

## Foreign Influences on the Canadian Market

Angus H. Ross

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Résumé de l'article

L'auteur parle ici des influences étrangères qui agissent sur le marché d'assurance et de réassurance au Canada. Comme on pourra le constater, ces influences sont nombreuses et puissantes.

## Foreign Influences on the Canadian Market<sup>(1)</sup>

by

Angus H. Ross<sup>(2)</sup>

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Canada is an enormous enigma. In size it is larger than Europe (including 1,920,000 square miles of the Soviet Union) ; in population about 25 million, or little more than that of Zaire. It is said of Canada that "it is the country of the future", – to which a cynic has added "and always will be !" For insurers and reinsurers, there must be many who wish the future would arrive, for it could scarcely be bleaker than the immediate past.

Born 117 years ago out of the federation of Upper and Lower Canada (Ontario and Quebec), Nova Scotia and New Brunswick, moving through adolescence as the other six provinces gradually joined the federation (Newfoundland being the last in 1949) the country still has final growing pains to overcome as the Yukon and North-West Territories inch along towards full provincial status. Despite its youth as a nation, Canada's history goes back many centuries, with the one theme running through being that of foreign domination and influence affecting trade and commerce, politics and religion and many aspects of daily life.

The founding peoples came essentially from two countries – France and Britain – and it is on these two nations' laws and language that Canada has been built. However, such has been the spread of immigration, particularly in the decade preceding the First World War and from 1951 to date, that the percentage of Canadians

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(1) Article paraissant simultanément dans les revues *Assurances* de Montréal et *Reactions* de Londres.

(2) M. Angus H. Ross est vice-président principal de *Reinsurance Management Company*, membre du groupe Sodarcam.

with origins other than Britain and France is now approaching that of the “*founding people*”.

As can be expected from a country whose background is that of a colony, the beginnings of industrial and commercial ventures were financed by and for the benefit of the colonising powers. In fact it is only in the last few years that one of the oldest companies – the Hudson’s Bay Company – transferred its head office from London, England, to Winnipeg which, as Fort Garry, was its original Canadian base. The basis of early trade – mainly agricultural, lumber and base metals and minerals – has continued to the present day and finances the importing of many manufactured goods. Canada’s reputation as “a hewer of wood and drawer of water” still holds true. The importance of trade on the Canadian economy cannot be overemphasized with one in five jobs depending on it.

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How vulnerable the economy is to outside influence can be seen in the breakdown of imports and exports with the USA representing close to 70% in each instance. When the US economy moved into deep recession two years ago, the effect on the Canadian economy was devastating. Similarly there is a parallel in interest rate moves ; when the US prime moved up to record levels, Canadian interest rates peaked some three percentage points higher, further damaging the economy.

Against this background of external influence, it is small wonder that the insurance and reinsurance industries should also reflect pressures and conditions imposed to a large extent by outside interests. For example, there are two legal systems operating in Canada : the Civil Code (based on the Napoleonic Code) in Quebec, and Common Law in the other provinces, which follows very much the practice in Britain. This has brought about some strange exposures to underwriters such as that shown by a recent Quebec Court decision that in the event of an insurer on a subscription policy (cf. coinsurance policy in the U.K.) going bankrupt, the other insurers on the slip could be held liable for the shortfall up to their own individual limits. (The case is in appeal).

The major influence, however, has probably come from the domination of the market by non-Canadian companies and indeed the purchase of many of the smaller Canadian companies by outside interests. From the beginnings of insurance in what is now Canada

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in the mid 1700's, British companies led the field in premium volume. American companies made an appearance somewhat later and it was not until the 1800's that local companies were formed. Given the enormous distances between centres of population and the relatively small population (even in 1867 at the time of Confederation there were only 3.5 million people living in Canada) it is not surprising that many of the local companies that were formed were farm mutuals, catering to specific local needs or even to specific religions. Even in 1984 there are still well in excess of 150 mutual companies operating in Canada – the bulk being the municipal and parish mutuals in Quebec and the farm mutuals in Ontario.

At this point it would probably be useful to look at the 25 largest writers of general insurance to see where major market share and control lies. As with most Canadian references the breakdown is Canadian (C), British (B) and Foreign (F).

| COMPANY                    | DIRECT PREMIUMS<br>WRITTEN IN 1982 |
|----------------------------|------------------------------------|
| Royal Canada (B)           | \$ 437,023,000                     |
| The Cooperators (C)        | 419,700,000                        |
| Commercial Union (B)       | 268,735,000                        |
| Lloyds's (non-marine) (B)  | 267,908,000                        |
| Allstate of Canada (F)     | 245,975,000                        |
| Economical Group (C)       | 232,501,000                        |
| Wawanesa Mutual (C)        | 217,981,000                        |
| General Accident (B)       | 211,319,000                        |
| Prudential Assur. (B)      | 183,071,000                        |
| Fireman's Fund Group (F)   | 180,607,000                        |
| Zurich Insurance (F)       | 177,179,000                        |
| Continental Ins. Co's. (F) | 172,385,000                        |
| Travelers Canada (F)       | 165,535,000                        |
| Dominion of Canada Gr. (C) | 159,370,000                        |
| Guardian of Canada (B)     | 155,453,000                        |
| State Farm Group. (F)      | 150,681,000                        |
| Groupe Commerce (C)        | 149,346,000                        |
| Simcoe Erie Group (C)      | 130,825,000                        |
| Canadian General Gr. (C)   | 125,030,000                        |
| American Home (F)          | 121,833,000                        |
| Canadian Indemnity (C)     | 119,225,000                        |

## ASSURANCES

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|-----------------------|-----------------|
| Home Insurance (F)    | 108,831,000     |
| Pilot Insurance (F)   | 103,946,000     |
| Groupe Desjardins (C) | 100,613,000     |
| Halifax Insurance (F) | 99,967,000      |
|                       | <hr/>           |
|                       | \$4,705,039,000 |

This amount represents over 65% of the direct property/casualty writings by private companies in Canada, with the largest company writing only some 6% of the total market. One highly visible effect of the number of foreign companies in the top ranks is an almost total fragmentation of the market with little leadership, other than that shown in the ability to cut rates, to give the market some directional stability.

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The capacity currently available in the Canadian market is very substantial in most classes of business but is achieved in different ways. The Canadian companies have generally had to build up their capacity through reinsurance developed from their own results ; the American companies in particular, and, to a lesser extent the British and other nationalities, have been able to make use of the enormous capacity generated from their parent company proportional treaties and to benefit from the generally lower excess rates available with the broad premium base of the parent. There are signs of this changing as a number of branches have domesticated and found that the retentions of the parent are just too high for the premium base of the Canadian-based subsidiary.

It has also been noticeable that many subsidiaries or branches of foreign companies have shown a marked reluctance in the past to risk losing market share and improve their results. Often the Canadian book represented such a small percentage of the overall writings that even with extremely poor results the effect on the total was negligible. Now, as results on a world-wide basis have deteriorated and Canada rivals Australia as the loss-producing capital of the world, attention has focussed on the disastrous figures coming from Canada but, because of the fragmentation mentioned earlier, little remedial action can be taken.

On the reinsurance side the influence of foreign companies has been much greater ; even in 1984 there are only 4 Canadian controlled reinsurers writing a significant amount of Canadian reinsurance, and two of these are restricted to mutual business in Ontario

and Quebec respectively. It is also interesting to note where the business is actually written : of the 44 most active reinsurers (being those who write reinsurance only, plus Lloyd's) only 21 either have their own underwriting office in Canada or have an underwriting manager in Canada.

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In addition to the licensed reinsurance market, there is still a large volume of business placed on an unlicensed basis, although this has reduced as the supervisory authorities push for greater licensed placement. It is unfortunate that much of the unlicensed, and indeed the licensed market which writes from outside the country is what could be termed "*ignorant capacity*" – I do not believe there is such a thing as "*innocent capacity*".

Much of this market has failed completely to recognize radical changes in Canadian exposures. Not understanding SEF42 ; never having heard of the Family Law Reform Act in Ontario and Alberta (nor that other provinces are actively considering passage of such legislation) ; astounded to learn through experience that sewers back up in Saskatchewan and Alberta with monotonous regularity and expensive consequences ; unaware that liability awards of \$500,000+ are now commonplace and that the \$1,000,000 threshold has been breached on numerous occasions, they continue to quote and write business at terms which the more knowledgeable local market can only find risible. Unfortunately these external actions still have a dampening effect on the ability of the local market to improve terms to levels at which profits might reasonably be anticipated.

Given the poor results in Canada over the past years, the question must be asked of why so many companies have decided to come into the market, particularly in reinsurance where the number of licensed markets has expanded rapidly over the last decade. Canada has generally been seen to be a relatively safe haven for investment, with mineral wealth and vast unpopulated areas, political and financial stability and a proximity to the USA, which can give an entree to a broader North American experience. It has also been a quirk of licensing regulation that it has been easier and cheaper to set up a branch of a British or foreign company than to set up a local Canadian stock company, a situation which still, in theory, exists.

If it is possible for Canadians to get some joy out of foreign influence, it is certainly in the field of life insurance, where, unlike the general side, about 75% of the market is held by Canadian-controlled companies. Perhaps it is mere coincidence that Canadians of Scots descent were instrumental in the beginnings of several of the life companies, or perhaps it is that of all the foreign influence only the Scots know where to find the ultimate measure – profit.

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**L'Argus international.** Numéro 41. Mars-Avril 1984. Paris.

Dans ce numéro, on trouve d'excellents articles sur le dossier de l'Amérique du Sud, c'est-à-dire sur les assurances traitées au Brésil, au Venezuela, en Argentine, en Colombie et au Pérou. Nous le signalons à nos lecteurs qui voudraient avoir une source de documentation mise à jour. Ce numéro spécial contient non seulement des chiffres, mais des détails précis sur les pays en question avec, pour l'assurance et la réassurance, des jeux d'équilibre qui ne manquent pas d'intérêt.



**L'Argus international.** Numéro 42. Mai-Juin 1984. Paris.

Ce numéro est fort intéressant. Il contient de nombreux articles sur la responsabilité des producteurs et fournisseurs d'amiante. Signalons, en particulier, les titres suivants : *Current developments in Asbestos litigation* ; *Toxic substances and the employee's right to know*. Ce numéro contient également des travaux consacrés à l'équilibre technique et financier de l'assurance, une étude intitulée « L'assurance sur la vie : reflet du développement économique », une autre sur le marché yougoslave de l'assurance.

Il y a aussi des études consacrées à l'assurance de responsabilité civile aux États-Unis en 1983. Nous les signalons au lecteur qui y trouvera des détails fort intéressants sur les réclamations faites aux États-Unis, à la suite de l'usage ou de la fabrication de l'amiante. Des poursuites nombreuses ont donné lieu à une jurisprudence qui s'établit petit à petit et dont la revue rend compte.