Assurances

Assurances

The State of Canadian General Insurance in 1984

Christopher J. Robey

Volume 52, numéro 3, 1984

URI : https://id.erudit.org/iderudit/1104396ar
DOI : https://doi.org/10.7202/1104396ar

Aller au sommaire du numéro

Éditeur(s)

HEC Montréal

ISSN

0004-6027 (imprimé)
2817-3465 (numérique)

Découvrir la revue

Citer ce document

Robey, C. (1984). The State of Canadian General Insurance in 1984. *Assurances*, *52*(3), 344–362. https://doi.org/10.7202/1104396ar

Résumé de l'article

Dans cet article, notre collaborateur examine de très près les résultats de 1983, en assurance autre que vie. Comme on sait, tout en étant meilleurs que l'année précédente, les chiffres, tant pour l'assurance que pour la réassurance, ont laissé des résultats qui, fort heureusement, ont été corrigés par l'aspect financier des opérations. M. Robey apporte également quelques chiffres relatifs aux diverses provinces du Canada et conclut en se demandant ce que sera le présent exercice. En somme, dit-il, les résultats demeurent incertains, aussi bien dans la vie économique du pays que dans les affaires d'assurance incendie et accident.

The State of Canadian General Insurance in 1984

by

Christopher J. Robey(1)

344 *Dans cet article, notre collaborateur examine de très près les résultats de 1983, en assurance autre que vie. Comme on sait, tout en étant meilleurs que l'année précédente, les chiffres, tant pour l'assurance que pour la réassurance, ont laissé des résultats qui, fort heureusement, ont été corrigés par l'aspect financier des opérations. M. Robey apporte également quelques chiffres relatifs aux diverses provinces du Canada et conclut en se demandant ce que sera le présent exercice. En somme, dit-il, les résultats demeurent incertains, aussi bien dans la vie économique du pays que dans les affaires d'assurance incendie et accident.*

~

Mixed feelings must again be common in the Canadian property and casualty insurance industry, following a year which saw more than a 3 point drop in the loss ratio, but which ended with a loss ratio in the 4th quarter 7½ points worse than in the corresponding quarter of 1982. In the same vein, the industry was looking for the first time at five consecutive years of underwriting loss, although 1983 produced the best results of the decade so far.

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

Year	Net Premiums Written	Net Premiums Earned	Underwriting Result	Loss Ratio
1979	5,138	4,946	– 185.7	70.26%
1980	5,577	5,356	– 591.0	76.26%

(1) M. Robey est vice-président exécutif de le Blanc Eldridge Parizeau, Inc., membre du groupe Sodarcan.

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

1981	6,420	6,043	– 942.5	80.84%
1982	7,242	6,917	– 521.8	74.43%
1983	7,531	7,416	– 377.1	71.21%

All figures in millions of dollars.

With net investment income up from $1,120 million to $1,294 million, the net profit to the industry increased from $598.5 million in 1982 to $917.7 million in 1983, giving a return on equity of 13.57%.

Provincial government insurers reduced their loss ratio from 96.37% in 1982 to 93.55% in 1983, while increasing their gross direct premiums almost 4% to $1,251 million.

Results of provincial government insurers above have been as follows :

Year	Net Premiums Written	Net Premiums Earned	Underwriting Result	Loss Ratio
1979	713	610	– 97.1	93.10%
1980	818	757	– 192.6	104.77%
1981	1,060	976	– 134.3	95.78%
1982	1,189	1,128	– 151.0	96.37%
1983	1,234	1,200	– 131.5	93.55%

All figures in millions of dollars.

Results of the private property and casualty industry and provincial government insurers combined for the last five years have been as follows :

Year	Net Premiums Written	Net Premiums Earned	Underwriting Result	Loss Ratio
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%
1982	8,431	8,045	– 672.8	77.51%
1983	8,766	8,616	– 508.7	74.32%

All figures in millions of dollars.

Amongst the forty private companies with $50 million or more of net premiums written, the best combined index was posted by Groupe Commerce at 82.15%, followed by State Farm at 89.16% ;

ten others were below 100%. At the other end of the scale, only one of the forty companies had a combined index in excess of 120% – Citadel General (123.30%) – compared with four of thirty-eight in 1982. Other companies with a combined index over 110% were Royal (110.50%), Home (115.30%), Canadian Indemnity (113.06%), U.S. Fidelity (118.54%) and Chubb (112.25%).

The following are the 1983 results of some selected companies, showing their ranking in brackets, based on direct premiums written and net premiums written (including reinsurance assumed) :

Company	Direct Premiums Written	Net Premiums Written	Underwriting Result	Combined Index (%) 1983	1982
The Co-operators	450,804 (1)	428,593 (1)	— 6,995	101.67	108.08
Royal	403,578 (2)	374,063 (2)	— 40,316	110.50	109.18
Lloyd's	271,002 (3)	340,870 (3)	+ 27,693	91.27	102.87
Economical	256,407 (6)	237,385 (7)	— 8,361	103.66	102.43
Wawanesa	244,480 (7)	239,799 (6)	— 9,006	104.24	99.01
Travelers	243,058 (8)	230,795 (8)	— 6,328	102.18	105.73
Prudential	225,438 (10)	209,318 (10)	+ 1,072	99.49	99.61
La Prévoyance	202,848 (11)	182,845 (12)	— 6,726	103.66	102.70
State Farm	175,955 (14)	175,930 (13)	+ 5,491	89.16	88.56
Guardian	163,447 (16)	146,341 (15)	— 10,095	106.92	111.58
Dominion of Canada	150,273 (17)	145,301 (16)	+ 1,512	98.97	108.30
Canadian General	143,278 (18)	102,388 (21)	— 8,575	108.90	112.87
Groupe Commerce	141,958 (19)	137,216 (17)	+ 25,392	82.15	89.49
Simcoe & Erie	140,532 (20)	34,018 (50)	— 3,900	112.09	99.64
American Home	130,783 (21)	15,619 (69)	— 436	103.23	97.24
Pilot	126,352 (22)	91,822 (22)	+ 2,381	97.23	96.84
Gerling Global	114,938 (24)	68,917 (30)	+ 1,163	97.95	98.97
Canadian Indemnity	113,758 (25)	79,548 (25)	— 10,612	113.06	104.23
Canadian Home	100,133 (28)	76,195 (28)	+ 1,687	97.56	107.22
Groupe Desjardins	98,630 (29)	78,189 (26)	+ 455	99.50	103.08
Commonwealth	94,507 (30)	49,997 (41)	— 2,163	105.79	106.57
Scottish & York	79,459 (32)	15,429 (70)	— 2,899	119.57	100.34
Ontario Mutual	73,813 (34)	59,668 (36)	+ 439	99.21	96.80
I.I.M	68,994 (38)	64,777 (35)	+ 2,612	95.86	109.04
Guarantee of N.A.	61,615 (42)	52,829 (39)	+ 5,591	89.58	87.14
Northumberland	57,196 (45)	33,675 (51)	— 3,403	113.66	103.48
Provinces-Unies	55,617 (47)	34,905 (49)	— 1,393	103.93	102.14
Federation	54,938 (48)	40,556 (45)	+ 3,920	89.99	98.56
Factory Mutual	43,710 (52)	30,853 (53)	— 1,064	101.69	120.29
Kansa General	39,224 (56)	14,908 (73)	— 4,888	140.05	130.73
Crum & Forster	37,635 (57)	27,755 (55)	— 645	102.41	132.73

Belair	34,800 (58)	38,107 (47)	+ 5,397	84.22	79.98
Canadian Univer-sal	33,640 (59)	20,613 (62)	— 1,466	104.25	113.20
L'Union Canadienne	29,617 (61)	29,409 (54)	— 2,911	109.92	105.95
Sovereign General	29,705 (62)	25,258 (58)	— 1,944	108.38	112.05
Symons General	27,047 (64)	11,493 (79)	+ 165	97.58	115.69
La Capitale	26,561 (65)	25,842 (57)	+ 3,289	85.18	79.48
Markel	24,162 (69)	18,720 (65)	— 2,050	111.30	112.16
Société Nationale	22,950 (71)	17,687 (67)	+ 235	98.34	98.79
Equitable General	19,925 (76)	17,697 (66)	+ 1,739	90.51	83.42
La St. Maurice	17,658 (79)	10,243 (82)	+ 518	94.99	102.74
Canada West	15,175 (83)	9,708 (84)	+ 38	99.80	111.48
Les Coopérants	12,500 (91)	6,657 (97)	— 750	110.64	109.06
L'Industrielle	10,850 (94)	10,498 (81)	+ 982	90.37	91.14

All figures in thousands of dollars.

Of particular interest is the fact that the Royal is no longer the market leader in direct premiums written and net premiums written, having been overtaken by the Co-operators. The Royal was the first major company to opt out of the cut-throat competition for market share, after suffering an underwriting loss of \$126.6 million in 1981, following a loss of \$61.9 million in 1980. Its last year with an underwriting profit was 1977, when it made \$6 million on gross premiums of \$511 million. It has cut its gross premiums from a high of \$538 million in 1981 to the 1983 level of \$403.5 million, while cutting its underwriting loss from \$126 million in the same year to \$40 million in 1983. Its present premium volume is the lowest it has had since 1975, its market share having dropped to 4.89% from a high of 8.94% in 1978.

Of the one hundred private companies with the largest net premiums written in 1983, thirty-six had a combined ratio less than 100% (twenty-six in 1982) and sixty-four more than 100% (seventy-four in 1982). The best combined index of any company was recorded by Pool Insurance at 40.99%, however this appears to be the result of a statistical quirk, since they also show an underwriting loss of \$183,000. The Groupe Commerce had the next best, while the worst amongst those writing a general book was Kansa General (140.05%).

It is interesting to note the high proportion of the thirty-six profitable companies which specialize, usually geographically, though in some cases in specific classes. In particular, the fact that eight of the thirty-six wrote almost all their business in the province of Quebec and four of the others wrote 45% or more of their business there shows how much better that province fared than the rest of Canada.

However, the advantages of geographic specialization were not limited to Quebec. Seven companies writing all or the bulk of their business in Ontario were profitable, as well as four companies in the same position in Alberta and one each in Newfoundland and New Brunswick. Amongst the eleven remaining profitable companies, three specialized in a specific class of business, leaving only eight companies out of the original thirty-six without a marked specialization either by class or geography.

Surprisingly, in a year of improved results, only six of the one hundred and thirty-two companies with more than $1 million of net premiums written in 1983 have now had five or more years of consecutive profit, compared with nine a year ago – Grain Insurance and Guarantee (since 1965), Guarantee Company of North America (1976), London and Midland (1973), Ontario Mutual Insurance Association (1970), Pilot (1962 or earlier) and Gerling Global (1979). American Home had their first underwriting loss since 1970, albeit a small one ($436,000 on $15,619,000 of net premiums earned).

Canadian-owned companies suffered a marked drop in their market share in 1983, from 36.36% to 33.35% ; British companies' share also dropped, from 25.04% to 24.16%, while American and other foreign-owned companies increased theirs from 38.60% to 42.49%, a level not achieved since 1976.

~

Reinsurers again showed an improvement, although remain with a loss ratio several points higher than that of the property/casualty market as a whole. The results of reinsurers for the last five years have been as follows (licensed reinsurers only and excluding reinsurance assumed by companies also writing insurance)(3) :

Year	Net Premiums Written	Net Premiums Earned	Underwriting Result	Loss Ratio
1979	362.4	346.9	– 21.0	69.75%
1980	424.3	392.9	– 53.9	76.63%

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

1981	516.6	479.3	– 108.0	83.79%
1982	561.8	550.1	– 73.2	79.59%
1983	560.9	563.1	– 70.2	76.32%

All figures in millions of dollars.

As can be seen from the following table, showing the 1983 results of individual reinsurers, these figures are somewhat misleading since two reinsurers, Canadian Re and General Re, accounted for over half the underwriting loss ; if these two companies' results are excluded, the loss ratio for reinsurers drops to 70.79%, slightly better than for the market as a whole.

Company	Reinsurance Assumed	Net Premiums Written	Underwriting Result	Combined Index (%) 1983	1982
Canadian Re	147,595 (1)	78,247 (1)	— 26,584	133.96	127.06
R.M.C.C.	85,177 (2)	30,567 (6)	— 5,831	117.75	118.70
Munich Re	84,032 (3)	73,800 (2)	— 2,851	103.85	115.37
Universal Re	68,885 (4)	68,030 (3)	— 3,727	105.29	102.11
SCOR Re	52,997 (5)	24,259 (8)	— 1,615	107.11	104.51
Gerling Global Re	44,309 (6)	32,338 (5)	+ 661	97.99	98.88
Mercantile & General	42,711 (7)	36,025 (4)	— 4,288	111.66	116.01
American Re	30,101 (8)	30,101 (7)	— 2,724	108.95	97.47
General Re	28,012 (9)	22,960 (9)	— 10,026	147.96	146.27
S.M.R.Q.	24,837 (10)	21,031 (10)	+ 1,676	92.02	109.24
Prudential Re	23,045 (11)	19,104 (11)	— 3,909	123.44	114.40
Transatlantic Re	21,587 (12)	3,192 (25)	— 2,995	189.54	142.76
Skandia	17,610 (13)	15,941 (12)	— 2,237	114.32	116.62
Victory	16,615 (14)	14,975 (13)	— 2,017	114.02	102.32
Allstate	15,521 (15)	13,692 (14)	— 1,395	109.07	106.72
Farm Mutual Re	14,454 (16)	10,268 (16)	+ 970	89.95	97.65
Sphere Re	13,578 (17)	9,264 (18)	— 621	107.37	127.03
Nationwide	12,844 (18)	9,795 (17)	— 250	102.85	137.76
Nerco	10,183 (19)	7,301 (19)	— 1,261	122.86	219.84
Employers Re	8,998 (20)	11,253 (15)	— 2,109	117.28	96.28
S.A.F.R.	6,748 (21)	6,748 (20)	— 521	107.49	100.52
Storebrand	6,652 (22)	6,588 (21)	+ 47	99.29	102.38
Hannover Ruck	5,922 (23)	5,547 (23)	— 2,357	149.10	112.67
Baltica-Skandinavia	5,669 (24)	5,531 (24)	— 844	112.75	126.75
Great Lakes	5,677 (25)	5,601 (22)	— 219	103.78	94.82
Philadelphia Re	3,572 (26)	1,381 (32)	+ 763	60.15	143.99
MONY Re	3,150 (27)	1,776 (30)	— 610	137.56	130.62

Frankona Ruck	3,003 (28)	3,003 (26)	+ 125	95.44	100.48
Transcontinentale	2,834 (29)	2,834 (27)	+ 247	92.60	109.79
Gen. Security of N.Y.	2,381 (30)	2,381 (28)	+ 1,166	66.34	144.15
Ancienne Mutuelle	1,994 (31)	1,899 (29)	— 437	127.22	91.11
Unigard Mutual	1,975 (32)	1,745 (31)	— 1,209	157.41	168.13
Reins. Corp. of N.Y.	1,785 (33)	1,377 (33)	— 257	119.29	129.69
Kemper Re	1,400 (34)	1,275 (34)	— 384	143.00	—

All figures in thousands of dollars.

350 Amongst the eight reinsurers showing an underwriting profit, Gerling Global added a fifth year of consecutive profit in both its insurance and reinsurance operations. Two of the profitable reinsurers, S.M.R.Q. and Farm Mutual Re specialize in the reinsurance of farm mutuals and interestingly, considering frequent comments about ignorant capacity from overseas, three of the other six do their underwriting from outside Canada.

It is interesting to note that almost half of the reinsurers listed above – fifteen of thirty-three – reduced their volume in 1983 compared to that written in 1982, although it is impossible to tell in each case if this is because of tighter underwriting, a switch from proportional to non-proportional, a loss of retrocessional facilities, or a combination of reasons.

Of course, amongst the smallest reinsurers, a drop in volume could be the result of a loss of a single proportional contract, however six of the fifteen wrote more than $45,000,000 of assumed reinsurance in 1982 ; the two with the greatest reduction in volume were the two management companies, Reinsurance Management Company of Canada (a reduction of 21,3%) and Universal Reinsurance Intermediaries (20.9%). Three of the major foreign-owned companies also had reductions in volume, Gerling Global (18.7%), Mercantile & General (10.9%) and Munich (6.8%).

Four of the eight profitable companies were amongst those which reduced their volume.

~

Property business continued its significant improvement in 1983, while automobile deteriorated slightly and liability continued on its dramatic slide, producing a loss ratio in 1983 of over 100%, almost double that of 1980. Results by class over the last five years have been as follows :

Class	Year	Net Premiums Written	Net Premiums Earned	Loss Ratio (%)
Auto (Liability)	1979	1,282,694,028	1,262,696,412	72.27
	1980	1,379,844,308	1,339,890,107	74.65
	1981	1,530,902,913	1,454,862,478	84.14
	1982	1,767,839,517	1,679,028,240	80.29
	1983	1,808,722,876	1,798,873,020	84.79
Auto (Damage to the Vehicle)	1979	998,413,124	968,303,090	84.87
	1980	1,113,516,573	1,059,423,029	97.25
	1981	1,341,805,546	1,221,249,410	97.95
	1982	1,595,192,343	1,490,269,862	72.15
	1983	1,683,834,407	1,659,714,179	63.00
Auto (All Sections)	1979	3,007,751,909	2,854,433,394	81.07
	1980	3,324,322,428	3,169,285,857	89.23
	1981	3,984,015,167	3,698,107,767	91.36
	1982	4,586,377,972	4,341,248,369	81.19
	1983	4,778,557,042	4,713,323,934	79.05
Property – Personal	1981	520,768,415	482,000,982	76.58
	1982	1,159,338,158	1,010,759,207	65.39
	1983	1,347,355,502	1,299,950,018	56.50
Property – Other	1981	408,822,675	389,900,445	76.89
	1982	933,998,244	862,411,780	73.91
	1983	1,011,880,218	986,547,772	59.51
Property – Total	1979	1,946,725,060	1,872,138,043	63.68
	1980	2,096,905,700	2,003,482,099	72.56
	1981	2,429,872,944	2,274,742,658	76.04
	1982	2,720,819,254	2,556,104,484	69.89
	1983	2,841,450,775	2,759,040,499	59.29
Liability	1979	403,749,524	380,543,511	60.20
	1980	442,093,421	413,896,366	56.96
	1981	483,925,732	458,627,067	72.57
	1982	503,405,510	500,766,315	84.05
	1983	506,358,801	497,487,290	105.78

Surety	1979	56,979,470	56,912,760	26.38
	1980	62,148,786	60,844,539	32.20
	1981	73,071,907	69,321,794	22.90
	1982	77,055,375	77,061,046	32.97
	1983	74,700,630	74,959,172	36.41
Marine	1979	43,694,460	42,520,129	74.09
	1980	46,939,524	46,072,347	78.20
	1981	61,759,606	59,508,856	73.92
	1982	54,765,999	54,161,907	84.72
	1983	57,021,490	55,315,900	64.07
Aircraft	1979	37,077,045	35,181,123	97.83
	1980	43,495,013	42,200,087	89.74
	1981	52,642,188	49,322,577	76.15
	1982	53,851,905	54,745,877	70.58
	1983	48,943,484	49,151,035	78.69
Fidelity	1979	24,088,783	23,436,076	35.03
	1980	26,170,000	23,977,749	59.67
	1981	27,802,723	28,928,386	54.35
	1982	30,825,929	30,266,365	76.07
	1983	31,262,984	31,398,333	49.26
Hail	1979	16,059,656	16,037,730	85.89
	1980	13,830,474	13,752,816	53.14
	1981	22,795,760	23,007,647	92.34
	1982	19,652,946	19,669,727	126.82
	1983	24,447,275	24,440,255	103.72

In view of the major deterioration at the end of 1983 referred to earlier, it is interesting to look at the quarterly results for the three major classes, property, automobile and liability, to see in which class the deterioration occurred, and when[4].

		Loss Ratio by Quarter			
Class	**Year**	**1st**	**2nd**	**3rd**	**4th**
Property	1982	82.9	66.8	61.7	61.3
	1983	61.3	55.8	62.2	59.6
Automobile	1982	88.5	68.6	69.8	77.0
	1983	66.6	65.0	71.8	90.0
Liability	1982	72.8	88.2	79.9	101.8
	1983	81.3	92.8	87.4	140.5

(4) Quarterly statistics are taken from The Quarterly Report of the Insurers' Advisory Organization of Canada.

Although the deterioration in automobile and liability results is obvious, the fact that so much of the deterioration came in the fourth quarter, in a year of record investment income and a result at the end of the third quarter only slightly worse than break even, suggests that the increase in loss ratio was as much the result of the strengthening of reserves for prior years as a true reflection of the results on business in force.

~

Automobile insurance remains by far the largest class for property and casualty insurers, producing more than half of the total premium from general lines, despite the incursion of provincial governments in recent years.

The 1983 loss ratio of 73.8% was the best since 1978, although the fourth quarter loss ratio of 90% is undoubtedly a cause for concern. The 18 point deterioration in loss ratio between the third and fourth quarters of 1983 was far greater than any similar deterioration in the previous five years, the next highest being just under 13 points in 1979. As can be seen from the following table, which shows the cumulative five year loss ratio by quarter for the period from 1979 to 1983, the fourth quarter is always substantially worse than the other three and also the quarter generating the highest premium volume.

Quarter	**Earned Premium**	**Incurred Losses**	**Loss Ratio**
1st	3,345,461	2,712,769	81.09
2nd	3,478,706	2,401,324	69.03
3rd	3,643,153	2,783,525	76.40
4th	3,792,635	3,358,364	88.55

All figures in thousands of dollars.

The first quarter 1984 loss ratio, at 78.9%, shows a significant improvement from the fourth quarter 1983, although it is more than 12 points higher than the loss ratio for the first quarter 1983. With the second quarter loss ratio invariably better than the first, usually by 10 points or more, (although only 1½ points in 1983), the second quarter 1984 result, when it becomes available, will give some indication as the outcome of the year as a whole.

With written premiums increasing only 4% from 1982 to 1983, companies saw their operating expenses increase from 24.6% to

25.4% before internal claims adjustment expenses and from 31.3% to 32.4% if internal claims adjustment expenses are included.

Two major issues which have concerned reinsurers of automobile business in Canada in recent years are the Under-Insured Motorist Endorsement (S.E.F. #42) and the Family Law Reform Act of Ontario. S.E.F. #42 was introduced in August 1980, although similar cover had been available from certain companies prior to that. The purpose of the endorsement is to provide the insured with first party coverage for bodily injury or death, should the third party

responsible for such bodily injury or death have insufficient insurance to pay the amount awarded. The limit of liability under this endorsement, which applies in addition to other limits on the policy, is the liability limit on the policy less the amount recovered from the third party at fault.

The Family Law Reform Act was introduced in Ontario in 1978 ; it applies only in that province. The effect of the Act, as far as automobile insurance is concerned, is to permit members of the family of a person injured in an automobile accident to sue the party responsible for the accident for specific types of damages.

Prior to introduction of the Act, the party responsible for the death of another was liable for damages to the close family members of the deceased. The Act extends the right to recover damages to family members of an injured person and extends the definition of family members to include common-law spouses, brothers and sisters. In addition, while damages are limited to pecuniary loss, this term is extended to include compensation for loss of guidance, care and companionship.

As accidents which occurred since proclamation of the Act come to Court the amounts awarded, particularly under the "loss of guidance, care and companionship" provisions, are becoming better known. In a recent case, a total of $209,000 was awarded under this heading to two families following the death of their teenaged sons in an accident. This amount was divided amongst several family members, the largest to an individual member being $65,000 to the mother of one of the teenagers.

The Insurance Bureau of Canada has recommended to the Attorney General of Ontario that the provision for damages for loss of care, guidance and companionship be removed from the Act and that those entitled to recover damages be limited to dependents having support obligations defined in the Act, i.e. spouses, parents and children under 18, however amendments have not yet been submitted to the legislature.

~

In view of the importance of automobile insurance to the industry, it is worthwhile reviewing the major writers and the coverage provided on a province by province basis.

Newfoundland

The minimum statutory limit of liability for third party bodily injury and property damage is $200,000 and is compulsory for all drivers. All coverage is provided by private industry, the main writers being Unifund (direct premiums written $8,620,000), Co-operators ($4,883,000) and Home ($4,602,000).

The premium tax rate is 3%. The population of the province, according to the 1981 census, is 568,000.

Prince Edward Island

Third party liability and accident benefits coverage are compulsory for all drivers, the minimum limit for third party liability being $100,000.

All coverage is provided by private industry, the major writers being the Co-operators ($3,614,000), Commercial Union ($3,111,000) and Canadian General ($1,377,000).

The rate of premium tax is 2% ; the population is 123,000.

Nova Scotia

Liability and accident benefits are compulsory, with the minimum limit for liability being $100,000.

All business is written by private insurers, the leaders in the market being the Co-operators ($13,295,000), Royal ($10,027,000) and Canadian General ($9,067,000).

The rate of premium tax is 3% ; the population is 847,000.

New Brunswick

Third party liability and accident benefits are compulsory, with the minimum third party limit being $100,000.

All business is written by private insurers, the main writers being the Co-operators ($15,546,000), Wawanesa Mutual ($7,705,000) and Allstate ($7,567,000).

The rate of premium tax is 3% and the population is 696,000.

Quebec

All bodily injury arising out of automobile accidents on the public highway in the Province of Quebec is covered under a government plan. Other coverages are handled by the private industry, bodily injury resulting from accidents occurring outside the province or off the public highway and property damage liability being compulsory, with a minimum limit of $50,000.

The main insurers in the province are Groupe Commerce ($91,668,000), La Prevoyance ($82,485,000) and Allstate ($54,532,000).

The rate of premium is 3% and the population is 6,438,000.

Ontario

Third party liability and accident benefits are compulsory, with minimum limits for third party of $200,000. The Superintendent of Insurance of Ontario has asked insurers to be ready to discuss with him the possibility of providing unlimited liability and these discussions will take place later in the year. Insurers in the province are opposed to this plan, partly because of the effect it would have on all bodily injury awards and partly because of the difficulty in obtaining adequate reinsurance protection.

All coverage is provided by private insurers, the major ones being Co-operators ($186,923,000), State Farm ($120,312,000) and Royal ($116,598,000).

The rate of premium tax is 3% ; the population is 8,625,000.

Manitoba

Third party liability, accident benefits and collision are compulsory, being provided by the government-owned insurer. Private insurers can offer the excess coverage and coverage for damage to the vehicle, however the bulk of this insurance also goes to the government-owned company. This is evident from the volume of the largest insurers in the province, Royal ($330,000), Canadian Indemnity ($325,000) and United Canada ($187,000 – a specialist trucking insurer).

The rate of premium tax is 3% ; the population is 1,026,000.

Saskatchewan

Third party liability, accident benefits and collision are compulsory and provided by the government-run fund. The minimum third party liability limit is $100,000. Private insurers may offer excess and other coverages, which they do to a greater extent than in Manitoba.

The major writers amongst private insurers are the Co-operators ($4,310,000), Royal ($1,812,000) and Wawanesa ($1,637,000).

The rate of premium tax is 3% and the population is 968,000.

Alberta

Third party liability and accident benefits are compulsory, the minimum limit for third party liability being $100,000.

Coverage is provided entirely by private insurers, the major ones being the Co-operators ($72,593,000), Wawanesa Mutual ($47,289,000) and Western Union ($32,967,000).

The rate of premium tax is 2% ; the population is 2,238,000.

British Columbia

Third party liability and accident benefits are compulsory, with the minimum limit for third party liability being $100,000. All compulsory insurance is provided by the government-owned corporation and private insurers may offer excess liability and other coverages, although the government-owned company also writes the bulk of these.

Leading private insurers are Firemans Fund ($3,014,000), Canadian Indemnity ($1,022,000) and United Canada ($798,000).

The rate of premium tax is 2% and the population is 2,744,000.

Yukon

Third party liability and accident benefits coverages are compulsory, the minimum statutory limit for third party liability being $200,000.

All coverage is provided by private insurers, the leading ones being Co-operators ($1,024,000), Commercial Union ($972,000) and Wawanesa ($788,000).

The rate of premium tax is 2% ; the population is 23,000.

Northwest Territories

Third party liability and accident benefits are compulsory, the minimum limit for third party being $50,000.

All coverage is provided by private insurers, the leading ones being Guardian ($1,328,000), Royal ($1,326,000) and Commercial Union ($630,000).

The rate of premium tax is 2% ; the population is 46,000.

~

The most talked-about subject in the industry in recent years, changes in federal insurance legislation, has moved temporarily into the background, however this does not mean that it is considered any less important by the Department of Insurance. Rather, it has been overtaken somewhat by two other events, the questioning of the roles of financial institutions in general and a change of government.

While it is too early to say if the change in government will have any effect on the Department's proposals or the timing of their introduction, the examination of the role of the "four pillars" of the financial services industry – banks, trust companies, insurance companies and securities firms – may have more far-reaching effects.

The former federal government set up the MacLaren committee to carry out a study on the extent to which this sector could be deregulated, however it will now fall to the new government to decide what to do about the committee's findings and this may not have as high a priority with a government just taking office as it would have had with a government well established and thus with the tasks it feels most urgent already behind it.

Because of the dual jurisdiction of federal and provincial governments in financial matters, however, not all changes need wait for the new government. The Government of Quebec recently passed its own legislation on financial institutions, Bill 75, which permits provincially incorporated insurance companies to diversify into such things as mortgages and property management, retirement and stock savings plans and pension fund management. Mutual companies will be able to do the same by setting up "down-stream" holding companies.

The government has announced its intention to broaden the powers of provincially chartered trust companies, loan companies, securities dealers and credit unions in parallel legislation in 1985.

It is still too early to gauge the impact of this new legislation on the operations of insurance companies in the province, but the effect will no doubt be of interest to federal legislators and those in other provinces considering similar changes.

One proposed revision to federal insurance legislation which may appear before the package as a whole is ready is the creation of a guarantee fund in some form. The provinces have expressed keen interest in this proposal and hope to be able to produce a co-ordinated effort which will provide identical protection to those insureds to be covered by such a plan, whether they are insured by a federally registered company or one registered in any province. If a co-ordinated plan cannot be agreed on, then it is probable that some provinces will go it alone, with Ontario leading the way.

~

Despite five years of underwriting losses, and the fact that total market capacity, as measured by the Insurers Advisory Organization, is declining in relation to the Gross National Product, the Organization's calculations indicate a relatively low utilization of available capacity. At the end of the first quarter 1984, on an annualized basis, written premium was 1.31 times equity, well below what the market as a whole could absorb.

According to the Organization's Supply/Demand Monitor, which has proven to be an accurate indicator of the tightness of the market, supply reached a peak in the third quarter of 1983, following a drop in late 1981 and early 1982, but has shown a pronounced drop in the fourth quarter of 1983, a trend which has carried through into the first quarter of 1984. Nonetheless, as indicated earlier, there is still a substantial amount of available capacity, even using a relatively conservative ratio of written premiums at twice capital and surplus. Using this measure, there is a surplus capacity of approximately \$2.6 billion, the size of which can be measured from the fact that net premiums grew by only \$2.5 billion during the past five years.

However, the bulk of this past five year period was during a recession, consequently the extent to which this additional capacity can be absorbed by new business alone depends on the rate of growth of the Canadian economy. Canada has come out of the recession more slowly and with apparently less confidence than the United States. The increase in the Gross National Product, measured in constant dollars, was 3.3% in 1983 following a drop of 4.4% in 1982. The present forecasted increase for 1984 is 4.4%[5]. Business investment in plant and equipment, which dropped 12.4% in 1983 is forecast to increase by 2.6% in 1984.

At the same time, the rate of increase in the Consumer price Index was 10.8% in 1982 and has dropped to 5.8% in 1983 and a forecast 4.9% in 1984. However, interest rates have not come down as rapidly, the central bank rate hovering around 12%, much lower than the high of more than 20% in mid-1981 but up from just below 10% during most of 1983. These high interest rates are a response to the high levels in the United States and the drop in the value of the Canadian dollar against the American dollar, which reached record lows in July 1984, below 75¢, after being above 80¢ for almost all of 1983. It has risen somewhat since the middle of the year and is expected to end the year between 76¢ and 77¢.

Economists differ in their views as to the future strength of the Canadian economy, some forecasting sluggish growth or even a further decline, while others believe it will perform better than the

(5) All economic forecasts are taken from "Canadian Business Climate" published by the Toronto Dominion Bank.

United States' economy in 1985. Similar variable predictions on interest rates are available, permitting the observer to justify whichever view suits him best. However, it does seem evident that, with relatively low growth in the Gross National Product and a record high difference between the rate of inflation and interest rates, the available capacity in the insurance market will not be absorbed by increased economic activity alone for some time.

However, insurers and reinsurers alike, led by the Royal and the larger professional reinsurers, are now showing no particular inclination to use their available capacity to write business they do not believe will be profitable. It is also worth noting that a good part of the available capacity comes from the willingness of the reinsurance market generally, licensed and unlicensed, to support the Canadian market despite the results it has shown and this willingness may be disappearing, as reinsurers world-wide tighten their underwriting and, in several cases, withdraw entirely from the Canadian market.

Canadian Re last year withdrew from all excess of loss general liability business, which would effectively also preclude them from writing much of the available excess of loss automobile business, with which general liability is normally linked. The effect of this decision on their premium volume will appear when 1984 results are published. The Reinsurance Division of Allstate, writing over $15,000,000 of gross premium in 1983 has withdrawn from the Canadian market, and La Preservatrice which wrote $2,500,000 in 1983 through the management of Reinsurance Management Company of Canada, has, for the time being, also decided to stop writing Canadian business. Unigard, with nearly $2,000,000 of reinsurance assumed in 1983 will also disappear from the list of reinsurers operating in Canada. In addition, five or six American reinsurers which had portfolios of Canadian business on an unlicensed basis which would probably have put them in the top 30 of Canadian markets have decided either to withdraw entirely from reinsurance or concentrate only on United States domestic business. Several of the larger syndicates on the New York Insurance Exchange have reached their premium limits and will thus not be the source of new capacity which they were in the last two years.

To this must be added the effect of a greater than usual number of weather losses in 1984, including a major windstorm loss in Ontario at the end of April which is presently estimated to cost insurance companies $80,000,000. These losses, coming on top of consecutive years of major losses in Western Canada could well result in a significant tightening of the catastrophe market and correspondingly increased costs.

In addition, 1984 has seen probably the largest loss on a single risk in Canadian history, the Syncrude loss currently estimated in excess of $400,000,000. Since this risk was written by the specialized oil and gas market, its impact will probably not be felt widely enough for it to affect the market as a whole, although it will almost certainly result in some further tightening of the facultative market.

As a result, it may be that much of the apparent available capacity is illusory, part of it to be absorbed by a reduction in reinsurance capacity and increased reinsurance costs and the balance being with companies unwilling to commit it until they see a better prospect of profit.

Without a central rating organization against which to measure rating activity, it is difficult to speak of specific rate increases or reductions. Companies make their own rates, often several times a year, based on the results of and competitive pressures on their own portfolio. As a result, market trends themselves are only indicative of an average operation, of which few, if any, exist amongst insurers and even less so amongst reinsurers. Consequently, the future of each individual company depends more than ever on the sound management of the company itself and the results of reinsurers on their ability to select those companies with such management.

In summary, the future remains uncertain, both in the economy and in the property/casualty insurance industry.