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Résumé de l'article

Les services techniques de le Blanc Eldridge Parizeau, Inc. présentent trois études sur certains aspects de l'assurance générale. La première s'intitule *Automobile insurance in Ontario*; la seconde, *Weather catastrophes in Canada* et la troisième, *Proposed changes to Canadian Federal insurance legislation*. Nous avons pensé les communiquer au lecteur afin que celui-ci prenne connaissance d'un certain nombre des problèmes qui se posent actuellement dans le marché de l'assurance au Canada.

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I - Automobile insurance in Ontario (1)

Ontario automobile insurance produces almost 25% of the non-marine premiums written by private insurers in Canada.

Nationally, automobile insurance produces more than 45% of the total non-marine premium written by private insurers and has produced very poor results in recent years. The annual loss ratios since 1979 range from a low of 73.8% in 1983 to a high of 93.5% in 1985 ; the 1986 loss ratio was 88.3%. The expense ratio for the period from 1981 to 1985, including internal loss adjustment expenses, ranged from a low of 31.3% in 1982 to a high of 33.2% in 1984 ; the 1985 expense ratio was 31.6% and the 1986 figure is not yet available.

It is generally believed that automobile loss ratios in Ontario are higher than in other parts of the country. On the other hand, expense ratios in Ontario are about half a point below those of the country as a whole, presumably because the costs are amortized over a larger premium volume.

Automobile insurance came under closer than usual public and political scrutiny early in 1986 as part of the liability insurance crisis triggered by a sudden tightening in the Canadian insurance and in-

(1) Prepared by the Technical Services Division of le Blanc Eldridge Parizeau, Inc., member of the Sodarcam Group.

ternational reinsurance markets. The crisis was particularly severe in Ontario and resulted in the creation of a task force under the chairmanship of Dr. David W. Slater, which issued its report to the Minister of Financial Institutions in May of that year. Although the insurance crisis was accentuated primarily by the cost and, in some cases, the unavailability of general public liability insurance, much of the Slater Report dealt with automobile insurance, particularly the compulsory third party liability and accident benefits components, and recommended that the current tort system be replaced by a no-tort system which would provide first party benefits only.

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The recommendations on automobile insurance in the Slater Report were referred to a new task force chaired by the Honourable Mr. Justice Coulter Osborne, who was charged with examining the tort system of compensation for injury by automobile accident and the ramifications of the implementation of a no-tort automobile accident insurance scheme. He is to report back to the Ontario government by the 1st November 1987.

The automobile insurance debate is complicated by the current political situation in Ontario, following a provincial general election in 1985. This general election saw the Conservative Party lose power after nearly 42 years, to be replaced by a Liberal minority government, which signed an accord with the socialist New Democratic Party, under which neither party would force an election, in return for certain legislative initiatives to be taken by the Liberal government. The accord expires in June 1987 and, given the history of minority governments, a provincial general election is expected during the year, the months most often mentioned being June and September.

The New Democratic Party has selected the nationalization of automobile insurance as their major election platform and has been applying considerable political pressure to the government on the issue for some months. For its part, the insurance industry, through the Insurance Bureau of Canada, is promoting a privately run partial no-tort system, which would limit the right to sue for non-pecuniary loss to cases involving death and serious permanent injury and for economic loss only for amounts in excess of first party benefits purchased. This plan would be accompanied by enriched first party

benefits designed to cover economic loss to a maximum of \$600 a week.

The 23rd April 1987, the Ontario government announced a freeze of automobile rates at their current levels until an automobile rating board to be created by proposed legislation is in a position to rule on the fairness of the rates currently in use. In addition, rates for male drivers under 25 and taxis insured by The Facility are to be reduced 10%. It should be noted that current premium levels were not frozen, thus an insured whose policy comes up for renewal after the 23rd April will pay the renewal premium he would have paid had his policy been renewed on the 23rd April, which is likely to be 20% or more higher than the previous year's premium, higher still if he had had an accident or been convicted of a driving offence during the year.

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The immediate impact of the freeze is unlikely to be of importance for the majority of insurers, which have put through substantial rate increases since January 1986 and were probably not planning further increases before a provincial election in any case. In addition, the idea of a rating board is not new to Canada, rates being set by government organizations already in six of the ten provinces, Quebec, Manitoba, Saskatchewan and British Columbia where automobile insurance has already been nationalized in whole or in part, and New Brunswick and Alberta, where rating boards have existed for a number of years, with the industry working harmoniously with them.

The medium term future for automobile insurance in Ontario will not be known until after the next provincial election and issuance of his report by Mr. Justice Osborne in the autumn. However, the rate freeze is not likely to affect company's 1987 results to any great extent, over 60% of the earned premiums for the year having been written by the 23rd April and much of the remaining 40% having been intended to be written at the frozen price levels.

II - Weather catastrophes in Canada

There is no formal system for identifying and calculating the cost of losses resulting from natural catastrophes in Canada.

In 1984 and 1985, the Reinsurance Research Council obtained information from its members on such losses, but because the source

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of information was reinsurers only, it was not possible to put a dollar figure against the catastrophes identified. The list of catastrophes from 1980 to 1984 is as follows :

Year	Date	Location/Area
1980	May 25	Saskatchewan
	June 23	Yorktown, Saskatchewan
224 1981	July 19	Thornhill, Ontario
	July 28	Calgary, Alberta
1982	July 25	Coalsdale, Alberta
	August 11	Saskatoon & Red Deer, Alberta
	August 14	Prince Albert, Saskatchewan
1983	May 2	Ontario
	June 24	Saskatoon, Saskatchewan
	June 24	Edmonton, Alberta
	July 8/9	Regina, Saskatchewan
	July 20	Pennant, Saskatchewan
	August 3	Bonnyville, Alberta
	August 8	Ontario
	August 26	Yorktown, Saskatchewan
1984	April 30	Ontario
	June 22	Manitoba
	July 1st	Alberta
	July 19	Ontario
	August 3	Alberta
	August 14	Toronto, Ontario
	August 19	Saskatchewan
	September 2	London, Ontario

The only loss in that period which is believed to have cost more than \$100 million was the hailstorm in Calgary in 1981. It is expected that the Council will update the list in 1987.

Both 1985 and 1986 produced major weather losses, brief details of which are as follows :

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May 31, 1985 — Windstorm and Tornados — Barrie area, Ontario

The total loss is estimated by the Insurance Bureau of Canada at \$115 million from a total of 22,000 claims. The division by class is as follows :

Automobile	10,500 claims	\$17,000,000
Property	11,500 claims	\$98,000,000

The day prior to this loss, a hailstorm in the Leamington area of Southwestern Ontario also caused extensive damage and there remains some dispute as to whether or not the storms of the two days were one occurrence for reinsurance purposes.

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May 29, 1986 — Hailstorm — Montreal area, Quebec

Latest figures compiled by the Insurance Bureau of Canada show a total loss of \$76,5 million from 80,000 claims divided as follows :

Automobile	67,500 claims	\$60,000,000
Property	12,500 claims	\$16,500,000

III — Proposed changes to Canadian Federal insurance legislation

Discussions between the Department of Insurance and the insurance industry have been going on since 1982 with a view to making a full revision of Federal insurance legislation in Canada, which has not been subject to a complete review for 50 years or more.

Progress was delayed because of other priorities which arose in the Finance Ministry, resulting from some difficulties suffered by trust companies, and was further delayed when, in 1985, proposals were tabled for a complete reorganization of the financial services industry.

The reform of insurance legislation now forms part of the general reform of the financial services industry, on which policy decisions have now been taken and the first pieces of legislation introduced.

Ownership restrictions

Legislation already presented, although not yet passed, as well as proposed legislation based on government policy pronouncements

will provide for much greater control over the ownership of insurance companies.

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Apart from being used to block ownership by individuals considered undesirable by the authorities, this provision would also be used to apply another government policy which will restrict to 10% the interest in an insurance company with capital in excess of \$50 million which can be held by any corporation which is not itself a regulated financial institution. Existing owners will not be obliged to sell part of their interest, but will be prevented from purchasing additional shares until the 10% limit is respected. In addition, the government has stated that it will not approve the incorporation of any new insurance company, the owners of which have significant commercial interests. It has not yet been decided whether or not this restriction will also apply to the registration of a Canadian branch of a commercially linked foreign company.

Increased powers for the Superintendent of Insurance

The Superintendent of Insurance has, amongst his prime responsibilities, the task of overseeing the financial position of federally registered insurance companies. However, at present he has little power to act in the case of a company he believes is getting into difficulty, until that company's solvency margin falls below the minimum required.

Under new proposals, the Superintendent will have the power to require the filing of financial statements more frequently than annually, with insurance companies being required to comply with such a request within 45 days and reinsurers within 90 days.

In addition, the Superintendent can issue cease and desist orders if it feels that an insurance company is acting in a way which could impair its financial position. In most cases, the cease and desist

order would not take effect until after a hearing, however in extreme cases the Superintendent can invoke the order immediately, with the hearing being held subsequently.

Actuarial certification of technical reserves

The Province of Quebec introduced a requirement in 1984 for the actuarial certification of outstanding loss reserves and policy reserves. This requirement is now being introduced by the Federal government. The Province of Ontario has also introduced legislation with such a requirement and, since the provincial requirements apply to all companies operating in that province, not just those companies incorporated there, such a requirement by the three major jurisdictions in Canada will result in its application to almost all insurance companies.

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The actuary is required not only to certify the adequacy of outstanding loss reserves and policy reserves, but also must specify any unusual problems or delays expected to be encountered in the collection of amounts due from reinsurers.

Solvency tests

The present federal solvency test requires, in general terms, that a company's assets exceed its liabilities by 15% of its outstanding losses and anything from 0% to 15% of its unearned premiums, depending on the anticipated results — a company with an anticipated loss ratio of 80% or less would require no margin on unearned premiums.

It is now proposed to add two additional solvency tests, the actual solvency margin required being the greatest of the results of the three tests.

The new premium test requires a margin equal to 15% of the company's gross premium income plus the lesser of \$500,000 or 5% of the gross premium income.

The claims tests require a margin equal to 20% of the average annual claims incurred for the three preceding years plus the lesser of \$500,000 or 7% of such average claims amount.

Under the existing test, the insurance company may deduct all registered reinsurance and all unregistered reinsurance where the

reinsurer in question has set up a deposit for the amount of its reinsured liabilities.

Under the new premiums and claims tests, the margins are calculated on the gross business before all reinsurance, however the margin may then be reduced by a percentage equal to the percentage which the claims recovered from reinsurers in the previous year represented to the total claims incurred. For insurance companies, the reinsurance reduction is limited to 50%, however there is no limit for reinsurers.

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Proposed reinsurance regulations

In legislation already introduced, reinsurance with an affiliated company will require the prior approval of the Department of Insurance. It is anticipated that this approval will be given readily in the majority of cases, the provision being introduced primarily to enable the Department to control reinsurance ceded to offshore affiliates.

Other changes in requirements for reinsurance will be introduced by regulation and are still at the discussion stage. It is anticipated however that the following regulations will be introduced :

No company will be permitted to reinsure more than 75% of its gross premium income. In the case of a new company or a company already ceding more than 75%, the limit will be 90%, reducing by 5% a year until the 75% limit is reached.

No company will be permitted to cede more than 25% of its gross premium income to unregistered reinsurers. If a company reinsures more than 75% of its gross premium income, then the amount permitted to be ceded to unregistered reinsurers is limited to the same percentage as is retained net.

A number of other restrictions which had been talked about, including a minimum retention requirement per policy, introduction of an incontestability clause and the requirement that reinsurance must remain in force until the expiry of original policies when a ceding company goes into liquidation, have not been proceeded with, at least for the time being.

Insolvency fund

Discussions on the creation of an insolvency fund have been proceeding for some time, however no firm proposals have yet been

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brought forward by the various superintendents of insurance. The Insurance Bureau of Canada has recommended an industry administered fund with a limit of \$200,000 per person per occurrence and a deductible of \$500.

Most provincial jurisdictions have introduced legislation which would require an insurance company licensed to operate in that province — not just insurance companies incorporated there — to be a member of an insolvency fund, once one has been created.

Cross-ownership and networking

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Federal government policy concerning financial institutions in general is to permit cross-ownership of financial institutions and networking amongst such institutions in the selling of their products.

Under this policy, insurance companies can form subsidiary banks, trust companies and the like, while banks, trust companies and other financial institutions can form insurance company subsidiaries.

Under proposed networking provisions, the staff of any financial institution would be permitted to sell the product of another financial institution, except for insurance products, which remain reserved for insurance companies. However, the other financial institutions would be able to sell insurance products through their own insurance subsidiary, if they wish.

April 30, 1987