Assurances

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Volume 44, numéro 2, 1976

URI : https://id.erudit.org/iderudit/1103900ar
DOI : https://doi.org/10.7202/1103900ar

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Éditeur(s)

HEC Montréal

ISSN

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

Découvrir la revue

Citer ce document

Robey, C. (1976). The state of canadian general insurance in 1975. *Assurances*, *44*(2), 107–115. https://doi.org/10.7202/1103900ar

Résumé de l'article

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The state of canadian general insurance in 1975

by

CHRISTOPHER J. ROBEY

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I — Review of general results

The annual statistical issue of *Canadian Insurance magazine* [1] has now been published and shows an underwriting loss for 1975 for the Canadian general insurance industry, including provincial government insurance corporations but excluding accident and sickness specialty insurers, of $237.5 million, compared with $352.1 million in 1974, a reduction in the loss ratio from 79.63% to 74.26%.

The following table gives the results for the 5 years up to 1975:

Year	Net premiums written	Net premiums earned	Underwriting result	Loss ratio
1971	2,079	1,978	+ 0.5	63.01%
1972	2,346	2,218	— 31.0	68.39%
1973	2,595	2,498	— 135.8	73.06%
1974	3,093	2,942	— 352.1	79.63%
1975	3,869	3,514	— 237.5	74.26%

All figures in millions of dollars

In view of their monopoly position in automobile insurance in their province, the exclusion of the results of the government insurance corporations gives a truer picture of the performance of the general insurance industry, which had the following results in 1974 and 1975:

Year	Net premiums written	Net premiums earned	Underwriting result	Loss ratio
1974	2,745	2,615	— 290.9	76.91%
1975	3,461	3,130	— 142.4	71.48%

All figures in millions of dollars

[1] Most figures are taken from this magazine. April 1976. Annual Review.

The volume of premium written by property and casualty companies increased by 26.5%, the increase being reasonably well spread amongst all companies — American and Foreign companies increasing by 23.25%, British companies by 28.27% and Canadian domestic companies by 28.55%. Canadian domestic companies wrote $963,024,883 of premiums in 1975, producing an underwriting loss equal to 2.01% of written premiums, compared to 8.63% in 1974.

31 of 101 companies listed, or 30%, showed an underwriting profit, compared with 17 of 109, or 15% in 1974. The reduction in the number of companies reporting results from some withdrawals from the market and the absorption of some previously independent companies into existing groups. Size seems to be no indication of profitability, 14 of the top 50 and 17 of the bottom 51 companies showing a profit.

The following are some of the returns shown — the percentage in brackets is the combined index for 1974.

Company	Premiums written	Underwriting results	Combined index %
Aetna Casualty & Surety	35,401,648	+ 1,245,205	93.07 (133.15)
American Home	34,093,188	+ 8,021,396	73.59 (86.77)
Anglo-Gibraltar Group	11,274,347	+ 234,369	96.36 (99.25)
British Aviation	2,103,385	+ 501,380	76.12 (218.31)
Canada West	3,653,608	— 30,234	100.88 (105.66)
Commerce Group	76,407,633	+ 1,454,350	96.35 (104.58)
Co-operative Fire & Casualty	56,248,471	— 1,135,388	101.48 (108.77)
Chubb & Son	51,870,083	— 7,054,248	113.58 (110.57)
Factory Mutual System	46,996,198	— 5,773,739	109.76 (182.19)
I.N.A.	38,425,057	— 7,064,346	117.99 (99.63)
Lloyd's	173,126,844	— 15,157,339	108.21 (112.61)
Markel of Canada	8,404,204	— 327,572	103.79 (109.96)
Pilot	30,512,800	+ 1,300,256	94.03 (95.38)
Les Prévoyants du Canada	36,689,787	— 221,157	99.43 (101.31)
Royal Insurance	283,296,504	— 11,606,701	102.51 (107.63)
Union Canadienne	14,376,388	— 536,708	102.98 (114.18)
Wawanesa Mutual	69,631,481	+ 745,781	100.43 (118.12)
Zurich	86,161,398	— 6,452,450	106.49 (118.98)

Reinsurers, while increasing their share of the market from 5.25% in 1974 to 6.10% in 1975, show the least improvement, reducing the earned claim ratio from 81.16% to 79.42%. Of 19 reinsurers reporting, only 2 showed an underwriting profit. The results of the 19 are as follows, with the 1974 cost index in brackets, where shown in the 1975 statistical issue of Canadian Insurance.

Company	Premiums written	Underwriting Profit/Loss $	Cost index %
Canadian Reinsurance Group	43,042,996	— 7,471,589	117.78 (124.94)
Universal Reinsurance Group	25,105,822	— 3,263,956	112.67 (112.46)
Munich Reinsurance Group	24,684,164	— 2,159,552	107.97 (118.49)
Gerling Global Reins. Co.	20,354,802	— 722,051	103.58 (103.28)
American Reinsurance Co.	16,605,639	— 627,355	98.82 (77.52)
Mercantile & General Group	15,375,194	— 2,174,277	113.77 (106.58)
General Reinsurance Corp.	11,771,630	— 1,678,916	108.06 (110.42)
Skandia Group	10,178,588	— 1,871,015	110.92 (119.08)
Continental Casualty Co.	8,357,553	— 2,012,913	129.40 (116.04)
Mercantile & Gen. Reassur.	6,267,081	— 400,687	103.80 (97.90)
Employers Reinsurance Co.	5,162,013	— 320,036	106.33 (147.00)
Nationwide Mutual Ins. Co.	4,852,676	— 1,547,983	131.81 (81.24)
Canadian Reassurance Co.	3,997,595	+ 213,419	90.32 (97.50)
Sphere Insurance Co. Ltd.	2,805,533	— 270,404	107.09
The National Reins. Co. of Canada	2,425,210	— 385,225	115.66
The Reinsurance Corp. Ltd.	2,094,500	— 411,077	121.80
Great Lakes Reinsurance Co.	1,483,448	— 425,372	129.95 (122.97)
Co-Operative Ins. Society	1,010,756	+ 845,645	95.47 (113.20)
General Security of New York	992.847	— 67,671	105.34 (117.32)

Although 1975 produced the second worst dollar underwriting loss suffered by the Canadian insurance industry, the degree of improvement, particularly for the private sector, over the disastrous results of 1974 shows the effect which increased rates and insurance to value have produced and the extent to which the issuance of annual policies has permitted such a dramatic improvement so quickly.

The effect of these measures can further be seen in the following underwriting results published by *Statistics Canada;* they vary somewhat from those published by Canadian Insurance magazine, since the two sources do not use the same companies and the basis for calculation is slightly different, nonetheless the figures are substantially the same.

Year	First quarter	Second quarter	Third quarter	Fourth quarter
1974	— 64.9	— 53.1	— 44.4	— 131.0
1975	— 56.3	— 13.1	+ 1.4	— 53.0

All figures in millions of dollars

While the fourth quarter 1975 produced somewhat worse results than anticipated, and perhaps the third quarter somewhat better, the figures show the substantial improvement quarter by quarter compared with 1974 and also, of course, the fact that the two winter quarters invariably produce worse results.

The increase in premium volume of 26.5% highlights the major problem of the market at the moment, which is one of capacity because of the difficulty the majority of companies have in absorbing the premium growth. This problem is accentuated by the withdrawal, during the course of 1975, of some companies from the Canadian market, for example, Maryland Casualty Company — 30.8 million, Fire of Canada/ Centennial Group — 5.9 million, Eagle Star Group — 4.3 million; this trend is continuing in 1976, two companies having alreary announced their impending withdrawal (Norwich Union — 23.0 million, Aetna Insurance — 18.5 million) and the possibility of others following suit being discussed. The result will be to place a further strain on the ability of those companies remaining to absorb these premiums, a problem further aggravated by the continuing increase in values.

In addition to the companies which have withdrawn others have substantially reduced their volume, for example:

Company	1974 Premiums written	1975 Premiums written
Hartford Group	46,766,460	40,162,708
Sun Alliance Insurance	39,325,621	36,611,044
Canadian Surety Group	23,993,009	20,014,654

This combination of circumstances has produced some remarkable growth rates, particularly amongst the largest groups. The following companies were amongst the 30 largest in 1975.

Company	Growth rate in 1975
Royal	54.14%
Lloyd's	43.59%
Shaw & Begg Group	48.23%
Commerce Group	38.04%
Allstate of Canada	47.72%
Factory Mutual System	52.89%
Les Prévoyants du Canada	39.32%
Aetna Casualty & Surety	46.69%

All branches showed marked improvement in 1975 over 1974, except guarantee and mortgage, which showed a certain deterioration but nonetheless remained profitable and hail and wet marine, which showed a substantial deterioration. The comparative figures by branch are as follows (all figures in millions of dollars):

II — Automobile Insurance

Year	Net premiums written	Net premiums earned	Net claims incurred	Claims ratio
1974	1,558	1,511	1,298	85.91%
1975	1,913	1,711	1,345	78.57%

NOTE: Automobile totals include business of the Manitoba Public Insurance Corporation and Saskatchewan Government Insurance Office, but exclude I.C.B.C.

No overall market rate increase has been promulgated since the increase of July 1975, however an increase of 13% or more is anticipated for July 1976 and some companies are already charging these higher rates.

No new move towards government corporations has been made during the last 12 months and, in view of the results of the existing government corporations, it can be anticipated that other provincial governments will not rush into this area. In addition, there have not yet been any announcements concerning imminent introduction of a no fault system, although there is still a possibility that such a system may be introduced in some provinces for 1977.

On the other hand, governments have been active in endeavouring to reduce the number and seriousness of accidents on the roads; effective the 1st January 1976, the wearing of seat belts became compulsory in the Province of Ontario and all speed limits outside urban areas were reduced by 10 miles an hour. Similar legislation on seat belts is anticipated in the Province of Québec and it is probable also that speed limits other than on limited access highways in the Province will be reduced.

III — Property Insurance

Year	Net premiums written	Net premiums earned	Net claims incurred	Claims ratio
1974	919	871	655	75.23%
1975	1,110	1,070	712	66.57%

Again for property insurance, no market rate increase has been introduced since the middle of last year, however many companies increased their personal lines rates by 25% at the end of 1975 or the beginning of 1976 and a further increase, for all property lines, is anticipated for later this year.

While the market is reasonably satisfied with commercial and industrial business compared to recent years, residential business, particularly theft, still causes great concern. This line will undoubtedly see greater study by the industry, which may result in increased rates or changes in coverage, in the form of increased deductibles; in addition, some companies have reduced the commission payable to agents and other companies may follow.

IV — Other lines

Results in the other lines were as follows:

Year	Net premiums written	Net premiums earned	Net claims incurred	Claims ratio
		Liability		
1974	168,001,941	163,531,353	103,741,585	63.44
1975	201,860,763	191,420,607	116,782,738	61.01
		Boiler and Machinery		
1974	29,744,132	25,691,332	20,054,831	78.06
1975	37,751,582	30,246,806	13,760,487	45.49
		Guarantee		
1974	51,415,167	47,273,450	12,148,765	25.70
1975	56,925,078	53,470,939	15,697,781	29.36
		Hail Insurance		
1974	10,267,228	10,258,532	5,569,499	54.29
1975	9,714,513	9,712,546	9,262,257	95.36
		Aircraft		
1974	26,570,949	26,111,889	23,306,807	89.26
1975	31,573,124	29,090,743	16,712,901	57.45
		Mortgage		
1974	26,587,079	6,512,031	272,779	4.19
1975	23,388,775	8,560,394	1,913,869	22.36

Year	Net premiums written	Net premiums earned	Net claims incurred	Claims ratio
		Title		
1974	174,931	163,756	6,942	—
1975	211,200	201,437	—	—
		Wet Marine		
1974	38,161,856	37,864,410	25,399,432	67.08
1975	41,685,370	40,349,075	34,409,056	85.28

When examining these results it is worth bearing in mind that some of the smaller classes are dominated by a few companies; for example, Lloyd's and Dale & Company between them write over $15 million of aircraft premium, out of a total of $31.5 million; in boiler and machinery, the Factory Mutual System and Boiler Inspection and Insurance Company write over $23 million of premium out of a total of $37.7. Wet marine is more diversified, nonetheless 25% of the premium is written by the Insurance Company of North America and the Continental Insurance Companies, with a further 25% being written by the next six largest writers.

V — Reinsurance

A major development in the reinsurance market at the end of 1975 was the introduction of the index or stability clause in excess of loss casualty treaties. Although used in Europe for many years, this clause has seen only very limited use in North America in the past; however, the Canadian subsidiaries of certain European professional reinsurers made the policy decision in 1975 of requiring inclusion of the clause in all or the majority of their excess of loss casualty treaties. Partly because the clause was discussed with cedants only at the negotiation season, rather than at the beginning of the year, and partly because the majority of reinsurers operating in the market did not require it, there was considerable resistance to the clause; however there is no doubt that the clause appears in more Canadian casualty contracts in 1976 than at any time in the past.

While an increase in the use of the clause is certainly to be expected, the rapidity of this increase will probably depend largely on the reaction of American reinsurers to the very poor United States results in 1975, particularly in casualty, where the deterioration of prior years is being severely felt. At present, only one or two direct writing American reinsurers are seeking inclusion of the clause, and the availability of a competitive unindexed market in Canada will depend to a considerable extent on the policies adopted by other American reinsurers to deal with the current crisis in American casualty business.

VI — Anti-Inflation Board[1]

114 An Order-in-Council has been made by the federal government subjecting all firms carrying on business as property and casualty insurers to the enforcement provisions of the Anti-Inflation Act guidelines, which previously only applied to the largest corporations.

The White Paper concerning the Act says specifically that insurance premiums should be increased only by the amounts required to cover net increases in the cost of claims and operating expenses, however it also states that, in setting prices which will be in effect for some period of time ahead, firms may make increases in prices on the basis of forecasts of cost increases.

The Anti-Inflation Board, which administers the Act, has not yet had cause to comment on any proposed rate increases, although there are some before it at the moment for consideration, so that it is too early to say if it will effectively slow down the recovery of the industry. However, its effects should not be felt in 1976, and should not do more than reduce the profitability anticipated for 1977, resulting from the corrective measures already taken. It is also worth bearing in mind that the primary purpose of the wage and price controls is to reduce inflation, which can only be to the long-term advantage of the industry; already, the increase in consumer prices has reduced from 12.5% for the 12 months ending December 1974 to 10.3% for the 12 months ending June 1975 and 9.5% for the 12 months ending December 1975.

VII — General Comments

The Canadian insurance industry has made a dramatic recovery in 1975 from the disastrous results of 1974; while, taken alone, the 1975

[1] Since this article was written, the Anti-Inflation Board has published guidelines limiting Insurance Company profits by line to 3%, including investment income on technical reserves but not on equity.

results are far from satisfactory, in the context of the results of recent years and the measures taken by the industry to correct them, they are most encouraging. Since the corrective measures were introduced to a major extent in 1974, when a considerable number of three year policies were still in force, their full impact will not yet have been felt, so that a continued improvement can be expected in 1976 and this improvement will be carried over to some extent into 1977; the degree to which this occurs will depend on what rate increases are introduced during 1976 and, since these are subject to the Anti-Inflation Board, the decisions of this Board on proposed rate increases will have a considerable influence on the final results in 1977.

Nonetheless, it is not the Board's function to prohibit increases, but simply to keep them to reasonable levels and, so long as this philosophy is applied to insurance rates as it has been for other price increases, there is no reason why the optimism the market has for 1977 results should not be maintained.

With the improvement in results already realized and the anticipation for further substantial improvement, and with the reduction in the rate of inflation, the major problem for the market is the absorption of a substantially increased premium volume by fewer companies; because of the solvency requirements of the Federal and various Provincial departments, many companies cannot absorb their full share of this increased volume without either an infusion of capital or the purchase of additional reinsurance. In this climate, a return to the fierce competition which produced the earlier very poor results seems unlikely.