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Résumé de l'article

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The State of Canadian General Insurance in 1986

by

Christopher J. Robey[1]

M. Christopher J. Robey présente ici sa revue annuelle de l'exercice 1985, en l'accompagnant de commentaires sur les principaux événements de 1986. Avec sa lucidité ordinaire, s'il montre les résultats, il s'efforce de les expliquer. Puis, il indique l'évolution du marché, les tendances aussi bien du point de vue technique que financier et les recommandations de l'industrie, à la suite d'un comité nommé par le gouvernement ontarien pour apporter des solutions à des problèmes immédiats ou lointains.

I – Industry results

During the first quarter of 1986, the slowly emerging optimism of general insurers in Canada over the prospect of improved results had to struggle against two major concerns. Firstly, there was the announcement of a 1985 underwriting loss of well over $1,000,000,000, by far the largest ever. In addition, there was the unprecedented publicity focusing on the greatly reduced affordability and availability of commercial automobile and liability business, resulting from the steps taken to reverse the deep slide which produced the 1985 loss.

The industry has probably never before faced such a combination of huge losses and intense scrutiny by both public and government. However it has set the stage for what appears already to be a rapid recovery in results and far-reaching reforms in the structure of the industry itself.

(1) Mr. Robey is Senior Vice President of le Blanc Eldridge Parizeau, Inc., Toronto, member of the Sodarcan Group.

The results of private property and casualty companies during the last five years have been as follows[2] :

YEAR	GROSS DIRECT PREMIUMS	NET PRE-MIUMS WRITTEN	NET PRE-MIUMS EARNED	LOSS RATIO	UNDER-WRITING RESULT
1981	7,001	6,420	6,043	80.84%	(942.4)
1982	7,937	7,241	6,916	74.43%	(521.7)
1983	8,239	7,531	7,416	71.21%	(377.1)
1984	8,508	7,874	7,757	78.12%	(961.6)
1985	9,581	8,956	8,380	82.40%	(1,334.1)

All figures in millions of dollars.

Investment income, at $1,676 million remained just sufficient to cover the underwriting loss and leave the industry with a small net profit, however many companies ended the year with an operating loss. The industry's underwriting loss was by far the largest ever, nearly 40% higher than the previous largest dollar loss, in 1984, and the loss ratio was also the highest ever, 1 1/2 points higher than that of 1981.

Provincial government insurers also had their largest underwriting loss ever, although their loss ratio was slightly better than that of 1982 and some 9 points better than in 1980, when it was at its highest.

The results of the provincial government insurance corporations in British Columbia, Saskatchewan and Manitoba have been as follows over the last five years :

[2] All statistics are taken from the annual statistical issues of *Canadian Insurance magazine* and *Canadian Underwriter magazine*, *Insurance T.R.A.C. Report* and the *Insurers Advisory Organization's Quarterly Newsletter*.

YEAR	GROSS DIRECT PREMIUMS	NET PRE-MIUMS WRITTEN	NET PRE-MIUMS EARNED	LOSS RATIO	UNDER-WRITING RESULT
1981	1.085	1,060	976	95.78%	(134.3)
1982	1,204	1,189	1,128	96.37%	(151.0)
1983	1,251	1,234	1,200	93.55%	(131.5)
1984	1,300	1,284	1,257	93.23%	(135.3)
1985	1,313	1,305	1,279	95.58%	(159.9)

All figures in millions of dollars.

The results of private and government insurers combined have been as follows :

YEAR	GROSS DIRECT PREMIUMS	NET PRE-MIUMS WRITTEN	NET PRE-MIUMS EARNED	LOSS RATIO	UNDER-WRITING RESULT
1981	8,087	7,481	7,019	82.92%	(1,076.8)
1982	9,142	8,431	8,045	77.51%	(672.8)
1983	9,491	8,766	8,616	74.32%	(508.7)
1984	9,808	9,159	9,014	80.23%	(1,096.9)
1985	10,894	10,261	9,660	84.14%	(1,494.1)

All figures in millions of dollars.

II – Insurance companies

Altogether, 132 companies and groups writing a general property and casualty portfolio had gross premiums of at least $2,000,000 and net premiums of at least $1,000,000. Of these, 24 had a combined ratio below 100%, the best, for the second year, being that of Pool Insurance at 38.42%. The largest dollar profit was realized by Canadian Indemnity with $9,874,000 although its associated company, Dominion of Canada, suffered the fourth largest underwriting loss in the industry. The largest company to show an underwriting profit was the Groupe Commerce, twentieth in size based on gross premiums written, with the fifth largest dollar profit at $1,505,000 and a combined ratio of 98.82%.

The highest combined ratio was that of INA at 268.68%, while its associated company CIGNA of Canada had a respectable (for 1985) combined ratio of 107.72%. The second highest combined ratio was that of Prudential of America at 209.78%, reflecting its continuing high start-up costs in its second year of operation. The largest dollar loss was once again that of the Royal, which regained its usual position as the largest insurer in Canada, a position which it lost in 1983 to the Co-operators. At 125.63%, the Royal also had the highest combined ratio of the top 25 companies, up slightly from 123.47% in 1984. The second largest company, Co-operators, had the second largest dollar loss at $73,397,000 (combined ratio 115.85%) and the fourth largest company, General Accident, had the third largest loss at $54,702,000 (combined ratio 120.60%).

The following list gives the results of a selected group of insurers in 1985, showing their ranking in brackets, based on gross and net premiums written :

COMPANY	GROSS PREMIUMS WRITTEN (000)	NET PREMIUMS WRITTEN (000)	UNDERWRITING RESULT (000)	COMBINED INDEX (%) 1985	1984
Royal	558,188 (1)	493,412 (1)	(115,914)	125.63	123.47
Co-operators	503,105 (2)	483,877 (2)	(73,397)	115.85	105.86
Phoenix Cont'l	348,589 (3)	259,949 (7)	(38,088)	115.80	113.79
Economical	299,732 (5)	277,765 (6)	(37,028)	114.15	115.09
Lloyd's	287,271 (7)	368,168 (3)	(23,018)	106.15	103.13
Wawanesa	262,782 (9)	259,090 (8)	(31,060)	112.96	104.72
Dominion of Can.	260,302 (11)	230,932 (13)	(53,329)	124.76	104.45
Laurentian Gen.	234,634 (14)	193,245 (16)	(7,001)	103.89	106.13
State Farm	233,793 (15)	233,832 (12)	(50,565)	122.99	107.27
Wellington	173,304 (17)	158,580 (18)	(36,754)	123.68	119.70
Simcoe Erie	169,992 (18)	76,113 (31)	(9,265)	114.07	109.92
Pilot	161,956 (19)	170,469 (17)	(2,005)	101.43	99.14
Groupe Commerce	152,588 (20)	136,621 (19)	1505	98.82	92.44
American Home	141,745 (21)	38,567 (50)	769	96.73	92.43
Canadian Gen.	126,668 (23)	110,645 (21)	(20,584)	118.52	115.02
CIGNA of Can.	118,881 (25)	67,981 (37)	(5,000)	107.72	107.23
Guarantee of N.A.	96,015 (31)	81,866 (28)	(3,822)	100.59	93.83
Groupe Desjardins	89,825 (32)	75,159 (32)	(5,557)	107.35	99.97
Citadel	85,461 (35)	92,979 (26)	(15,696)	114.71	135.63
Commonwealth	84,415 (36)	53,894 (41)	(2,252)	107.10	104.34
Global General	80,581 (39)	34,842 (54)	110	98.77	101.02
I.I.M.	76,772 (42)	73,045 (34)	(17,228)	124.40	109.66
Federation	60,389 (44)	46,517 (44)	(6,827)	114.93	103.49
Provinces-Unies	57,662 (46)	52,329 (42)	(556)	101.17	103.76
Crum & Forster	56,860 (48)	38,657 (49)	(13,951)	138.42	130.63
Western Union	47,217 (51)	42,398 (45)	1,053	98.02	94.91
Anglo-Gibraltar	40,144 (55)	17,281 (70)	(2,288)	116.31	110.99
National Insurance Group	39,864 (56)	25,795 (62)	(2,608)	110.67	98.22

Alberta Motor	39,028 (58)	37,363 (52)	(603)	102.23	93.41
Capitale	36,227 (62)	35,193 (53)	(415)	101.25	93.50
Belair	32,194 (65)	31,719 (56)	221	99.29	86.26
Symons General	31,946 (66)	15,075 (75)	(2,391)	115.18	104.90
Cdn. Northern Shield	31,773 (67)	27,148 (60)	(9,843)	138.92	113.90
Sovereign Gen.	31,155 (68)	23,980 (64)	(7,416)	129.50	119.45
Union Canadienne	30,035 (71)	26,709 (61)	(1,364)	105.13	89.47
Saskatchewan Mutual	26,152 (74)	19,963 (67)	(669)	103.50	96.23
Cooperants	23,718 (76)	13,791 (78)	(1,444)	112.57	124.62
Markel	23,427 (77)	17,257 (71)	(3,941)	128.05	139.83
Pafco	23,336 (78)	19,961 (68)	(847)	105.12	106.07
Equitable Gen.	16,813 (85)	15,284 (74)	(1,506)	109.52	94.67
St.Maurice	15,959 (86)	9,539 (88)	(180)	101.93	97.94
Canada West	14,889 (89)	9,901 (87)	(859)	109.57	105.11
Albion	14,417 (91)	6,548 (98)	(1,859)	126.19	115.89
Nova Scotia	13,259 (94)	8,835 (90)	(1,208)	113.08	107.77
Grain Insurance	11,092 (101)	4,372 (113)	(564)	114.70	99.30
Unique	9,479 (104)	5,921 (105)	(436)	107.75	96.04
North Waterloo Farmers	9,243 (107)	7,890 (94)	(313)	103.89	102.16
Industrielle	9,073 (108)	8,770 (91)	(704)	107.85	94.64
Peace Hills	6,927 (116)	3,420 (117)	(95)	108.49	107.44

John Deere again showed a profit, as it has in every year since its founding in 1980, and American Home maintained its record of only one year of loss (1983) since 1970. However, only 23 of the 132 insurers analysed had an underwriting profit in 1985 ; they were the following :

COMPANY	GROSS PREMIUMS WRITTEN (000)	NET PRE-MIUMS WRITTEN (000)	UNDERWRITING RESULT (000)	COMBINED RATIO (%)
Canadian Indemnity	103,943	59,900	9,874	86.34
Motors	37,750	39,311	3,314	88.18
Protection Mutual	31,103	21,957	2,929	89.20
New Hampshire	39,001	8,056	1,640	67.25
Groupe Commerce	152,588	136,621	1,505	98.82
INSURER				
John Deere	6,448	6,305	1,261	48.77
Western Union	47,217	42,398	1,053	98.02
Lumbermens Uwr Alliance	12,829	12,829	1,023	85.05
Commerce & Industry	43,870	1,996	805	52.79
American Home	141,745	38,567	769	96.73
Chrysler	3,305	2,268	515	76.36
Kansa General	48,785	39,300	492	98.20
American Road	2,370	2,361	461	80.48
Jevco	12,735	9,914	430	94.66

Belair	32,194	31,719	221	99.29
Tokio Marine	2,644	2,738	187	92.81
American Bankers	8,333	3,392	175	94.10
Security National	26,381	2,744	129	76.64
Global General	80,581	34,842	110	98.77
Transit Insurance	13,770	5,700	109	95.63
Providence Washington	2,585	1,944	86	94.88
Manitoba Mennonite	2,805	1,067	5	99.45

As can be seen, the companies in this group have little in common other than the fact that they made an underwriting profit. The top profit maker, Canadian Indemnity, was purchased by the Dominion of Canada Group and, given the underwriting loss of Dominion of Canada, it seems probable that the results of both reflect as much as anything else transactions resulting from that sale.

The three companies owned by the major automobile manufacturers, Motors (General Motors), Chrysler and American Road (Ford) are all on the list, Motors and American Road having made a profit in each of the last three years and Chrysler having been profitable for ten years or more ; the bulk of the business of all three is vehicle warranty. Far and away the largest profitable company on the basis of net premiums, on which underwriting results are determined, is the Groupe Commerce, which along with its subsidiary the Belair, has been profitable in each of the last four years.

Security National has made a profit also in each of the last four years, however this must be viewed in the context of net premiums which, during that period, have averaged only 7% of gross premiums.

None of the three companies which had had ten years of profit up to 1984 were profitable in 1985 ; Grain Insurance and Guarantee suffered probably their worst year ever and their first loss since 1921 with a combined ratio of 114.70%, while Pilot and Guarantee Company of North America only just failed to make a profit, with combined ratios of 101.43% and 100.59% respectively.

On the other hand, the largest loss-makers were those companies writing a general property and casualty account on a national basis, meaning inevitably that they were also amongst the largest premium writers, which is what would be expected given the industry results as a whole.

Surprisingly, in a year when the industry-wide loss ratio increased by four points, 47 of the 132 companies reviewed improved their loss ratio over 1984, perhaps reflecting the fact that 1984 itself was the worst year ever at the time and steps were already being taken to improve the results.

Canadian-owned companies' share of the market dropped in 1985 to 33.51%, compared to 35.36% in 1984, while British companies remained about the same, 23.91% compared to 23.80% with American and other foreign companies increasing their share from

40.84% to 42.58%. Canadian companies, however, had the lowest loss ratio of the three groups, although at 81.50% that was small compensation ; British companies were at 82.72% and other foreign companies 82.95%. Canadians have the largest share of the automobile market at 38.98% and the best loss ratio in this class, albeit a high 91.21%. Their share of the property market was 31.21% and of the general liability business 22.76%.

The possibility of an increase in the Canadian market share, which existed a year ago when three foreign-owned companies were up for sale, did not materialize, the Pilot being sold to the General Accident and the Canadian branch of the Employers of Wausau to the Metropolitan Life, to become the Metropolitan Insurance Company. The Canadian branch of the Insurance Corporation of Ireland did not find a buyer. However, during 1986, the Canadian Surety, Transamerica's Canadian operation with 0.67% of the property casualty market, was sold to Canadian interests and Alexander & Alexander have sold their Canadian reinsurance subsidiary, Sphere Reinsurance Company of Canada (0.12% of the market), to Markel Financial Holdings, which is majority-owned by Canadians, Confederation Life having a substantial interest.

III – Reinsurance companies

Although by no means a profitable year for them, the news for reinsurers was nowhere near as disappointing as for insurers, since their loss ratio improved marginally and, for the first time since 1980, reinsurers had a lower loss ratio than the market as a whole. While the underwriting loss increased by $3,300,000, it was nonetheless substantially below reinsurers' worst year, 1981.

Results for the last five years for reinsurers have been as follows (licensed reinsurers only and excluding reinsurance assumed by companies also writing insurance) :

YEAR	REINSURANCE ASSUMED	NET PREMIUMS WRITTEN	NET PREMIUMS EARNED	LOSS RATIO	U/W RESULT
1981	791.8	519.1	478.6	83.70%	(108.8)
1982	898.1	607.0	586.8	79.55%	(81.3)
1983	835.2	578.1	581.1	78.22%	(74.5)
1984	786.5	583.4	584.6	78.83%	(82.1)
1985	892.8	730.0	669.6	78.52%	(85.4)

All figures in millions of dollars.

As usual, and as with insurers, there was a wide variation in reinsurers' results, ranging from the lowest combined ratio of 79.73% (Philadelphia Re) to a high of 148.53% (General Security of New York).

Results of individual reinsurers were as follows :

REINSURER	REINSURANCE ASSUMED (000)	NET PREMIUMS WRITTEN (000)	UNDERWRITING RESULT (000)	COMBINED INDEX (%) 1985	1984
Munich Re	133,172 (1)	122,459 (1)	(3,437)	103.24	102.78
Canadian Re	108,141 (2)	64,219 (2)	(259)	100.41	121.29
SCOR Re	64,404 (3)	33,593 (9)	(5,971)	118.33	122.25
Gerling Global	50,872 (4)	34,398 (7)	297	100.36	99.15
General Re	49,699 (5)	49,699 (3)	(10,352)	124.87	115.89
S.M.R.Q.	46,809 (6)	34,273 (8)	1,523	94.85	93.37
American Re	45,906 (7)	45,906 (4)	(7,719)	118.33	123.82
Abeille-Paix	41,630 (8)*	41,657 (5)	(6,852)	117.61	111.09
M & G	39,578 (9)	35,961 (6)	(8,265)	124.28	123.50
Prudential Re	35,401 (10)	30,311 (10)	(5,636)	120.88	118.10
National Re	34,571 (11)	15,210 (14)	(1,186)	107.52	109.94
Skandia	22,625 (12)	21,049 (12)	(4,702)	122.46	133.00
Employers Re	22,345 (13)	27,102 (11)	(3,758)	113.43	103.04
Victory Re	18,076 (14)	16,053 (13)	(2,262)	114.50	111.12
Farm Mutual Re	16,408 (15)	10,161 (20)	(3,529)	134.26	101.98
Nationwide	15,733 (16)	11,797 (19)	(1,164)	110.92	100.02
Sphere Re	15,351 (17)	13,583 (15)	(1,932)	115.88	112.57
Transatlantic	14,683 (18)	9,868 (21)	(5,613)	173.21	144.30
Frankona Ruck	12,627 (19)	12,627 (16)	(1,977)	117.36	96.12
Hannover Ruck	12,335 (20)	12,335 (17)	(3,233)	127.89	108.68

S.A.F.R.	11,995 (21)	11,995 (18)	(1,503)	114.65	104.40
Great Lakes Re	9,826 (22)	9,709 (22)	(1,398)	117.11	117.23
Union Re	8,355 (23)	8,355 (23)	(957)	113.13	114.47
Netherlands Re	7,978 (24)*	7,978 (24)	206	97.38	102.73
Storebrand	7,225 (25)	6,988 (25)	(449)	107.14	114.72
A.G.F. Re	6,122 (26)	6,119 (26)	(272)	104.64	125.36
M.G.F.A.	6,016 (27)	5,794 (27)	(784)	116.81	146.50
Ancienne Mutuelle	5,842 (28)	4,876 (28)	(512)	110.11	113.06
Kemper Re	5,395 (29)	4,617 (29)	(941)	121.25	119.75
Transcontinentale	4,122 (30)	4,122 (30)	(501)	112.13	110.96
General Security N.Y.	3,667 (31)	3,667 (31)	(1,778)	148.53	121.49
N.W. Re	3,555 (32)	3,555 (32)	442	86.71	119.04
Philadelphia Re	3,268 (33)	2,133 (34)	457	79.73	142.11
NERCO	2,966 (34)	2,966 (33)	(675)	120.54	104.88
Reinsurance Corp. N.Y.	2,341 (35)	1,869 (36)	161	91.49	110.29
Pohjola	2,024 (36)	2,033 (35)	17	99.07	113.09

*Estimates

Surprisingly, with reinsurers as a whole showing a slightly improved loss ratio, less than half (sixteen of thirty-six) had a better combined ratio in 1985 than in 1984, however the impact of the improvement by Canadian Re from 121.29% to 100.41% on net premiums of $64,219,000, second largest in the country, undoubtedly affected the overall result. Only six of the thirty-six had a combined ratio below 100%, four of the six being amongst the five smallest in terms of both gross and net premiums written. The most profit was made by S.M.R.Q., the Quebec farm mutual company, with $1,523,000 (combined ratio 94.85%). The largest loss was that of the General Re at $10,352,000 (combined ratio 124.87%).

Only Gerling Global Re can claim any consistent profitability, having had a positive underwriting result for the last seven years ; the only other reinsurer to have made an underwriting profit in both 1984 and 1985 is S.M.R.Q., which now has three consecutive years of profit.

IV – Results by class

Both automobile and property business showed substantial increases in loss ratio over 1984, the loss ratio for automobile liability, which for the private industry is dominated by Ontario, increasing from 99.65% to 111.68%.

However, the general liability loss ratio continued its improvement to 88.94%, down from 105.78% in 1983. Substantial rate increases undoubtedly permitted this improvement, written premiums increasing by 42% over 1984. The fact that earned premiums increased only by 24% suggests that the improvement should continue well into 1986, even without the further substantial increases in premium this year.

Of the smaller classes, all improved their loss ratio except Fidelity ; hail companies had a particularly good year, with a 39.20% loss ratio, although 1986 experience is unlikely to be as good in this class.

CLASS	YEAR	NET PREMIUMS WRITTEN (000)	NET PREMIUMS EARNED (000)	LOSS RATIO (%)
Auto (Liability)	1981	1,530,902	1,454,862	84.14
	1982	1,767,839	1,679,028	80.29
	1983	1,808,722	1,798,873	84.79
	1984	1,794,655	1,801,197	99.65
	1985	2,040,322	1,917,763	111.68
Auto (Damage to the vehicle)	1981	1,341,805	1,221,249	97.95
	1982	1,595,192	1,490,269	72.15
	1983	1,683,834	1,659,714	63.00
	1984	1,750,277	1,733,252	68.64
	1985	1,916,446	1,829,126	78.55
Auto (All sections)	1981	3,984,015	3,698,107	91.36
	1982	4,586,377	4,341,248	81.19
	1983	4,778,557	4,713,323	79.05
	1984	4,890,254	4,848,841	86.95
	1985	5,380,867	5,138,134	95.20
Property – Personal	1981	520,768	482,000	76.58
	1982	1,159,338	1,010,759	65.39
	1983	1,347,355	1,299,950	56.50
	1984	1,519,652	1,482,950	59.69
	1985	1,492,527	1,499,355	65.91
Property – Commercial	1981	408,822	389,900	76.89
	1982	933,998	862,411	73.91
	1983	1,011,880	986,547	59.51
	1984	1,100,480	1,068,496	69.11
	1985	1,294,531	1,188,485	71.83
Property – Total	1981	2,429,872	2,274,742	76.04
	1982	2,720,819	2,556,104	69.89
	1983	2,841,450	2,759,040	59.29

	1984	2,975,497	2,916,922	63.53
	1985	3,259,252	3,072,807	68.21
Liability	1981	483,925	458,627	72.57
	1982	503,405	500,766	84.05
	1983	506,358	497,487	105.78
	1984	571,640	547,575	102.35
	1985	812,699	679,185	88.94
Surety	1981	73,071	69,321	22.90
	1982	77,055	77,061	32.97
	1983	74,700	74.959	36.41
	1984	83,391	78,326	44.77
	1985	96,556	89,909	41.62
Marine	1981	61,759	59,508	73.92
	1982	54,765	54,161	84.72
	1983	57,021	55,315	64.07
	1984	66,596	65,333	69.83
	1985	71,464	69,746	49.44
Aircraft	1981	52,642	49,322	76.15
	1982	53,851	54,745	70.58
	1983	48,943	49,151	78.69
	1984	55,447	49,972	81.73
	1985	59,343	58,077	56.42
Fidelity	1981	27,802	28,928	54.35
	1982	30,825	30,266	76.07
	1983	31,262	31,398	49.26
	1984	37,749	33,674	61.39
	1985	50,319	41,489	70.93
Hail	1981	22,795	23,007	92.34
	1982	19,652	19,669	126.82
	1983	24,447	24,440	103.72
	1984	22,157	22,041	76.14
	1985	23,097	22.428	39.20

When loss ratios are looked at on a quarter by quarter basis, the improvement in liability is even more dramatic, the first quarter 1986, at 64.50%, being the best the industry has had since the third quarter 1981. Premium increases are clearly the major factor, earned premiums in the first quarter 1986 being 71% higher than those of the first quarter 1985.

The automobile loss ratio in the first quarter was also dramatically better than that of the fourth quarter 1985, although only 1.3 points better than that of the first quarter 1985, earned premiums being 15% higher than a year earlier.

In property business, first quarter loss ratios were at about the same level as in the fourth quarter 1985, but substantially better than those of the first quarter 1985.

The following table shows the loss ratios by quarter for the principal classes :

CLASS	YEAR	LOSS RATIO BY QUARTER (%) 1ST	2ND	3RD	4TH
Property - Personal	1984	59.7	61.9	62.1	56.6
	1985	65.0	70.6	65.4	61.9
	1986	62.0			
Property - Commercial	1984	64.6	63.9	64.6	77.4
	1985	76.7	75.7	66.9	65.0
	1986	66.2			
Property - Total	1983	61.3	55.8	62.2	59.6
	1984	62.1	62.8	63.3	66.1
	1985	70.0	72.8	66.0	63.3
	1986	64.0			
Automobile	1983	66.6	65.0	71.8	90.0
	1984	78.9	73.0	81.8	100.3
	1985	91.0	84.3	86.3	110.9
	1986	89.7			
Liability	1983	81.3	92.8	87.4	140.5
	1984	99.1	102.1	101.0	125.6
	1985	98.8	93.5	93.4	103.4
	1986	64.5			

Overall, the industry had an earned loss ratio in the first quarter 1986 of 76.1%, (83.2% in 1985), producing a combined ratio of 107.9% compared to 116% a year earlier. Of particular importance is the fact that written premiums grew 25.3% while the earned grew 17.2%, showing that there is still considerable impact from 1985 rate increases to be felt in the results through the remainder of the year.

V - Market developments

The Canadian property casualty industry came under unprecedented government and public scrutiny in the first half of 1986, triggered by the rapidly increasing prices and reduction in availability of commercial automobile and liability business.

Interest in the industry picked up first in Ontario when the provincial government announced that it would proclaim Part IX of the Environmental Protection Act to come into force the 29th November 1985. This part of the act, otherwise known as the "Spills Bill", while not changing who is ultimately responsible for damage resulting from the spill of a pollutant, imposed on those owning or in control of the pollutant absolute liability for the cost of the immediate clean-up. The cost could then be recovered subsequently if another party was ultimately found responsible. Insurers and reinsurers immediately expressed their concern and the introduction of absolute pollution exclusions in commercial liability insurance policies accelerated, as insurers faced the prospect of a similar clause in all reinsurance contract renewals from the 1st January 1986.

The immediate crisis was overcome by the formation of the "Pollution Liability Association", a grouping of insurers and reinsurers to provide pollution coverage in Ontario. The original intention had been for the pool to provide coverage for insureds in all parts of Canada, but the demand from Ontario was so great that, at least for the moment, applications are being accepted from that province only.

The Reinsurance Research Council, a grouping of professional reinsurers with underwriting offices in Canada, also made a major contribution to defusing the problem by undertaking the difficult task of developing acceptable market reinsurance clauses for the exclusion of pollution risks in automobile, liability and property.

No sooner were pollution problems dealt with, at least temporarily, than the combined impact of the 1985 results and the 1986 reinsurance renewal terms began to be felt in the commercial automobile and liability insurance market, with rapidly escalating prices and reduction in coverage available, in some cases down to nil, for any exposures with a minimal hazard.

Particular targets in automobile were buses and trucking, the latter being further aggravated by the failure of one of the few specialist trucking insurers, the United Canada Insurance Company, dragged down by the failure of its American parent, Carriers.

In commercial liability, main casualties were hospitals, municipalities, school boards, day-care centers, all forms of professional liability and any manufacturer exporting to the United States. Although these areas were the most affected, few businesses escaped from at least a substantial rate increase and tighter policy wording.

The problem of availability for general liability risks was dealt with by the creation of another pool, the Ontario liability pool, again set up by private industry with the active encouragement of the Ontario Government. However, it was clearly stated by both the pool and the Government that it could address only the question of availability where no coverage at all could otherwise be obtained, not the question of reduced capacity nor affordability.

For its part, the Insurance Bureau of Canada hastened completion of its revised Commercial General Liability policy forms, both the occurrence version and a new claims-made version. Both were based on the plain language American forms developed by the Insurance Services Office, appropriately modified for Canadian use.

As a result of the drastically hardened market in commercial automobile and liability, the industry received enormous press coverage for about two months, which is still continuing on a sporadic basis, as high profile insureds, such as the midway at the Canadian National Exhibition and the Molson Indy car race, are unable to purchase the minimum limits which were established by provincial or city regulations in easier times.

Generally speaking, the problems which received the most publicity were overcome, at least temporarily, although many insureds are running with much less coverage than they would like and some with no coverage at all for at least parts of their operations.

VI – Ontario Task Force on Insurance

In addition to facilitating the creation of the two industry pools, the Ontario Government responded to the evident insurance crisis by creating a task force under the chairmanship of Dr. David Slater. In a remarkably short time, the Ontario Task Force on Insurance produced a report in May 1986 presenting a comprehensive and balanced view of the general insurance situation in Ontario, and indeed Canada as a whole, particularly in the areas of automobile and public liability.

The government is now receiving comments from interested parties on the Task Force's report and expects to announce its policy on the recommendations in September 1986.

The Task Force recommendations cover most of the concerns both of the industry and the public in automobile and liability insurance. Inevitably, the short time-frame in which the Task Force did its work did not permit it to recommend solutions to all of the problems of insurers and their clients, however, where it did not recommend its own solutions, it clearly identified those subjects it felt warranted further or accelerated study by others.

The approach behind the recommendations is summed up in this extract from the Task Force report :

"The dominant conclusion that the Task Force has reached is that the crisis does not reflect simply a more severe and unusual cycle of activity which is in the process of being corrected through adjustments in prices and premiums. Rather the crisis reflects serious socio-legal and economic changes of a structural nature and gives rise to such a degree of uncertainty as to permanently alter the risk environment and the insurance market. Thus, certain fundamental reforms to the system are required in order to stabilize the risk environment and ensure the provision of available, affordable and adequate insurance."

Amongst the key recommendations of the Task Force, not all of which it is in the power of the Government of Ontario to introduce, are the following :

Provision for establishing tax exempt reserves for companies in environmentally hazardous occupations.

Development of sudden and accidental coverage for environmental impairment and pollution in the commercial general liability policy.

Facilitate the development of reciprocals and industry pools.

Government sponsorship of an industry pool for U.S. products liability coverage, including government excess of loss reinsurance.

Permission for farm mutuals to form stock subsidiaries for urban and commercial risks.

Establishment of the Canadian Insurance Exchange for the 1st January 1987 reinsurance renewals.

Review by the government or by the Ontario Law Reform Commission of :

Pre-judgement interest.
Income tax gross-up.
Structured settlements.
Collateral benefits.
Joint and several liability.
Limitation periods.
"Good Samaritan" legislation.
Arbitration of accident benefits.
Specific problems of professional liability.

Abolition of taxation of income from the investment of lump sum settlements.

Maintenance of the tax exemption for structured settlements.

Tax deduction for self-funded loss reserves.

Change of the tax treatment of domestic captives to promote their formation.

Formulae to permit insurers to set up premium deficiency and catastrophe reserves before tax.

While these recommendations deal with the problems cited by the insurance industry and the general public as being behind the liability crisis, the Task Force feels, as stated in the extract quoted above, that deeper structural changes are necessary, which is the background to its most sweeping recommendations and those which are necessarily the most talked about both within and outside the industry. These are :

"In the short term, a new accident compensation scheme should be implemented by private industry at least for automobile accident injury.

Ideally and as a medium-term objective government should begin to work with the private insurance industry to design a universal accident compensation plan that would include compensation for all accidental injuries.

Eventually and in the longer-term, federal and provincial governments should begin planning the co-ordination and rationalization of all existing first-party no-tort compensation schemes into a universal disability compensation program."

Inevitably, it is the prospect of the private delivery of a new system of no-tort personal injury compensation for Ontario automobile insurance on which most discussion is centred at the moment, particularly since introduction of such a scheme in Ontario would influence legislators in other provinces. The idea has received opposition from the legal profession, while the prospect of it being run by private industry rather than by government has run into some political opposition. The Insurance Bureau of Canada, which represents insurers handling about 80% of the Canadian market, has endorsed a partial no-tort plan, which would offer greatly enriched first party benefits compared to those presently in the policy, but retain the right to sue in respect of serious injuries, although not defining "serious injuries" because of the short time available to respond to the Task Force's report. The Government of Ontario has been careful not to commit itself publicly to any course of action, consequently its policy announcement later in the year is eagerly awaited.

VII – Legislative developments

While the major product reforms suggested by the Slater Task Force are for the future and may not come to pass, legislation has already been introduced, most notably in the Federal Parliament and the Ontario Legislature, governing the licensing and financial control of insurance companies and setting the stage for a tighter control over reinsurance practices.

Ontario Bill 108 (An Act to Amend The Insurance Act) provides for the following changes in legislation applicable to companies holding a licence from that province :

Minimum capital and surplus of $3,000,000, with existing companies having until the 1st January 1991 to comply.

Regulation, as yet not tabled, to fix the maximum premium to capital and surplus ratio.

Requirement for the actuarial certification of reserves.

Membership in an insolvency fund as a requirement of licensing.

Creation of a Canada-wide insolvency fund was a major topic of discussion and study at the meeting of the Association of Superintendents of Insurance in the autumn of 1985 and received general approval at that time. However, it cannot be brought into effect until changes in certain legislation have been made.

The basic principles of the fund are that it would be administered by the industry, with coverage limited to $200,000 per person per occurrence. The funding would be by letter of credit, with loans to be reimbursed by assessment of solvent members of the industry.

All federally licensed companies would be required to be members of the fund and it is expected that all provinces will also join, which would require the provinces to impose certain minimum standards on their provincially licensed companies, thus enhancing the standardization of regulation across the country. As has been noted, Ontario has already introduced legislation which will require companies licensed in that province to belong to the fund and one of the key changes in legislation, an amendment to the Federal Winding-up Act which would give claims priority over unearned premium, has been introduced.

The change to the Winding-up Act is contained in Federal Bill C-123 (An Act to Amend the Canadian and British Insurance Companies Act, The Foreign Insurance Companies Act and the Winding-up Act).

This act deals primarily with increasing the powers of the Superintendent of Insurance in controlling the activities of insurance companies, particularly any it considers to be doing something which could endanger its viability or where the company is already considered to be in financial difficulty.

In addition, it makes provision for government approval of change of ownership of an insurance company, requires the actuarial certification of unearned premium and outstanding loss reserves and adds two new solvency tests, based on those applying in the European Economic Community. However, those changes which have been most anticipated by the industry, dealing with reinsurance and particularly unregistered reinsurance, are dealt with in the act only by the following :

"The government in Council may make regulations,

a) limiting the extent to which a company may cause itself to be reinsured against risks undertaken by it ;

b) limiting the extent to which a company may cause itself to be reinsured by an insurer that is not registered under this act or the Foreign Insurance Companies Act."

The regulations have not yet been published, however they are expected to follow closely the limitations on reinsurance, both registered and unregistered, which were contained in the original memorandum from the Department of Insurance in September 1982 and have been discussed extensively with the industry since.

Basically, the key provisions are expected to be that :

No insurer may reinsure more than 50% of its gross premiums – a limitation of 50% is applied in the legislation itself in the two new solvency tests. New companies would probably be given five years to reach this 50% figure, but would not be allowed to exceed a 75% total cession in the meantime.

Premiums ceded to unregistered reinsurers must not exceed the total of premiums ceded to registered reinsurers.

An insurer must keep a minimum retention on each policy of 10% of the limit or 1% of its paid capital and surplus, whichever is smaller.

To a large extent, the current tight reinsurance market has already imposed these restrictions and more on insurers. However it is felt by the industry that these regulations would go a long way towards preventing a future soft reinsurance market from leading insurers once again into unbridled competition.

VIII – Conclusion

While facing the first major revision of its governing legislation in many years and the possibility of a major change in its automobile product in Ontario, a major part of its overall product line, the industry can at least do so looking ahead to improving results after pulling itself out of the most disastrous period in its history. If the Insurers' Advisory Organization's prediction of a 108% combined ratio in 1986 proves true, it will represent a remarkable recovery from the present level in just one calendar year and offer the prospect of underwriting profit before the end of the decade, something which some must have thought would never be seen again. Although the past has shown on what slender threads industry recovery relies, the combination of two years of punishing losses following several more without an underwriting profit, coupled with legislative reform tightening the financial requirements of companies and thus reducing their ability to enter into cut-throat competition, augurs well for the future.

The die is already cast for 1986 and the actions now being taken will be reflected more in the 1987 results and carry through to 1988.

While there are enough unknown elements in the future – legislative reform of the financial services sector, no-tort automobile in Ontario, an unsure economic future, to select just three – the insurance industry can at least feel it is at last doing something about that part of its business directly under its own control and, having weathered the worst of unprecedented public scrutiny and criticism, it can concentrate on maintaining the already marked improvement in its underwriting performance.

August 1986

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