.76
Les Coopérants	9,327(100)	5,421 (94)	− 1,488	123.70	114.16

All figures in thousands of dollars, except for the combined index.

Twenty-six of the one hundred and forty-nine companies or groups writing more than $1 million of net premiums in 1981 showed as underwriting profit, four of them (Buffalo, Crum & Forster, North Waterloo Farmers, Old Republic) after having an underwriting loss in 1980 – a remarkable recovery, considering the market trend. However, a profit was nothing new for six of them (American Home, Boiler Inspection, Emmco, Grain Insurance and Guarantee, Ontario Mutual Insurance Association, Pilot, Pafco) which have had an underwriting profit for more than ten consecutive years. Pafco last had a loss in 1966, Grain Insurance in 1965, Emmco in 1964 and Pilot has shown an underwriting profit for twenty years or more.

A less enviable record has been built up by the twenty-six companies with more than $1 million of net premiums written in 1981 which have now had five or more years of consecutive losses – seven of them (Canadian General, Citadel (formerly CNA), Commercial Union, Employers of Wausau, Industrielle, Groupe La Laurentienne and Security Casualty) ten or more years.

Statistics alone make dangerous premises ; nonetheless it is interesting to note that twenty of the twenty-five companies which made an underwriting profit in 1981 had net premiums written of less than $20,000,000, while thirteen of the twenty-six companies which have made an underwriting loss in each of the last five years wrote more than $20,000,000 net. There are of course exceptions to the suggestion that profit is more difficult to achieve as a company increases in size – Gerling Global and Pilot both wrote more than $70 millions of net premiums profitably, while ten companies writing less than $10 millions in 1981 have lost money for at least the last five years.

Reinsurers again fared worse than the general insurance market, as the following results show. It must be borne in mind that statistics dealing with reinsurance do not include reinsurance written on the unlicensed market, nor reinsurance assumed by companies also writing insurance.(1)

YEAR	NET PREMIUMS WRITTEN	NET PREMIUMS EARNED	UNDERWRITING RESULT	LOSS RATIO
1977	341.2	330.6	– 0.4	67.40%
1978	336.7	339.3	– 12.2	67.42%
1979	362.4	346.9	– 21.0	69.75%
1980 (2)	424.3	392.9	– 53.9	76.63%
1981	516.6	479.3	–108.0	83.79%

All figures in millions of dollars, except for the loss ratio.

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

(2) Excluding Continental Casualty, which showed an underwriting loss of $2,178,646 on net premiums written of $24,059, and Hartford Steam Boiler, which showed an underwriting profit of $887,377 on net premiums written of $712,273.

The results of individual reinsurers were as follows :

COMPANY	REINSURANCE ASSUMED	NET PREMIUMS WRITTEN	UNDERWRITING RESULT	COMBINED INDEX (%) 1981	COMBINED INDEX (%) 1980
Canadian Re Grp	130,992 (1)	63,701 (3)	− 19,650	133.08	130.52
Reinsurance Mgt. Co. of Canada	103,600 (2)	30,202 (7)	− 9,649	134.82	127.02
Munich Re Grp	84,522 (3)	75,196 (2)	− 4,922	107.01	105.98
Universal Re Grp	82,760 (4)	82,720 (1)	− 29,644	139.04	119.93
Gerling Global Re	52,007 (5)	34,502 (6)	+ 914	97.63	99.85
Mercantile & General	44,945 (6)	41,950 (4)	− 7,276	117.97	112.09
SCOR Re of Canada	43,556 (7)	14,988 (9)	− 3,299	125.13	119.37
General Re	38,582 (8)	38,582 (5)	− 7,368	123.95	100.74
S.M.R.Q.	20,240 (9)	15,189 (8)	− 2,654	120.94	−
Transatlantic Re	22,913 (10)	3,740 (22)	− 563	122.64	268.71
Sphere Re	16,519 (11)	6,892 (17)	− 1,536	124.77	125.83
Skandia	16,141 (12)	14,988 (10)	− 2,126	114.19	112.65
American Re	13,490 (13)	13,490 (11)	+ 277	97.77	95.43
Employers Re	10,801 (14)	13,131 (12)	− 1,020	108.95	102.74
Prudential Re	12,142 (15)	12,142 (13)	− 5,063	145.56	91.63
Farm Mutual Re	11,032 (16)	7,914 (16)	− 1,605	125.33	121.17
Allstate	10,613 (17)	10,613 (14)	+ 995	91.14	−
Philadelphia Re	10,423 (18)	6,624 (18)	− 4,053	170.17	106.02
S.A.F.R.	9,145 (19)	9,115 (15)	− 2,114	123.43	124.42
Kanata Re	8,659 (20)	3,041 (26)	− 1,730	143.23	124.63
Nationwide	6,972 (21)	5,427 (21)	− 328	105.95	110.87
A.G.F. Reassurances	6,896 (22)	6,559 (19)	− 2,225	134.34	103.70
Great Lakes	5,624 (23)	5,469 (20)	− 571	110.85	109.26
La Preservatrice	4,018 (24)	3,672 (23)	− 335	110.45	157.00
Continental Casualty	3,541 (25)	3,582 (24)	− 1,767	114.22	−
Transcontinentale	3,476 (26)	3,476 (25)	− 1,096	146.62	−
Co-operative Ins.Soc.	2,913 (27)	2,913 (27)	+ 349	87.80	104.21
Hannover Ruck	2,800 (28)	2,520 (28)	− 227	108.97	−
Unigard Mutual	2,193 (29)	2,193 (29)	− 49	102.26	−
Gen.Security of N.Y.	2,127 (30)	2,127 (30)	− 323	115.74	131.89
Reins. Corp. of N.Y.	2,005 (31)	1,471 (31)	− 350	124.61	104.41
Frankona Ruck	1,152 (32)	1,152 (32)	− 102	112.05	−

All figures in thousands of dollars, except for the combined index.

Of twenty-seven reinsurers writing a general book on the Canadian market, only three (Allstate, American Re, Gerling) showed a profit. For Gerling Global, it was the third year that their insurance and reinsurance operations both showed a profit, while the market as a whole made a loss.

The difficulty for reinsurers to show consistent profit is evident from the fact that, for the same reinsurers, in two hundred and thirty-eight company/years since 1982, one hundred and fifty-nine have produced a loss and only seventy-nine a profit. As on the insurance side, some companies do consistently better or worse than the average. The Mercantile and General and Universal Re have had only two profitable years in the last twenty – 1970 and 1971 and 1967 and 1968 respectively. Munich Re has gone only one better, with three profitable years – 1968, 1977 and 1979.

The most successful of reinsurers over the last twenty years has been Employers Re, which has shown a profit in fifteen of them, the las in 1979. Other companies which have won more often than lost are General Re and Nationwide, each with eleven profitable years in the last twenty, although, in the case of the General Re, eight of them came between 1965 and 1972 and there have only been two years of profit in the last nine. American Re has shown a profit in seven of its thirteen years of operation in Canada, four of them in the last five years, making it, along with the Gerling, the most successful reinsurer in the recent past.

Gross premiums written, excluding government insurers, have increased from $6,173 million in 1979 to $7.001 million in 1981 an increase of only 13.4%, about half the rate of inflation, a clear indication as to why the results have deteriorated so dramatically in those two years, from a loss ratio of 70% in 1979 to 80% in 1981.

Based on their gross direct premiums written for all lines, some companies have successfully stemmed the growth of their book, keeping it below the rate of market increase, or even, in some cases, reducing it. Particularly notable, in view of their position as the market leader, with 7.69% of the property/casualty market in 1981, is the Royal, which has increased its direct premiums by only 5.63% over the two years, although this did not prevent its combined index from rising from 107.90% in 1979 to 125.67% in 1981, higher than the market average in both years. However, the Royal was alone amongst the top ten companies to show such a modest growth rate, although all the other nine had a better combined index, as the following shows :

COMPANY	SHARE OF MARKET 1979	1981	GROWTH RATE	1981 COMBINED INDEX
Co-operators	5.15%	5.20%	38.84%	110.12%
Commercial Union	3.55%	3.81%	26.10%	121.54%
Allstate	3.08%	3.23%	23.17%	109.26%
Lloyd's	2.61%	2.97%	33.78%	110.62%
Economical	1.95%	2.71%	63.71%	109.50%
Prudential	1.84%	2.71%	43.01%	112.00%
Wawanesa	2.27%	2.38%	25.96%	103.03%
Guardian	2.29%	2.38%	22.16%	112.41%
General Accident	1.99%	2.36%	39.90%	105.57%

Other companies with a low growth rate, or a reduction in volume, were :

COMPANY	SHARE OF MARKET 1979	1981	GROWTH RATE	1981 COMBINED INDEX
Travelers	2.56%	1.81%	– 16.69%	108.52%
Mouvement Desjardins	2.16%	1.39%	– 24.25%	130.65%
Prévoyants du Canada	1.44%	1.16%	– 5.60%	140.61%
Aetna Casualty	1.02%	0.94%	8.93%	132.53%
Northumberland	0.88%	0.71%	– 5.39%	132.95%
Hartford	0.72%	0.62%	0.91%	110.22%
Constitution	0.59%	0.52%	4.89%	117.83%
Equitable	0.34%	0.29%	1.03%	113.40%
Canada West	0.18%	0.14%	– 4.32%	111.92%
Grain Ins. Guarantee	0.15%	0.10%	– 0.72%	97.29%
	(app.)	(app.)		
Security Casualty	0.10%	0.09%	1.85%	132.51%

Of course, a reduction in premium volume does not always result from the choice of the company and, as is evident from the combined indices shown above, is not alone enough to ensure improved results. Some of the companies with a combined index below 100% in 1981 had the following growth rates over 1979 :

COMPANY	SHARE OF MARKET 1979	1981	GROWTH RATE	COMBINED INDEX
American Home	1.21%	1.49%	44.97%	91.50%
Pilot	0.86%	1.04%	42.04%	95.31%
Gerling Global	1.98%	0.98%	2.31%	98.41%
Guarantee Co. of N.A.	0.67%	0.70%	23.95%	89.50%
Crum & Forster	0.38%	0.41%	25.96%	94.78%
Pafco	0.12%	0.20%	99.26%	95.49%
La Concorde	0.06%	0.18%	175.15%	84.78%
	(app.)	(app.)		
North Waterloo Farmers	0.11%	0.11%	10.83%	99.30%

Clearly, it is equally true that rapid growth alone does not ensure poor results.

Other companies have dramatically increased their premium volume over the three years, again for a variety of reasons which it is not possible to detect from a simple look at statistics. Amongst the most evident increases are :

COMPANY	SHARE OF MARKET 1979	SHARE OF MARKET 1981	GROWTH RATE	COMBINED INDEX
Halifax	0.87%	1.24%	67.18%	112.46%
Home	0.61%	0.94%	81.80%	116.12%
INA of Canada	0.70%	0.83%	86.03%	110.30%
Canadian Universal	0.21% (app.)	0.43% (app.)	141.58%	104.99%
Personal	0.24%	0.39%	95.67%	113.84%
Symons General	0.05%	0.31%	582.04%	115.69%
Employers of Wausau	0.13%	0.29%	169.73%	145.14%
DML Management	0.20%	0.28%	61.93%	121.26%
Société Nationale	0.10%	0.24%	183.06%	113.63%
La Capitale	0.10%	0.16%	81.70%	108.60%
Norman	0.07%	0.13%	113.07%	113.76%

It is of course possibly misleading to take these statistics at face value, since growth rates are based on gross premiums and the combined indices are net of reinsurance. However it is clear that growth rate alone does not determine results, quality of management undoubtedly being the single most important factor.

Some reinsurers have also shown substantial increases in volume since 1979, with mixed results ; the largest increase is that of the General Re at 80.26%, with a combined index in 1981 of 123.95%. Next largest is Reinsurance Management Company of Canada, at 78.54%, with a combined index of 134.82%. Gerling Global, the only reinsurer to show a profit over the period increased by only 5.76% – on the other hand, Mercantile and General, which reduced their gross premiums slightly, had a combined index in 1981 of 117.97%.

Clear proof that reduction of premium alone is also not the answer to a reinsurer's problems is given by Kanata Re, which increased by only 6.19% in 1980 and dropped by more than 40% in 1981, but still was taken out of operation by its owners in 1982, because of continuing losses.

Little change in market share by nationality occurred in 1981, Canadian-owned companies increasing their share from 35.38% to 36.04%, and British-owned companies from 27.66% to 27.78%, while American and other foreign-owned companies dropped from 36.96% to 36.18%.

The five year picture, however, is somewhat different, with Canadian-owned companies increasing their market share from 1977 to 1981 by 4.69%, while both other categories have dropped somewhat, British-owned companies by 1.01% and American and other foreign-owned companies by 3.68%.

Canadian-owned companies showed a somewhat better loss ratio than the others, at 79.51% compared to 81.57% for British-owned companies and 81.63% for American and other foreign-owned companies. The small difference is, however more significant than it appears at first, since Canadian-owned companies share of automobile business, which had a loss ratio of 91.36%, much higher than the other major classes, was significantly greater, at 40.49%, than its share of the other classes.

Loss ratios increased in all lines except surety, marine, aircraft and fidelity, although the improvement in marine and aircraft did not make either of those classes profitable. The deterioration was particularly marked in liability business, from 56.96% to 72.57%, after a steady improvement from the 1977 loss ratio of 86.37%.

Results by class for the last five years have been as follows :

CLASS	YEAR	NET PREMIUMS WRITTEN	NET PREMIUMS EARNED	LOSS RATIO (%)
Auto (All Sections)	1977	2,495,627,865	2,409,561,141	69.94
	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
Auto (Liability)	1977	1,489,932,220	1,432,586,755	79.62
	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
Auto (Damage to the Vehicle)	1977	901,720,986	870,061,778	55.56
	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

Property	1977	1,768,010,669	1,619,522,690	52.28
	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
Liability	1977	347,939,449	318,188,772	86.37
	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
Surety	1977	50,149,765	44,115,510	36.77
	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
Boiler & Machinery	1977	49,556,774	41,555,979	45.99
	1978	48,866,799	46,997,115	38.09
	1979	59,571,285	53,726,596	61.97
	1980	60,683,778	58,344,620	33.35
	1981	60,881,864	63,069,967	48.63
Marine	1977	38,164,155	37,104,861	74.95
	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
Aircraft	1977	27,626,070	29,336,092	60.49
	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
Mortgage	1977	43,462,624	16,304,221	69.35
	1978	57,363,950	23,010,563	119.46
	1979	53,269,683	26,296,285	132.18
	1980	35,793,449	42,175,437	115.12
	1981	25,395,894	41,173,185	125.91
Fidelity	1977	20,843,633	18,169,484	100.98
	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
Hail	1977	10,494,632	10,518,779	64.45
	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
Credit	1977	1,362,179	1,386,054	58.81
	1978	1,954,270	1,830,472	56.62
	1979	1,720,306	1,768,597	10.34
	1980	2,196,713	1,972,782	35.34
	1981	2,140,000	1,869,000	72.71

Following on the winding down of the Strathcona General Insurance Company and the failure of the Pitts Insurance Company in 1981, the Department of Insurance was again obliged to take over a federally licensed company in 1982, the Cardinal Insurance Company. The Cardinal did not appear to be in actual financial difficulties at the time the Department stepped in, however the Department stated that the failure to recover reinsurance claims in dispute would render it financially unsound.

Full details of the reinsurance arrangements in question have not been made available, however it concerns reinsurance placed by a London broker with the London underwriting agency Stetzell Thompson, underwriting, amongst others, for the Canadian Union Insurance Company, a provincially licensed Québec company recognized by the Federal Department as a licensed reinsurer. The Canadian Union was used to front for the business, in order to provide Cardinal with licensed reinsurance. The dispute involves the validity of the reinsurance, as well as the right of the underwriting agency to use the Canadian Union to front, and has not yet been settled. Of particular interest in this case, and with a bearing on the ability and willingness of the Department of Insurance to act in similar cases in the future, is the fact that the Cardinal appealed the decision to the court, however the court decided that the Department of Insurance had given Cardinal sufficient opportunity to appear at hearings on the situation and that the Department acted within its authority, even though the Cardinal had not actually failed.

The Cardinal case has only added to the urgent calls for greater control on use of reinsurance and, indeed, on the operating of insurance companies in Canada generally. However, although new legislation dealing with these items is anticipated, there is, as yet, no indication as to what specific changes will be made.

Two other Federal companies had their licenses suspended for a short while — the Drake, a British company writing marine business having its licensed suspended by the Quebec superintendent of insurance until additional capital was put in and the Canadian Branch of the Security Casualty Company being suspended following the failure of its American head office, until the branch's business was taken over by the Co-operators.

Despite the increasing concern about the solidity of Canadian insurance companies over the last two or three years, there had been no easily available source of information on a company's financial position, other than the reports published by the Federal and Provincial Departments of Insurance. However, since these reports are not published until more than twelve months following the close of the year with which they deal, the information they contain, while certainly useful, is often too late to be of real value. In 1982, for the first time, there has been published a comprehensive evaluation of the financial position and reinsurance activity of federally licensed Canadian companies in « Insurance T.R.A.C. Report » — standing for tests, ratios, analyses, charts. While few actual figures are given, thus preventing anyone from calculating their own ratios from the book, many ratios are shown and the formulae used fully explained. They include sections on early warning solvency tests, reinsurance activity, analysis of investments, analysis of loss and expense ratios and analysis of net outstanding losses, amongst others.

Although such a report necessarily looks at the past and cannot predict the future — the Cardinal passed five of the eight early warning solvency tests in 1981, one more than in 1980 — no doubt, filling such a void as it does, this publication will quickly become a major reference work for anyone involved in Canadian insurance and reinsurance[1].

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While unbridled competition was undoubtedly the primary cause for 1981 results, as often happens, other factors made it only worse. The economic recession took its toll, with arson remaining a serious problem, although, rather surprisingly, surety and fidelity results improved. In addition, there was a major hailstorm in Calgary on the 28th July, producing a loss of over $100,000,000, the largest loss from a single occurrence in Canadian insurance history.

There has been much talk of the recovery of the market being just around the corner, however the combination of high interest rates, inflation and recession have successfully prevented the industry from reaching that corner so far.

The loss ratio for the first quarter 1982 continued at a high level, at 84.7%, down only slightly from the 85.3% of the first quar-

(1) Insurance T.R.A.C. Report, available from Colander Publications Limited, P.O. Box 401, Station P, Toronto, Canada M5S 2S9.

ter 1981, although much improved from the fourth quarter 1981, which was at 88.3%. The second quarter 1982 loss ratio was 72.5%, up 2% from the same quarter in 1981, while overall, the first six months of 1982 produced a loss ratio of 78.4%, down slightly from the 79.0% of the first six months of 1981. The first and fourth quarters usually produce substantially worse results than the second and third, because of the Canadian climate, as the following table shows :

YEAR	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FULL YEAR
1980	77.0%	69.53%	75.4%	81.9%	76.2%
1981	85.3%	70.7%	78.7%	88.3%	81.0%
1982	84.7%	72.5%			

Expenses for agency companies reduced only slightly in 1981, from 38.4% to 37.8%, almost the entire reduction coming in commissions and profit commissions, down from 17.3% to 16.8%. For all companies, i.e. agency companies and direct writers, the expenses remained about the same, 37.5% in 1980 and 37.3% in 1981.

Needless to say, companies in these hard times have taken many measures, including redundancies, to trim their operating expenses, however this had little impact in 1981, probably because of the continuing high inflation rate and the limited growth in premium volume. Whether or not the effect will be clearer in 1982 remains to be seen.

Any observer of the Canadian insurance scene over the last three years will be nervous to speak in terms of an impending recovery, so many previous « recoveries » having failed to materialize. In addition, although rate increases, and the reduction in interest rates, will certainly produce an improvement in results, it will probably take an economic recovery to bring back generally profitable underwriting. However, economics appears to be almost as uncertain a science as underwriting and it is difficult to find enough economists who agree on one prediction to give it much credibility. There does seem though to be an increasing feeling that economic recovery in Canada, if not yet begun, is not too far away.

The recovery for the economy will be a long and hard one ; the same is undoubtedly true also of the insurance industry. However, there are some signs which can give cause for hope.

Firstly, and perhaps most significantly, interest rates have been dropping all year. Government of Canada bonds with a three to five year expiry date have dropped from a high of 17.78% in September 1981 to 14.35% in August 1982. Shorter term rates have fallen more significantly, government bonds with a one to three year expiry falling from a high of 18.61% in September 1981 to 14.37% in August 1982 and ninety day treasury bills from a high of 20.85% in August 1981 to 14.42% in August 1982. The Bank of Canada rate is now at its lowest in nearly two years and seems likely to continue to drop.

270 The consumer price index, on an annualised basis, has dropped from nearly 13% in June 1981 to 11.23% in June 1982 and is now below 11%. This is despite a rapid increase in energy prices which, although still below world levels, are up sharply in the last two years. One result is a marked drop in automobile claims frequency across the country. Wage controls imposed by the federal and some provincial governments on their own employees and urged on the private sector on a so far voluntary basis are the most visible signs of the continuing efforts to keep the inflation rate falling.

Substantial increases in personal lines rates have also had their effect on companies' results, particularly in Québec, where underwriting profits are beginning to be spoken of again. The improvement is less evident in large commercial and industrial business, with the higher the premium per risk, the less evident any recovery. Nonetheless, net written premiums in the first half of 1982 were 19.6% more than in the first half of 1981, far more than inflation, and, with no increase in economic activity, substantial rate increases are the most likely explanation. A drop in the arson rate in the first half of 1982 is another much welcome bright spot, as is an apparent drop in the frequency of fire and theft losses in residential business, with some companies also reporting a drop in the frequency of commercial property losses.

Thus, following on one of its worst years, there is some cause for optimism for Canadian insurers and their reinsurers, and some comfort in the fact that, while producing results every bit as bad as those seen in most of the rest of the world, Canada may be one of the first markets to be showing signs of a recovery. 1982 will certainly produce poor results and the times remain too uncertain to predict anything for 1983, but the industry may well now have put the worst of this cycle behind it.