Assurances

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[Untitled]
De la politique de placement des sociétés d’assurance autres que vie

Volume 45, numéro 1, 1977

URI : https://id.erudit.org/iderudit/1103924ar
DOI : https://doi.org/10.7202/1103924ar

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Éditeur(s)

HEC Montréal

ISSN

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

Découvrir la revue

Citer ce document

(1977). [Untitled]. *Assurances*, *45*(1), 25–31. https://doi.org/10.7202/1103924ar

Résumé de l'article

Le Bureau d’Assurance du Canada a résumé la politique de placement des assureurs autres que vie, au Canada, dans un rapport présenté au « Select Committee on Company Law » de l’Ontario. Avec son autorisation, nous reproduisons ici une partie du mémoire qui nous paraît intéressant. Il indique la politique d’ensemble des assureurs dans un domaine particulier, bien différent dans son comportement de l’assurance sur la vie. Dans un cas, en effet, les opérations sont à court terme, tandis que, dans l’autre, elles sont projetées sur une très longue période. On peut différer d’opinion sur certains aspects de la politique suivie, mais il nous a paru valable de présenter ici la conception courante, comme la voit le Bureau d’Assurance du Canada, cet excellent organisme collectif des assureurs canadiens. A.

De la politique de placement des sociétés d'assurance autres que vie

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Introduction:

When appearing before the Select Committee on Company Law [1] on August 11, 1976, membres of the Committee appeared to be particularly interested in learning why members of Insurance Bureau of Canada, primarily general insurance companies, do not invest as heavily in residential mortgages as they seem to feel should be the case.

A special sub-committee of Insurance Bureau of Canada was formed, consisting of investment counsellors to major insurance groups, and the views expressed hereunder represent the considered opinion of these investment counsellors,

[1] Ontario.

as considered and approved by the Directors of Insurance Bureau of Canada at the meeting of Directors held in December 1976.

A — Investment Policies in General

Typically, investment policies of general insurance companies are influenced, if not determined, by the following considerations:

1. Investment operations of insurance companies are inseparable from their insurance operations. Not only is a significant portion of invested assets held to cover liabilities in the form of reserves for unearned premiums and outstanding claims, but additional assets are required to provide a margin of safety for policyholders against unexpectedly large losses. These additional funds represent capital and surplus (subscription by shareholders and retained earnings or similarly derived from the policyholders in mutual companies), but they are committed as backing for the company's underwriting activity, and are subject to review by the Federal and Provincial Departments of Insurance. The size of a company's surplus, therefore, is no more than a measure of its ability not only to meet claims under adverse circumstances, but indeed to continue to provide an insurance market. The experience of the years 1974 and 1975 (when, because of adverse underwriting results at a time of declining asset values, surplus positions were eroded to the point where many companies were constrained in their acceptance of insurance risks) is too recent to require further elaboration of this point. It follows that whether investing assets covering liabilities to policyholders or funds representing capital and surplus, insurance companies must pursue investment policies which are conservative in character. The relationship between the

asset structure of general insurers in Canada and their liability and equity structure as at December 31, 1974 is shown on Appendix A. (The Report of the Superintendent of Insurance for Canada for the year 1975 has not yet been published, but preliminary figures indicate some improvement in the combined capital and surplus positions. Even so, without infusion of additional capital the industry's ability to withstand another round of severe underwriting losses and substantial declines in the market value of invested assets remains highly questionable).

2. Liabilities of property and casualty companies are relatively short. The average maturity of unexpired premiums on annual policies is 6 months and most outstanding property and first party automobile claims are typically settled in weeks or months rather than years. Consequently, general insurers tend to invest their funds in more liquid shorter term securities than, say, life companies and pension funds.

The importance of liquidity of investments may vary according to the outcome of a general insurer's underwriting activity and the political climate in which the industry operates. In times of successful underwriting operations when the combined loss and expense ratio does not produce a cash drain too large to offset and premium volumes are on the increase, cash flow from the insurance operation itself could provide the necessary liquidity. However, the experience of the past ten years when the general insurance industry in Canada suffered underwriting losses totalling $665 million has shown that prudent management should always structure a measure of liquidity into its investment portfolio so as to be able to support the insurance operation when necessary. The threat, real or implied, of sudden confiscation of a portion of the industry's business by government which would stop cash inflow and accelerate cash outflow could be another reason for increasing liquidity of investments at the expense of investment income.

3. Given the great importance of investment income to overall earnings of insurers, the investment policies of general insurance companies typically aim at maximizing income consistent with the need to protect asset values and maintain liquidity. A study published in 1974 by Dr. G. D. Quirin and Associates showed that the investment returns of general insurers compare quite favourably with the returns achieved by other financial institutions.

4. The ability of a company not only to cope with the effects of inflation on existing liabilities but also to maintain if not improve its share of a growing insurance market in real terms, depends on its financial strength, i.e. the size of its surplus. Only three methods are available to a company to strengthen its surplus position: (1) through retained profits; (2) through raising fresh capital in the market; and (3) through capital appreciation of investments. Undoubtedly, the ideal method is through retained profits. In practice, however, experience has shown that due to the impact of competitive and regulatory factors on profits, retained earnings alone cannot be counted on to finance the growth of the company's business. Similarly, recourse to the capital markets is only possible when the company either is earning reasonable profits or at least has prospects of being able to do so in the future. The most promising avenue open to a general insurance company to achieve the growth in surplus necessary to finance its insurance operations, therefore, is to aim at capital appreciation and limiting the downside risk in bear markets. These objectives can be achieved only if the securities are easily marketable so that bonds may be switched at short notice into different maturities or into equities (or vice versa) as market conditions suggest. Marketability, in addition to

investment income, protection of values and liquidity of invested assets, therefore, is an important consideration influencing a general insurer's choice of investment.

5. Investment practices of general insurance companies are also influenced by a number of regulatory constraints. At the federal level these are imposed by the Canadian and British Insurance Companies Act and by the Foreign Insurance Companies Act. At the provincial level the insurance act of each province imposes similar constraints. On the whole, these constraints are not onerous.

There are also territorial constraints inasmuch as there is a growing desire by some provincial jurisdictions to have general insurance companies match their premium writings with local investments in the respective provinces. Most insurance companies have been endeavouring on their own accord to maintain a provincial spread of investments roughly in proportion to their volume of business. Where there are major imbalances these are usually caused by a lack of suitable issues (e.g. with respect to maturities) and the unavoidable time lag between fluctuations in premium writings and the corresponding adjustments in the level of investments. To date, therefore, such constraints as exist have had no negative impact. More stringent regulations, however, could change the pattern of investment demand and lower the borrowing costs of some provinces and municipalities at the expense of others with the likely result that the investment performance of general insurance companies would deteriorate.

6. To summarize, the complexities of the general insurance business are such that in their investment policies companies at one and the same time must strive for protection of asset values; adequate levels of liquidity; maximum income; marketability; and reasonable growth potential of investments.

Some of these objectives clearly conflict with each other. Consequently, investment policies typically aim at a compromise and may vary between different companies depending on the magnitude of their liabilities to policyholders and the relationship between their asset structure and their liability and equity structure. The comparison of invested assets of financial institutions shown on Appendix B reflects how the industry as a whole has attempted to meet these conflicting requirements. It must be emphasized that differences in the method of valuation used by various industries may impede close comparisons. Nevertheless, the figures do illustrate the different investment approaches.

B — Mortgage Investments

The points raised in this connection at the proceedings of the Ontario Select Committee on Company Law held on August 11, 1976 may be summarized as follows:

a) What circumstances (other than some form of mandatory directive) would encourage general insurance companies to put very substantially more of their funds into residential mortgages ?

b) Would a substantial increase in mortgage investments reduce the amounts available for investment in provincial and municipal borrowings ?

There is no question that compared with other financial institutions general insurance companies have displayed a noticeable lack of enthusiasm for mortgages although there has been growing interest by property-casualty insurers in this investment area in recent years (see Appedix B). In order to determine the reason for the industry's preference for bonds and debentures as fixed income investments, this Report first reviews the characteristics of mortgage loans and current mortgage market conditions; then deals with a number of negative aspects from the industry's point-of-view in order to examine whether the removal of some or all of them might encourage general insurance companies to increase their mortgage investments; and finally, considers what, if any, repercussions a substantial increase in the industry's mortgage holdings might have in other areas of its fixed income investments.

A titre documentaire, voici un tableau qui indique la répartition des placements entre les divers types de placements et d'établissements en 1974 et 1975.

COMPARISON OF ASSETS INVESTED IN CANADA BY VARIOUS FINANCIAL INSTITUTIONS
($ Million)

	Bonds	%	Stocks	%	Mtge Loan & Agreements of Sale	%	Real Estate	%	Gtd. Inv. Cert. and other Investment	%	Total	%
1974												
Life Insurance Companies	8,531	39.8	1,979	9.2	9,592	44.8	1,308	6.1	19	.1	21,429	100.0
Gen. Insurance Companies	2,335	72.0	631	19.5	81	2.5	53	1.6	142	4.4	3,242	100.0
*Chartered Banks	10,910	62.6	—	—	5,785	33.2	722	4.2	—	—	17,417	100.0
Trust Companies	2,417	20.7	287	2.5	8,846	75.9	106	.9	—	—	11,656	100.0
Mtge. Companies	460	7.2	337	5.3	5,509	86.5	62	1.0	—	—	6,368	100.0
Local Cr. Unions	2,496	36.2	111	1.6	4,035	58.5	183	2.6	75	1.1	6,900	100.0
Mutual Funds	416	19.6	1,309	61.8	391	18.5	—	—	2	.1	2,118	100.0
1975												
Life Isurance Companies	n.a.		n.a.		n.a.		n.a.		n.a.		n.a.	
Gen. Insurance Companies	2,790	72.5	687	17.9	115	3.0	57	1.5	196	5.1	3,845	100.0
*Chartered Banks	10,989	56.9	—	—	7,463	38.7	846	4.4	—	—	19,298	100.0
Trust Companies	2,665	19.5	353	2.6	10,542	77.1	117	.8	—	—	13,677	100.0
Mtge. Companies	494	6.6	415	5.5	6,560	87.1	60	.8	—	—	7,529	100.0
Local Cr. Unions	3,145	36.2	146	1.7	5,072	58.4	211	2.4	108	1.3	8,682	100.0
Mutual Funds	421	19.0	1,265	57.1	528	23.9	—	—	—	—	2,214	100.0

n.a. — Not available.
* — Including assets invested outside Canada.
Sources — Life and Non-Life — Report of the Superintendent of Insurance for Canada, 1974, Volume 1.
Other Categories — (Statistics Canada, Business Finance Division, Financial Institutions
— (Second Quarter 1976, Volume 14 — No. 2