

## Letter to a friend

Angus H. Ross

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Résumé de l'article

J est un homme curieux. Il demande à son ami Angus Ross de lui dire ce qui se passe en ce moment dans le domaine de l'assurance et de la réassurance. Notre collaborateur n'hésite pas à lui répondre en toute franchise; ce qui ne saurait déplaire à nos lecteurs. Un autre de nos collaborateurs écrit, de son côté : « La situation de notre industrie n'est pas saine ». A. R. nous donne un diagnostic assez dur. Nous ne le discutons pas, car il n'est pas sans valeur.

## Letter to a friend

by

ANGUS H. ROSS <sup>(1)</sup>

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Dear J :

It was kind of you to enquire about the health of the Canadian general insurance industry, and reinsurers in particular. As Mark Twain said, rumours of its demise are grossly exaggerated. However, its patient is in sickly condition and the short term prognosis is not good.

The illness is, as you know, a strange one with a number of varied causes ; however, only in isolated cases can it be considered terminal. But I can hear you asking "what are these causes?". Let me go into them in a little detail.

### 1. The Big Bang Theory

You have often heard it propounded, particularly in the USA, that what the insurance industry needs to shake it back to reality is a massive catastrophe. Whilst this might have a salutary effect on a number of reinsurers, it is highly unlikely that it would really make much of a dent in its Canadian primary scene. Retentions here on catastrophe layers are generally very low indeed (sometimes as little as .3% of premium income – or about 1% of capital/surplus

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<sup>(1)</sup> Mr. Angus H. Ross is Vice President of Reinsurance Management Company of Canada, Inc., member of the Sodarecan group.

on its normal 3:1 ratio). Small wonder, therefore, that Canadian catastrophes don't disturb the primary market.

"Surely," you say, "Canada doesn't have any catastrophes?" Ah, that's what many people think but in 1981 we were hit by a hailstorm in Calgary costing (depending on the estimates used) anywhere between 100 and 150 million dollars. What is surprising about this incident is not that it happened, but the late development we are seeing on physical damage auto and property losses more than a year after the event occurred.

1982 has seen an early frost hitting the Ontario tobacco crop (total loss estimated at \$80 million — of which a large share goes to the Government crop insurance plan), a hailstorm in Lethbridge (Alberta) and two costly hailstorms in Saskatchewan.

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The most severely affected on these incidents again are the reinsurers. It is encouraging to note that one major reinsurer — prior to this year's occurrences — began pushing for much more detailed information on catastrophe exposures. J, you'd be surprised how many companies have no idea what they could lose if a tornado hit Toronto or if Montreal succumbed to its overdue earthquake. I wonder how we reinsurers can rate their cat-covers correctly!

## 2. Too many companies — too little premium

You may have read a recent article in "The Economist" outlining (briefly) some of the Canadian problems. One of them was that the Canadian market is "dominated" by companies such as the Royal. With due respect to a normally excellent publication, I would suggest that the problem is not one of domination by one or two companies, but of proliferation of insurance companies and unbridled competition for premiums that just aren't there.

In the last few years there has been a veritable flood of new entrants into Canada — both new Canadian companies being formed and overseas companies setting up Canadian operations on either a branch or a local company basis. There has been a similar increase in the number of reinsurers now licenced here. While the economy was booming, inflation and natural growth in the economic structure meant sufficient premium could be generated to keep everyone (relatively) happy provided they kept up their market share.

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Now that negative growth — what a contradiction in terms, surely “shrinkage” is better — has set in, results of cutting premiums in inflationary times show up in horrendous loss ratios which, with now falling investment yields, will put some companies’ solvency in jeopardy this year (1982) end.

410 There is little doubt, however, that legislators are extremely nervous about the possibility of more companies treading the same paths marked out by the Strathcona, Pitts and Cardinal insurance companies. A number of corrective measures are being bandied about: guarantee funds, banning unlicensed reinsurance, limitations on the volume of reinsurance which can be placed, more stringent regulations and requirements before licensing new companies, recognition only of reinsurance being placed through brokers with a place of business in Canada and authorized to transact business here, etc., etc.

The whole thrust of these new regulations, whilst being towards protection of the consumer, does however appear to be a hindrance on the development of smaller Canadian companies while permitting continued domination by foreign companies. In this I am put very much in mind of what happened in Newfoundland in the early-mid 1970’s when a number of mainland companies withdrew because of poor results. The gap was only taken up by the creation of new (and small) provincially licensed companies, who have not only survived but prospered over the past decade. Could this be a national scenario if results get worse? In the past week two foreign-owned companies have decided to retreat, one from property business and one from writing Canadian business, at least from a base in Canada. Certainly there must be others with this in mind.

These are but two causes of our insurance sickness; a listing of some others will have to wait my next letter — and I don’t expect the patient will have made a miraculous recovery by then.

Until the next letter,

Keep the faith,

A.