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The State of Canadian General Insurance

by

CHRISTOPHER J. ROBEY[1]

Publication of the statistical issues of Canadian Insurance magazine and Canadian Underwriter magazine[2] confirms the good news concerning the 1977 results of the Canadian general insurance industry. The loss ratio for property and casualty companies, excluding Government insurers, improved from 66.66% in 1976 to 64.16% in 1977, giving these companies an increase in underwriting profit to $72.7 million, from $3.7 million in 1976 and substantial losses in the three preceding years.

Several comparisons will be made in this report between 1977 and earlier years; however these comparisons are not totally valid for the following reasons:

— Canadian branches of foreign companies now report their results net of all reinsurance, rather than net of licensed reinsurance only; Canadian — incorporated companies have always reported their results net of all reinsurance.

— Expense ratios are now calculated on earned premiums rather than written premiums.

— Private insurers returned to policyholders in 1977 under the Anti-Inflation Board guidelines approximately $40 million of excess profit made in 1976. These returns were made either as specific payments, cancellation of rate increases or failure to introduce planned rate increases, but were not necessarily reported by all companies as a reduction in premiums.

Although these changes should not result in too great a distortion in the camparison with 1976, an extreme case resulting from the difference in reporting of reinsurance for branches of foreign companies shows what can happen. The American Home Group had direct pre-

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[2] Canadian Insurance, available from Stone & Cox Limited, 100 Simcoe St., 2nd floor, Toronto, Ontario, M5H 3G2; Canadian Underwriter, available from Wadham Publications Limited, Insurance Division, 109 Vanderhoof Ave., Suite 101, Toronto, Ontario, M4G 2J2.

miums in 1977 of $54,672,886, an increase over 1976 of 23%; however the comparison of net premiums, with 1977 being net of all reinsurance and 1976 net of licensed reinsurance only, shows a drop of 57.17%, from $41,083,621 in 1976 to $17,595,828 in 1977.

Bearing this in mind, the following are the results of property/casualty companies, excluding Government insurers, since 1974:

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%
1976	4,262	3,961	+ 3.7	66.66%
1977	4,836	4,550	+ 72.7	64.16%

All figures in millions of dollars.

Government insurers fared considerably worse than the private industry in 1977, with a loss ratio of 86.28% and an underwriting loss of $41.1 million. If Government insurers are included, the results of the industry for the last four years appear as follows:

Year	Net premiums written	Net premiums earned	Underwriting result	Loss ratio
1974	3,093	2,942	— 352.1	79.63%
1975	3,869	3,514	— 237.5	74.26%
1976	4,859	4,535	+ 10.9	67.04%
1977	5,450	5,142	+ 31.6	66.71%

All figures in millions of dollars.

Following are the results of some selected companies, with the 1976 combined index in brackets:

Of the ninety-seven leading companies, fifty-nine had a combined index below 100%.

Since these figures are based on net premiums written, a comparison between individual companies does not necessarily indicate their relative importance in the marketplace, because of the tendency of Canadian-owned companies to require more reinsurance than foreign-owned ones.

Company	Net premiums written	Underwriting result	Combined index
Royal	484,470,493	+ 6,280,377	98.61% (100.35%)
Lloyd's	220,363,408	+ 10,185,621	95.66% (101.68%)
Commercial Union	181,869,387	— 178,961	100.08% (100.36%)
Co-operators	134,555,636	— 2,055,818	101.60% (96.45%)
Groupe Commerce	124,693,842	+ 5,830,310	94.93% (94.38%)
Wawanesa	116,070,656	+ 5,857,699	94.81% (96.33%)
Dominion of Canada	95,768,982	+ 909,142	98.95% (99.28%)
Groupe Desjardins	78,122,132	+ 3,021,826	95.65% (102.78%)
Co-operative Fire	75,122,449	— 5,144,628	91.05% (98.21%)
Factory Mutual	71,806,976	+ 8,625,933	79.74% (92.35%)
Groupe La Laurentienne	70,773,220	— 381,118	100.61% (100.54%)
Prévoyants du Canada	69,533,340	+ 508,349	100.22% (98.52%)
Canadian Indemnity	50,212,385	+ 2,796,200	94.01% (93.43%)
Pilot	43,248,470	+ 1,468,704	97.51% (93.83%)
Sun Alliance	41,929,164	— 176,252	100.40% (98.61%)
Gore Mutual	35,423,772	+ 338,385	98.95% (99.83%)
Sovereign General	28,562,559	+ 81,047	96.51% (98.79%)
Guarantee Co. of N.A.	25,560,226	+ 3,480,415	83.62% (94.96%)
Anglo-Gibraltar	22,813,467	— 303,774	103.32% (98.05%)
Canadian Surety	22,695,894	+ 677,729	96.96% (103.14%)
Union Canadienne	21,748,292	+ 220,213	97.98% (97.37%)
Bélair	19,665,094	— 390,212	102.20% (96.35%)
American Home	17,595,828	+ 2,344,152	85.29% (74.52%)
Markel	9,682,534	— 242,275	102.44% (102.08%)
St. Maurice	9,168,563	+ 64,880	101.97% (98.86%)
Scottish & York	7,760,804	— 291,002	104.07% (113.00%)
Personal	7,620,233	— 49,820	90.78% (101.86%)
Canada West	6,934,211	+ 46,425	105.85% (100.49%)
Industrielle	5,511,951	— 302,142	108.37% (103.60%)
Pitts	4,178,561	— 779,969	117.23% (70.86%)
Northumberland	4,109,382	+ 195,897	93.98% (90.50%)

The following table compares the market share of companies operating in Canada, based on direct premiums and net premiums. This comparison is not totally accurate, nonetheless, it is sufficiently so to give a reasonable portrait of the market.

	Market share based on	
	Direct premiums	Net premiums
Canadian-owned Companies	35.2%	31.4%
British and British-owned Companies	29.6%	28.8%
Other Foreign and Foreign-owned Companies	35.2%	39.8%

Reinsurers trail the direct market in recovery from the disastrous years of the mid-seventies, with an underwriting loss in 1977 of $436,722. However, as can be seen from the following table, the two leading premium writers, Universal Reinsurance Group and Canadian Reinsurance Group, represent between them more than a third of the total premiums written, and if their results are eliminated, the small underwriting loss becomes a substantial underwriting profit of $4.8 million, on premiums written of $217.7 million.

Company	Net premiums written	Underwriting result	Combined index
Universal Re Group [1]	63,301,885	— 1,217,600	101.91% (103.23%)
Canadian Re	58,880,309	— 4,054,084	106.95% (103.49%)
Munich Re	46,455.191	+ 254,702	98.94% (97.75%)
Mercantile & General	29,803,373	— 73,323	100.07% (103.68%)
Gerling Global	23,769,792	— 64,053	100.29% (102.46%)
S.C.O.R.	18,966,214	— 116,903	100.61% (99.13%)
American Re	18,617.448	+ 642,557	97.15% (105.06%)
General Re	14,969,537	+ 653,010	92.52% (113.47%)
Skandia	11,353,158	— 59,969	100.47% (98.64%)
Employers Re	10,038,752	+ 447,507	93.67% (96.27%)
Continental Casualty	7,138,491	+ 2,576,644	65.30% (93.94%)
Nationwide Mutual	7,076,253	+ 52,699	98.46% (117.56%)
S.A.F.R.	6.727,132	+ 467,552	91.93% (92.14%)
Kanata Re	6,258,567	+ 23,070	99.43% (—)
National Re	4,971,322	+ 163,990	95.79% (114.29%)
A.G.F.	4,206,891	+ 308,883	91.38% (—)
Norwich Winterthur	2,730,327	— 23,706	100.76% (107.72%)
Great Lakes	2,693,243	— 303,598	111.93% (113.89%)
Co-operative Ins.	1,999,746	— 114,100	106.51% (93.24%)

[1] Abeille-Paix, Netherlands Re, Nordisk, Storebrand, Union Re, Victory.

This table includes only professional reinsurers, since those companies that write both insurance and reinsurance are included in the table of insurers. For example, Lloyd's had higher net premiums than direct premiums, indicating that they wrote a substantial amount of reinsurance. Since Lloyd's had over $10 million of profit in 1977, making them the most profitable group in the Canadian market, it seems probable that part of that profit came from their reinsurance operations.

Although automobile and property business showed definite improvement in 1977, the same was not true of all lines and the following is an examination of the situation in each class.

Automobile

The results since 1973 have been as follows:

Year	Net premiums written	Net premiums earned	Loss ratio
1973	1,398,705,682	1,367,123,280	79.34%
1974	1,557,723,724	1,510,511,531	85.91%
1975	1,913,193,141	1,711,309,602	78.57%
1976	2,435,443,543	2,192,972,015	71.09%
1977	2,495,627,865	2,409,561,141	69.94%

Apart from the Government corporations operating in British Columbia, Saskatchewan and Manitoba and, since 1st March 1978, in Quebec, this line is dominated by the Royal, writing over twice the volume ($273,469,329) of their nearest competitor, Co-operators Insurance, a Canadian company ($115,294,641). The second largest Canadian group is the Groupe Commerce ($83,829,482), in fifth place, and two other Canadian groups appear in the leading ten, Wawanesa Mutual ($73,813,127) and Co-operative Fire ($69,678,478).

Property

Year	Net premiums written	Net premiums earned	Loss ratio
1973	787,060,447	751,687,495	67.78%
1974	919,052,936	870,685,754	75.23%
1975	1,110,247,734	1,069,828,377	66.57%
1976	1,479,641,283	1,381,188,591	59.77%
1977	1,768,010,669	1,619,522,690	52.28%

With the lowest loss ratio in 1977 of any class other than title, property business is also the main target for competition in 1978.

The Royal is again the leading Company ($169,071,764), followed by Lloyd's ($95,142,494). The leading Canadian group is the Groupe Desjardins ($53,808,423) in fifth place followed by the Commonwealth ($43,802,635) in ninth place. They were the only two Canadian groups in the top ten.

In examining these tables, it is important to note that company standings for property and automobile business are based on direct premiums, whereas for all the following classes, they are based on net premiums only.

Liability

This class showed by far the worst results in 1977 of any class, as well as the greatest deterioration over 1976, already a poor year. The five year result picture is as follows:

Year	Net premiums written	Net premiums earned	Loss ratio
1973	151,292,026	144,709,199	64.30%
1974	168,001,941	163,531,353	63.44%
1975	201,860,763	191,420,607	61.01%
1976	276,156,823	256,012,916	72.89%
1977	347,939,449	318,188,772	86.37%

With the industry having been forced to concentrate in recent years on automobile business, because of Government intervention, and property business, because of the need for insurance to value and substantial rate increases, it would appear that liability has been neglected. It may also be that companies facing excess profits under Anti-inflation Board guidelines also cast a more critical eye than usual on their outstanding loss reserves in this class. Nonetheless, although the premium volume is substantially less than in property and automobile, there is no doubt that this class is now the one which requires some attention.

Once again the Royal is the leading Group ($43,802,367), followed by Canadian Indemnity ($20,605,479) and Lloyd's ($16,667,946).

Besides Canadian Indemnity, the only Canadian company in the top ten is the Groupe Desjardins, in tenth place with $8,428,290. This field is indeed monopolized by non-Canadian companies since only two other Canadian companies appear in the top twenty writers — Groupe Commemrce ($7,088,142) and Les Prévoyants du Canada ($5,805,414).

Guarantee

Year	Net premiums written	Net premiums earned	Loss ratio
1973	45,332,743	40,366,472	33.82%
1974	51,415,167	47,273,450	25.70%
1975	56,925,078	53,470,939	29.36%
1976	61,415,401	59,583,004	39.68%
1977	73,066,755	64,358,351	55.20%

This class includes fidelity and surety, surety representing approximately two thirds of the volume with a 36.77% loss ratio in 1977, while fidelity had approximately one third of the volume with a loss ratio of 100.98%.

In this class, the Royal does not appear as the leading writer, holding only sixth place ($3,253,149). The leading company is the United States Fidelity Group ($5,683,766) and the leading Canadian company the Guarantee Company of North America ($5,625,064) in second position. No other Canadian company was in the top ten.

Boiler and Machinery

Year	Net premiums written	Net premiums earned	Loss ratio
1973	21,708,647	22,654,198	46.16%
1974	29,744,132	25,691,332	78.06%
1975	37,751,582	30,246,806	45.49%
1976	41,972,586	36,434,469	56.13%
1977	49,556,774	41,555,979	45.99%

The Factory Mutual System ($19,264,997) dominates this line, writing almost twice as much as their nearest competitor, Boiler Inspection ($10,780,583). The Royal is in third position with $8,146,548. No Canadian companies are a factor in this class.

Mortgage

Year	Net premiums written	Net premiums earned	Loss ratio
1973	18,381,433	3,524,115	0.58%
1974	26,587,079	6,512,031	4.19%
1975	23,388,775	8,560,394	22.36%
1976	28,560,792	11,400,461	38.32%
1977	43,462,624	16,304,221	69.35%

Seventy per cent of this business was written by the Mortgage Insurance Company of Canada, most of the remainder by the Sovereign Mortgage Insurance Company and the Insmor Mortgage Insurance Company.

Wet Marine

Year	Net premiums written	Net premiums earned	Loss ratio
1973	33,629,066	33,140,212	59.51%
1974	38,161,856	37,864,410	67.08%
1975	41,685,370	40,349,075	85.28%
1976	41,740,800	40,794,062	66.07%
1977	38,164,155	37,104,861	74.95%

Net premiums written by the Insurance Company of North America ($7,518,214) are more than twice as large as those of their nearest competitor, Fireman's Fund ($3,168,389). The Canadian company with the highest net premiums is the Commonwealth, in twentieth place, with $595,697.

Aircraft

Year	Net premiums written	Net premiums earned	Loss ratio
1973	23,028,629	23,820,658	76.95%
1974	26,570,949	26,111,889	89.26%
1975	31,573,124	29,090,743	57.45%
1976	34,524,198	33,582,751	92.64%
1977	27,626,070	29,336,092	60.49%

This class is dominated by Lloyd's ($13,441,893), writing almost half the total business.

The leading Canadian group is the Simcoe-Bay Group with $1,443,429.

Hail

Year	Net premiums written	Net premiums earned	Loss ratio
1973	7,332,747	7,342,411	61.00%
1974	10,267,228	10,258,532	54.29%
1975	9,714,513	9,712,546	95.36%
1976	6,756,862	6,748,808	71.72%
1977	10,494,632	10,518,779	64.45%

Figures by company were not published for 1977, however in 1976, Co-operative Hail wrote more than twice the volume of their nearest competitor, Continental with Shaw & Begg and Great American following.

Credit

Year	Net premiums written	Net premiums earned	Loss ratio
1973	1,534,951	1,548,924	28.08%
1974	1,772,788	1,779,620	45.74%
1975	1,903,801	1,931,685	42.83%
1976	1,305,488	1,312,864	48.41%
1977	1,362,179	1,386,054	58.81%

This business is written by the American Credit Indemnity Company of New York ($1,251,283), with the Gerling Global and Continental Groups writing about $100,000 between them.

Title

Year	Net premiums written	Net premiums earned	Loss ratio
1973	141,945	134,892	18%
1974	174,931	163,756	—
1975	211,200	201,437	—
1976	151,668	140,731	—
1977	102,742	114,505	4.22%

This business is written by the Lawyers Title Insurance Corporation ($87,786) and the Chicago Title Insurance Company ($14,956).

The insurance industry in Canada was preoccuppied with three major questions in 1977 — the modification in the Federal Insurance Law, many of the provisions of which are expected to be followed by the provinces, the continued controls of the Anti-Inflation Board and the taking over by the Province of automobile bodily injury coverage in Quebec, which, although influencing thinking in 1977, was in fact realized in 1978.

The new Federal Insurance Law, as far as it affected property and casualty insurance companies, eased the solvency requirements to some extent and brought the requirements for foreign companies into line with those for Canadian — incorporated companies [1]. In general terms, the effect of the new provisions will be to enable companies to increase their net premiums from an approximate maximum of three times their capital and surplus to approximately four times their capital and surplus.

The Anti-Inflation Board continued to control the prices charged for insurance through limiting profits; however, following representations made by the industry, it modified its norms in 1977, to permit companies to increase the return on gross revenue from 3% to 4% or, in special cases, 5%. Although not as high a profit as the industry feels entitled to, this does nonetheless represent a 33⅓% increase in the permitted profit and was thus a welcome relief for many companies.

An effect of the provisions of the Anti-Inflation Board, together with the profitability of the business generally, has been a marked effort on the part of companies to increase their reserves for outstanding losses and incurred but not reported losses to the maximum amount they feel able to justify; it will be interesting to see whether such reserves are, in fact, inflated, as some have suggested, or indicate that they are finally up to the level they should have been all along, a position held by many reinsurers. In view of the increasing competition in the market, to which reference will be made later, whether such reserves are indeed just enough or whether companies will reap something of a windfall profit from them may determine the degree of competition in 1979.

As far as 1978 is concerned, it is again government action, in various forms, which represents the major external influence on the industry.

Of course, the major item is the loss to private industry, effective the 1st March 1978, of all bodily injury automobile insurance in the

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[1] A booklet on the provisions of the new Federal Insurance Law, written by Colin E. Jack, Director of the National Reinsurance Company of Canada, is available from le Blanc Eldridge Parizeau, Inc., 2 Complexe Desjardins, # 1700, P.O. Box 183, Desjardins Branch, Montreal, Quebec, H5B 1B3.

Province of Quebec and the introduction of direct compensation for collision losses. The change from private industry to the government plan was not without its share of confusion, although the problems appear not to have been as great as one might have expected in the circumstances. The law required companies to reimburse 100% of the unearned premium, without taking into account any agency commission, and then to collect the agents' commissions subsequently from the agents themselves; in fact, most companies have decided to absorb this commission cost rather than seek it from their agents.

The introduction of direct compensation, effective the 1st May 1978, should help companies control their expenses after the loss of one third of their Quebec automobile premium. Under this system, insurers will pay their own insureds for damage to their vehicles caused in an accident, presuming they both carry collision insurance, without seeking subrogation. On a homogeneous portfolio, the effects should even out, although evaluation of individual risks will necessarily change and specialized portfolios could be substantially affected.

The 14th April 1978, wage and price controls in Canada expired; however, the insurance industry, and indeed most sectors of the economy, will not feel the full effects of the removal of controls in 1978, because of the way in which controls are being removed. Therefore insurance companies will be subject to the same limitations on profitability in 1978 as they were in 1977. For 1979, the Anti-Inflation Board will be replaced by a monitoring agency without enforcement powers other than moral persuasion and the glare of publicity.

Finally, an amendment to the Judicature Act in Ontario, effective the 25th November 1977, will have some effect on liability claims in that province, since it permits judges to allow interest on judgements to run from the date the cause of the action arose rather than from the date of the judgement and increases the rate of interest to the prime rate. This now mirrors the position in existence in British Columbia since 1974. Quebec has, since 1957, allowed interest to run from the date the action was commenced; all other provinces calculate interest from the date of the judgement. It is impossible to say at this stage what effect the change in Ontario will have on claims costs, but companies report that to date it has been of little concern in settlements agreed out of court.

The one area which may, eventually, have the greatest impact on the industry however, is only peripherally affected by government action, and that is the actual underwriting of business itself. Following on the necessity for many companies to return premiums to policyholders under the anti-inflation guidelines and the potential loss of automobile insurance in the Province of Quebec, once it became evident that the modest profit of 1976 would develop into a more substantial one in 1977, increased competition began to show itself. At the outset, it was particularly in evidence in automobile, and could probably be traced directly to the actions of the Anti-Inflation Board, where many companies were in fact reducing their automobile rates in order to stay within the guidelines or return excess profits made in 1976. From there, it has moved into other lines, particularly commercial property. Now it appears to be fairly general across the country, however its full effect is not yet apparent. Certainly, it should not do worse in 1978 than hold the results to the 1977 level, but 1979 will be considerably more affected. The test for the future will come when the companies are free of anti-inflation controls and have got over the effect of the loss of one third of the Quebec automobile insurance premium, probably early in 1979, in time to have a full impact on the 1980 results.

Again, government actions appear to be the major point to look for in developments beyond 1978. The effect of the Quebec automobile reform should have been more or less fully absorbed by early 1979, however the lifting of Anti-Inflation Board controls will only just be beginning to be felt.

The major interest will now switch from Quebec to Ontario, in view of the work of the Select Committee on Company Law in that province, which includes automobile insurance in its mandate. Its first report has been published and contains many suggestions for changes in the carrying-on of automobile insurance business, however the two major suggestions which would affect the market are for compulsory insurance and unlimited liability.

The Government of Ontario has stated its support for compulsory insurance, which is anticipated to be in existence by early 1980, however it is estimated that fewer than 10% of Ontario drivers are currently uninsured. As far as concerns unlimited liability, it seems far less likely that this will be introduced, although an increase in the minimum statutory limit from the present $100,000 to a substantially higher figure, possibly $500,000 or $1,000,000, can be anticipated in the early 1980's.

The trend to higher minimum statutory limits in automobile can be expected to continue in other provinces — Alberta has increased its minimum limits from $50,000 to $100,000 in 1978 and the Yukon from $50,000 to $75,000. Major reforms in the Facility can be anticipated, with the merging into a Facility Association in each province of the existing Facility and Insurance Exchanges, to provide a stronger guarantee of a market for all drivers. This is an important development in view of the growing move towards compulsory insurance. Coupled with this will undoubtedly be an increase in first party accident benefits provided under automobile policies.

The major question in the industry at present is whether the traditional cycle of three profitable years followed by a return to the red is again showing itself. With 1976 profitable, albeit marginally, and 1977 more substantially so, with a similar profit anticipated for 1978, the prospects for 1979 and subsequent years must be viewed with more concern. Whether the present level of competition is the result of voluntary action by the industry, demonstrating that it has the shortest of memories, or whether it is the artificial result of government action, will not be known for another twelve months or so.