

The state of canadian general insurance in 1979

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Résumé de l'article

M. Christopher J. Robey étudie pour nos lecteurs les résultats de l'année 1978 en assurance autre que vie. Il le fait avec le souci du détail et la précision qui lui sont ordinaires. À nouveau, nous le remercions de sa collaboration. G.P.

The state of canadian general insurance in 1979¹

by

CHRISTOPHER J. ROBEY²

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A third year of underwriting profit, following five consecutive years of underwriting losses, was the good, if expected, news for the Canadian property and casualty insurance industry in 1978. However, the competition which was evident during 1978 increased during 1979 and is likely to stop the profit cycle at three years, seemingly confirming what is suggested by past trends, that the Canadian industry has difficulty in supporting more than three years of profit at a time. Of particular concern is the fact that, while this cycle has produced \$122.5 million of underwriting profit, the previous four years produced a total underwriting loss of \$600.1 million. While the early seventies were clearly the worst period the industry has been through, the comparison nonetheless shows the importance of investment income to Canadian insurers and suggests that, willingly or not, it is already taken into account in rate making.

Although comparisons from year to year in the following table are not fully valid, because of differences in the method of reporting over the years, it nonetheless gives a good indication of the results of the 1970's, with one year to go¹. With 1979 expected to produce a small loss, the seventies will probably produce five profitable years and five loss years.

¹ All statistics are taken from the annual statistical issues of Canadian Insurance magazine.

² Mr. Christopher J. Robey is senior vice-president and general manager of leBlanc Eldridge Parizeau, Inc., a member of the Sodarcan group.

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Year	Net Premiums Written	Net Premiums Earned	Underwriting Result	Loss Ratio
1970	1,922	1,808	+ 1.7	65.71%
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	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%
1978	4,733	4,682	+ 46.1	64.95%

All figures in millions of dollars.

Of some comfort to the private sector is the fact that, for the second year in succession, while private companies made a substantial profit, government insurers lost over \$40 million. The results of the industry, since 1974, including government insurers is 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%
1978	5,363	5,307	+ 1.6	67.49%

All figures in millions of dollars.

The Government board providing bodily injury coverage in the Province of Quebec is not structured as an insurance company, consequently its results are not included above, however published results show that it operated at a substantial profit during its first twelve months.

Following are the results of some selected companies, with the 1977 combined index in brackets:

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Company	Net Premiums Written	Underwriting Result	Combined Index	
Royal	469,806,668	—	6,524,297	101.40% (98.61%)
Lloyd's	192,600,774	+	30,004,287	85.27% (95.66%)
Commercial Union	187,571,071	—	1,612,964	100.24% (100.08%)
Co-operators	164,013,129	+	113,128	99.93% (101.60%)
Zurich	131,559,109	—	67,100	99.43% (98.16%)
Wawanesa	118,798,641	+	2,391,144	98.18% (94.81%)
Dominion of Canada	101,897,253	—	1,160,792	101.16% (98.95%)
Groupe Commerce	84,904,264	+	5,546,563	94.20% (94.93%)
Groupe Desjardins	84,227,493	—	726,483	103.19% (95.65%)
Co-operative Fire	80,082,650	+	11,587,464	83.13% (91.05%)
Canadian General	69,255,774	—	1,961,487	102.94% (100.36%)
Prévoyants du Canada	59,787,201	+	1,695,912	96.58% (100.22%)
Factory Mutual Groupe	58,692,278	—	3,239,088	105.66% (79.74%)
La Laurentienne	57,749,056	—	2,154,068	103.63% (100.61%)
Canadian Indemnity	53,989,223	+	3,278,037	93.35% (94.01%)
Pilot	45,924,375	+	1,447,532	96.50% (97.51%)
Gore Mutual Guarantee Co. of N.A.	39,512,489	+	217,284	99.35% (98.95%)
Canadian Surety	27,076,613	+	2,402,097	89.56% (83.62%)
Sovereign General	25,026,362	—	53,853	100.21% (96.96%)
Union Canadienne	24,913,105	—	286,976	97.16% (96.51%)
Bélair	20,424,412	+	162,249	98.83% (97.98%)
Simcoe-Bay	18,325,292	—	624,357	103.34% (102.20%)
Equitable	16,339,353	—	29,925	99.27% (105.84%)
Commonwealth	13,921,124	—	333,887	102.63% (101.36%)
Personal	12,514,159	+	327,538	96.53% (95.88%)
Scottish & York	10,368,231	—	160,685	101.65% (90.78%)
Canada West	7,919,147	+	62,483	99.44% (104.07%)
St. Maurice	6,861,023	—	59,640	100.98% (105.85%)
Markel	5,899,956	—	159,732	131.55% (101.97%)
Northumberland	5,702,878	—	423,705	106.21% (102.44%)
Nova Scotia General	5,672,077	+	178,951	96.96% (93.98%)
Pitts	5,175,414	+	830,982	81.54% (67.28%)
Industrielle	4,775,107	—	23,944	99.96% (117.23%)
	4,728,477	—	253,200	104.62% (108.37%)

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Of the 98 leading companies, 57 had a combined index below 100%; of interest is that 52% of the top 50 were below 100%, while 65% of the bottom 48 were profitable.

As the following table shows, while the industry as a whole has been profitable in three of the last five years, licensed reinsurers have consistently lost money.

	Year	Net Premiums Written	Underwriting Result
294	1974	133.9	— 18.5
	1975	196.3	— 24.3
	1976	305.1	— 10.7
	1977	339.9	— 0.4
	1978	344.8	— 11.3

All figures in millions of dollars.

However, on the basis of individual reinsurers, 1978 was similar to 1977; in 1977, two reinsurers between them, the Universal Re group and the Canadian Re group produced total losses in excess of \$5 million and in 1978, the same two groups produced total losses close to \$10 million.

As the following table shows, almost half the reinsurers produced a profit in 1978, however the losses from the five major groups on the market — Canadian Re, Universal Re, Munich Re, Gerling Global, Mercantile and General — totalled \$13.5 million. The remaining reinsurers, taken as a group, showed a marginal profit, after eliminating Continental Casualty which had a result so different from the norm that it suggests a highly specialized portfolio.

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Company	Net Premiums Written	Underwriting Result	Combined Index
Canadian Re	58,342,142	—	6,196,874 109.56% (106.95%)
Universal Re Group ¹	53,626,087	—	3,601,177 106.16% (101.91%)
Munich Re	46,692,107	—	1,383,322 103.79% (98.94%)
Gerling Global	32,768,540	—	236,076 100.51% (100.29%)
Mercantile & General	31,037,165	—	2,057,805 106.60% (100.07%)
S.C.O.R.	17,579,926	—	630,940 103.39% (100.61%)
General Re	17,008,515	—	1,171,391 114.93% (92.52%)
American Re	11,523,741	+	627,412 94.49% (97.15%)
Skandia	10,937,428	—	395,424 103.47% (100.47%)
Employers Re	10,193,198	+	553,929 93.30% (93.67%)
Nationwide Mutual	7,405,962	+	421,032 94.32% (98.46%)
S.A.F.R.	6,242,535	+	322,290 94.97% (91.93%)
Continental Casualty	5,991,401	+	1,925,783 69.81% (65.30%)
Kanata Re	5,129,513	—	463,204 109.33% (99.43%)
Norwich Winterthur ²	5,109,105	—	180,449 103.90% (100.76%)
Ancienne Mutuelle	4,750,747	+	791,837 91.00% (—)
National Re ²	4,407,516	—	151,492 103.71% (95.79%)
A.G.F.	3,981,597	+	330,357 92.08% (91.38%)
M.G.F.A. ²	3,221,868	+	35,809 98.52% (—)
Co-operatives Ins.	2,833,120	+	91,161 96.50% (106.51%)
Great Lakes	2,437,856	+	7,406 99.77% (111.93%)
General Security of N.Y.	1,889,875	—	162,604 107.33% (—)
Re Corp. of N.Y.	1,675,531	+	190,442 88.40% (—)

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It must be remembered that published figures on reinsurance do not include any reinsurance accepted by companies also writing insurance, nor the substantial volume ceded on to the unlicensed market.

As can be seen from the tables on preceding pages, net written premiums were lower in 1978 than in 1977, a direct result of the loss to the private sector of automobile bodily injury premiums from the Province of Quebec. Indeed, most of the major Quebec groups showed a drop in net premium. The Groupe Commerce suffered the greatest drop, 31.91%, the Prévoyants du Canada dropped 14.02% and the Groupe La Laurentienne 18.40%.

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

² Managed by Reinsurance Management Company of Canada.

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However, Canadian-owned companies as a whole increased their premium income in 1978, while British and other foreign companies reduced theirs from the 1977 levels. The following table shows the market shares of the companies operating in Canada, divided into the traditional groups and based on net premiums written. The percentage in brackets shows the 1977 market share.

	Market Share
Canadian-owned Companies	34.7% (31.4%)
296 British and British-owned Companies	28.3% (28.8%)
Other Foreign and Foreign-owned Companies	37.0% (39.8%)

If government corporations are included, then the Canadian companies take the lead with over 42% of the market, a share which would undoubtedly be higher still if based on gross premiums.



Automobile premium in 1978 dropped to \$2,367 million from \$2,496 million in 1977, while the loss ratio increased from 69.94% to 72.11%.

Property premium showed a small growth, from \$1,768 million in 1977 to \$1,819 million in 1978, while the loss ratio deteriorated from 52.28% to 54.14%, still over 20 points better than five years earlier.

Liability business improved substantially over 1977, although it is still not profitable. The 1978 loss ratio dropped to 77.84%, from 86.37% in 1977, with net written premiums in 1978 at \$370.7 million.

Canada was not immune from the worldwide trend in aircraft and wet marine business, wet marine producing a loss ratio of 88.22% on net premiums of \$36.6 million and aircraft a loss ratio of 97.57% on net premiums of \$24.7 million.

Guarantee business produced substantially better results than in 1977, Surety showing a loss ratio of 19.11% on premiums of \$57 million and Fidelity 53.83% on \$21 million.

Particularly surprising, although affecting only a handful of companies, is the continued rapid deterioration of mortgage business, which

has seen its loss ratio increase from 4% in 1974 on net premiums of \$26.6 million to 119% in 1978 on net premiums of \$57.4 million. The loss ratios are somewhat exaggerated because of the heavy unearned premiums to be carried, but the deterioration itself is real enough.

Overall, the loss ratio on all property and casualty business has been relatively stable over the last three years — 68.82% in 1976, 68.09% in 1977 and 68.73% in 1978.



Two major events in the industry coincided in 1978 and resulted in the rapid deterioration of results in 1979. The combination of the loss of automobile bodily injury premiums in Quebec and the necessity to return many millions of dollars of excess profit to insureds under the anti-inflation guidelines has resulted in a scramble for new premium and some of the fiercest competition the market has seen, particularly for commercial, industrial and institutional risks.

The results of this competition are showing up in the 1979 results, despite the profits being released into 1979 from IBNR's and case reserves still held at high levels at the end of 1978. The result will undoubtedly be a disappearance of underwriting profit in 1979, with the true results on the basis of policies issued during the year being considerably worse than those which will be published in accordance with normal reporting practices.

There is the occasional bright spot — a possibility that rates are hardening in automobile and for large industrial risks; the fact that residential business has not been under as severe pressure as other lines, although rates have still come down; a suggestion that smaller regional companies are faring better than the average. Nonetheless, it is clear from the public statements of company executives and agents that a rate war is in progress; that the situation has not yet been brought under control is equally clear from those statements.

With the removal of price controls, there is no barrier but the will of the industry to stopping the slide in rates and only political pressure to prevent bringing rates back to an economical level. However, it is unlikely that the industry can make as rapid a change as it did following the underwriting losses of the middle seventies, when it was able to improve its loss ratio by 10 points between 1974 and 1976. Indeed,

it seems probable that rates were increased during that period to too high a level, in part triggering the rate war which has followed.

298 With the withdrawal of government price controls and no apparent further government encroachment of the private sector in view, it is to be hoped that the industry will have a period during which it can look inwards and concentrate on its own problems. While there is little to cheer about at the moment, and 1979 and 1980 offer little hope of profit, one must presume that common sense will prevail and the next 18 months will see a steadying of the market, resulting in more stable results during the first half of the 1980's.

Le Factory Mutual System, une Institution canadienne.
Boston, Mass. Brochure de 34 pages.

Le F.M.S. est devenu une institution. Aux Etats-Unis, il groupe des sociétés mutuelles très caractéristiques d'un mode d'assurance ayant des résultats assez extraordinaires. Fondé au siècle dernier, il a assuré contre l'incendie et les risques communs à l'industrie manufacturière, à des prix défiant presque toute concurrence, et, surtout, à des conditions de sécurité — les siennes — qui n'ont guère varié après avoir montré leur valeur.

Le premier contrat souscrit au Canada — à Sherbrooke — date de 1873.

Actuellement, le groupe est substantiel et continue de fonctionner comme à l'origine. Il choisit ses risques, détermine ses primes et la garantie à sa manière et il impose ses propres normes de sécurité qui sont à prendre ou à laisser. Les sociétés mutuelles englobées ne sont pas à l'abri de très gros sinistres malgré les précautions qu'elles imposent à leurs assurés, mais à travers les années, le groupe a tenu le coup grâce à sa technique et aux réserves individuelles et collectives réunies. Il est rare que s'il accepte d'assurer un risque, il ne le garde pas tant que l'assuré ne se conforme pas à ses normes de sécurité. On peut le citer en exemple d'un travail intelligent et rationnel.