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Christopher J. Robey

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Aller au sommaire du numéro

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Résumé de l'article

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The State of Canadian General Insurance in 1989

by

Christopher J. Robey[1]

Notre collaborateur, M. Christopher J. Robey, nous livre à nouveau la revue de la situation de l'assurance autre que vie au Canada. Il compare les résultats de l'année 1989 avec ceux des années antérieures et il donne les statistiques pertinentes sur tous les assureurs et sur tous les réassureurs autorisés à pratiquer l'assurance au Canada.

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The Canadian general insurance industry has now gone ten years without an underwriting profit and will almost certainly go a few more without one, as it grapples with a multitude of changes both within and outside the industry.

The 1988 loss ratio climbed to 75.35%, its highest level since 1985, but still better than the cumulative loss ratio of 76.57% since 1984.

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

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[1] Mr. Christopher J. Robey is an executive vice president of B E P International Inc., member of the Sodarcan Group.

[2] All statistics are taken from one of the following sources :

- Annual statistical issue of Canadian Insurance magasine.
- Annual statistical issue of Canadian Underwriter magasine.
- Canadian Insurance Underwriting Results, published on disc by Stone & Cox Limited.
- The Insurance T.R.A.C. Report.

Year	Gross Direct Premiums	Net Premiums Written	Net Premiums Earned	Loss Ratio	Under-writing Result
1984	8,508,009	7,874,884	7,757,617	78.12%	(961,618)
1985	9,581,558	8,956,155	8,380,718	82.40%	(1,334,113)
1986	11,849,586	10,959,262	10,139,053	74.28%	(567,777)
1987	12,845,556	11,942,952	11,531,623	74.61%	(640,577)
1988	13,354,189	12,550,616	12,220,191	75.35%	(848,793)

All figures in thousands of dollars.

Nonetheless, high interest rates have once again provided record investment income of $2,120 million, leaving the industry with its third consecutive billion dollar operating profit.

Insurers

There were ninety-one insurance companies and groups in 1988 with direct premiums written of $15,000,000 or more and net premiums written of $10,000,000 or more, which write at least half their net premiums in the automobile, property and liability classes. It should be noted, however, that not all groups have been consolidated.

Of these ninety-one, seventy-six suffered an underwriting loss and only twenty-two had an underwriting result better than in 1987.

The largest underwriting profit was achieved by Lloyd's with $70,729,000 on $497,348,000 of net written premium. However, about a third of their gross premium was from reinsurance, which generally produced better results than insurance in 1988. Nonetheless, it was a remarkably good result and an improvement of $118,348,000 over their 1987 underwriting loss of $47,619,000.

- The Quarterly Report, published by Insurers Advisory Organisation Inc.
- The Stone & Cox "Brown Chart."

Since these references use different bases for preparing their information, not all the figures given are strictly comparable, however there should not be any material differences.

Other companies with over $10,000,000 of underwriting profit were American Home ($24,759,000), Chubb ($14,053,000) and Commassur ($12,527,000).

The largest underwriting losses were, not surprisingly, found amongst companies with large portfolios of Ontario automobile business – Co-Operators ($149,471,000), Economical ($81,990,000), Allstate ($53,484,000), Zurich ($51,061,000) and Safeco ($50,132,000). They are first, fifth, seventh, third and eleventh respectively amongst insurers writing Ontario automobile.

The best loss ratio was achieved by Allendale Mutual at 36.55%, with Commonwealth (45.45%), Lloyd's (48.25%) and Protection Mutual (48.26%) also under 50%. Scottish & York (116.76%), Liberty Mutual (109.06%), Kansa General (105.62%), Safeco (103.23%) and Abstainers (100.40%) were all over the 100% loss ratio level.

The following table gives the 1988 results of selected insurers ; their ranking based on direct premiums written and net premium written is shown in brackets :

Company	Direct Premiums Written	Net Premiums Written	Underwriting Result	Loss Ratio 1988	Loss Ratio 1987
Co-Operators	777,576 (1)	747,886 (1)	(149,741)	94.62%	82.80%
Royal	743,843 (2)	660,191 (3)	(28,705)	73.31%	72.06%
Zurich	706,524 (3)	698,181 (2)	(51,061)	74.90%	—
Economical	497,401 (4)	474,338 (5)	(81,990)	88.95%	79.73%
Continental	439,207 (5)	259,780 (15)	(2,114)	67.54%	64.20%
Laurentian	399,606 (7)	353,620 (8)	(19,306)	66.71%	67.32%
Wawanesa	358,014 (10)	352,496 (9)	(33,295)	82.89%	79.65%
Dominion	338,558 (11)	322,347 (11)	(32,030)	77.57%	81.45%
Lloyd's	335,863 (14)	497,348 (4)	70,729	48.25%	71.42%
Commassur	292,472 (15)	271,576 (14)	12,527	65.67%	63.48%
Prudential U.K.	254,548 (16)	244,031 (16)	(15,788)	74.61%	71.22%
Wellington	211,262 (18)	227,174 (18)	(31,971)	81.35%	84.14%
Simcoe Erie	193,525 (22)	110,272 (29)	(9,975)	78.09%	72.59%
Guarantee Co.	157,661 (23)	128,012 (24)	(4,468)	69.33%	56.99%
Canadian Gen.	153,609 (24)	127,861 (25)	(15,790)	80.18%	83.65%
Desjardins	133,847 (29)	109,425 (30)	(6,838)	61.23%	60.02%
Gore Mutual	125,738 (33)	116,055 (28)	(6,370)	75.91%	76.38%
Canadian Surety	114,940 (35)	93,830 (37)	(5,631)	66.19%	65.67%
I.I.M.	112,101 (36)	105,886 (31)	(19,829)	86.66%	77.35%
Scottish & York	108,950 (37)	32,986 (64)	(14,090)	116.76%	88.11%

Gerling Global	100,308 (40)	43,823 (54)	275	64.88%	61.65%
Provinces Unies	87,310 (42)	92,334 (38)	(2,024)	70.21%	66.80%
Federation	77,608 (44)	61,877 (43)	(6,828)	82.03%	79.37%
Pru. of America	69,497 (46)	68,894 (41)	(9,028)	86.10%	84.00%
Commonwealth	65,098 (47)	18,676 (80)	(338)	45.45%	74.65%
Pafco Financial	62,477 (48)	42,792 (56)	(761)	54.71%	65.87%
La Capitale	61,780 (49)	61,002 (44)	164	73.32%	70.23%
Personal	59,683 (52)	50,935 (49)	(2,888)	82.23%	81.72%
Metropolitan	49,817 (60)	49,201 (50)	(10,601)	92.48%	80.98%
Anglo-Gibraltar	49,770 (61)	40,215 (60)	(3,387)	70.71%	75.33%
Canadian North	47,514 (65)	43,626 (55)	(2,866)	58.10%	52.99%
Canadian Union	46,012 (67)	41,547 (58)	(5,067)	79.81%	70.18%
S.N.A.	33,209 (74)	17,536 (82)	(1,152)	69.49%	62.74%
Coopérants	28,003 (77)	17,117 (84)	(1,582)	73.20%	79.80%
Equitable	26,838 (79)	23,485 (74)	(1,836)	74.41%	73.67%
Saint-Maurice	25,966 (80)	16,567 (85)	(1,044)	71.83%	67.49%
Unique Générale	18,618 (86)	14,044 (88)	(1,183)	73.30%	61.67%
Peace Hills	16,060 (89)	12,594 (91)	(3,720)	95.66%	75.46%
Canada West	15,131 (91)	12,870 (90)	(3,213)	94.81%	76.04%

All figures in thousands of dollars.

Only Commassur has had an underwriting profit in each of the last five years.

Gerling Global General has had a profit in the last four years and Allendale Mutual, American Home, Capitale and Pilot have had profits in four of the last five years. Besides the six companies already mentioned, only Lumbermen's Mutual Casualty and the General Division of Saskatchewan Government Insurance have now had two consecutive years of profit.

On the other hand, almost half the companies reviewed – forty-four of ninety-one – have had an underwriting loss in each of the last five years.

Only 22 companies improved their dollar result in 1988 over 1987, the most remarkable being Lloyd's going from a loss of $47,619,000 to a profit of $70,729,000. Since 1985, they have been on something of a roller-coaster, having had a loss of $23,018,000 in that year, and a profit of $84,585,000 in 1986.

Other companies with an improvement of more than $10,000,000 in their result were Protection Mutual (loss of $10,660,000 to a profit of $7,464,000), Manitoba Public General

Division (loss of $14,345,000 to a profit of $2,469,000), Chubb (loss of $1,074,000 to a profit of $14,053,000), American Home (profit of $12,705,000 to a profit of $24,759,000), Commercial Union (loss of $39,997,000 to a loss of $28,613,000) and St. Paul (loss of $12,823,000 to a loss of $1,458,000).

Direct premiums written by Canadian-owned companies in 1988 were 43.18% of the total market, almost the same as their 43.28% share in 1987.

American-owned companies were next, with 22.66% in 1988 (23.88% in 1987), followed by United Kingdom companies with 21.08% (21.46% in 1987).

Other countries with more than 1% of the market were Switzerland (5.77% ; 6.55% in 1987), the Netherlands (3.40% ; 1.39%), Germany (2.02% ; 0.75%) and France (1.04% ; 0.95%).

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Reinsurers

While results of the market as a whole deteriorated, those for professional reinsurers writing in the open market improved significantly and gave them, as a group, their first underwriting profit since 1972. Results for the last five years have been as follows :

Year	Reinsurance Assumed	Net Premiums Written	Net Premiums Earned	Loss Ratio	Underwriting Result
1984	769,573	583,495	584,645	78.83%	(81,687)
1985	876,020	730,020	669,763	78.51%	(85,438)
1986	1,115,574	923,064	859,764	76.28%	(53,136)
1987	1,066,994	911,053	917,828	73.08%	(17,484)
1988	1,021,372	872,619	892,829	68.17%	3,429

All figures in thousands of dollars.

Total reinsurance ceded on Canadian business in 1988 was about $3,600 million, down from $4,105 million in 1987 and $3,981 million in 1986. However this includes some double counting because of inter-company pooling arrangements.

Probably the most dramatic example of the distortion which such pooling arrangements produce can be seen in the figures for the Phoenix Continental group. Dominion Insurance Corporation, a Continental subsidiary, was the largest reinsurer in Canada in 1988, with a total assumed volume of $523,876,000. The Continental Insurance Company of Canada had assumed reinsurance of $124,835,000 and the Phoenix Assurance company of Canada had $120,743,000. On the other hand, the largest professional reinsurer, the Munich Re, had only $140,022,000 of assumed reinsurance.

494 Not only is it impossible to calculate from published figures how much genuine reinsurance of Canadian business is placed, it is also impossible to determine how much of it is placed into the open market, since the reinsurance placed with affiliated companies cannot be identified.

This is particularly true when many foreign-owned companies include their Canadian business in their world-wide or North American reinsurance arrangements. For example, twenty-two companies do not show any ceded reinsurance in their Canadian accounts at all.

About $1,380 million of reinsurance was assumed in 1988 by licensed companies writing reinsurance on the open market, although the true open market business was probably closer to $1,300 million. In 1987 and 1986, this amount was about $1,400 million.

A total of $787 million of premium was placed by federally licensed companies into the unlicensed reinsurance market in 1988, down from $900 million in 1987 and $870 million in 1986. If provincially licensed companies ceded the same proportion of their reinsurance to unlicensed reinsurers as did federally licensed companies, these total cessions would have been approximately $890 million in 1988, $1,030 million in 1987 and $990 million in 1986.

However, the majority of these unlicensed cessions were not for traditional reinsurance. About $104 million was for unlicensed retrocessions of professional reinsurers and much of the balance would have been ceded to affiliated companies or would be for fronting arrangements for specific books of business. The total premium ceded to the unlicensed market in 1988, made up of traditional treaty reinsurance ceded to unaffiliated companies, was probably closer to $70,000,000.

This would mean that the total true open market premium available in Canada was about $1,370 million. This is a reduction of about 10% since 1986 and a further reduction will certainly appear when the 1989 figures are published.

Results for assumed reinsurance are only available for those companies which have reinsurance as their specialty. In the following table of licensed companies writing reinsurance on the open market, those with no results shown also write a substantial volume of insurance. The rankings shown in brackets are based on total reinsurance assumed.

Name	Reinsurance Assumed	Net Premiums Written	Underwriting Result	Loss Ratio 1988	Loss Ratio 1987
Lloyd's	161,485 (1)				
Munich Re	152,288 (2)	135,967	1,957	66.47%	71.93%
Canadian Re	114,659 (3)	66,713	(6,319)	71.14%	75.33%
M & G	65,598 (4)	53,178	6,475	50.86%	61.36%
Abeille Re	61,861 (5)	58,987	(7,886)	82.62%	80.79%
SCOR Re of Cda	58,365 (6)	37,607	(5,452)	79.16%	84.06%
RMCC	57,747 (7)	39,124	1,300	65.75%	69.54%
General Re	54,568 (8)	54,568	14,392	50.10%	68.46%
Zurich Insurance	49,412 (9)				
Gerling Global Re	43,007 (10)	30,304	769	65.27%	64.35%
Prudential Re	42,489 (11)	41,240	1,169	68.95%	74.67%
American Re	30,320 (12)	30,320	271	72.64%	65.76%
Employers Re(3)	29,980 (13)	47,873	292	70.05%	74.02%
Skandia	28,357 (14)	24,979	(2,357)	70.55%	82.56%
Co-Operators	27,949 (15)				
St. Paul	22,647 (16)				
Ancienne Mut	22,097 (17)	19,797	(1,814)	95.51%	89.35%
CIGNA	20,079 (18)				
SAFR	19,081 (19)	19,081	747	57.66%	58.81%
Citadel	17,648 (20)				
Hannover Ruck	16,586 (21)	16,312	1,548	62.58%	60.43%
Sphere Re	16,278 (22)	15,831	(1,198)	70.37%	77.85%
Victory Re	16,095 (23)	15,178	114	68.47%	83.56%
Great Lakes	15,519 (24)	15,153	(931)	68.48%	65.38%
Transreco	15,442 (25)	10,970	(1,417)	77.11%	77.76%
Frankona	13,196 (26)	13,196	(162)	81.33%	84.56%

(3) Also wrote $17,893,000 of direct premiums, which are included in the results.

Christiania	10,845 (27)	9,106	932	55.79%	52.44%
Nationwide	9,941 (28)	8,315	1,963	50.62%	77.35%
Royal Re	9,275 (29)	8,469	(2,439)	102.48%	3.11%
Mutuelle du Mans	8,487 (30)	8,107	(620)	69.92%	74.01%
US F & G	7,127 (31)				
Kemper Re	6,042 (32)	5,375	(299)	80.76%	84.82%
Netherlands Re	5,854 (33)	5,854	140	62.00%	65.53%
Union Re	4,776 (34)	4,655	(519)	76.26%	80.04%
Home	4,627 (35)				
Reco	4,284 (36)	3,117	(871)	98.34%	73.63%
New Zealand	3,946 (37)	3,413	(286)	77.13%	91.36%
Transcontinentale	3,847 (38)	3,835	114	67.81%	68.90%
Laurentian	3,602 (39)				
NAC Re	3,224 (40)	2,881	(720)	101.03%	85.74%
Reliance	2,662 (41)				
General Sec NY	2,493 (42)	2,493	228	61.77%	52.52%
Philadelphia Re	2,208 (43)	1,810	(650)	86.24%	105.20%
Allstate	2,095 (44)	1,970	1,551	-22.49%	125.62%
Motors	2,036 (45)				
Baloise	617 (46)				
Switzerland Gen	483 (47)				

All figures in thousands of dollars.

Two other professional reinsurers specialise in the reinsurance of farm mutuals, the SMRQ in Quebec and Farm Mutual Reinsurance Plan in Ontario. Their results in 1988 were as follows :

Name	Reinsurance Assumed	Net Premiums Written	Underwriting Result	Loss Ratio 1988	Loss Ratio 1987
SMRQ[4]	42,359	39,206	470	66.60%	60.25%
Farm Mutual Re	28,228	17,400	3,395	68.30%	88.22%

All figures in thousands of dollars.

Thirty of the forty-seven open market reinsurers saw their volume drop in 1988, compared to 1987.

Amongst the largest reductions were for the Laurentian (from $28,574,000 to $3,602,000) and the Home, operating in Canada as U.S.I. Management, ($19,529,000 to $4,627,000), however in both

(4) Also wrote $9,165,000 of direct premiums, which are included in the results.

these cases, changes in inter-group reinsurance arrangements may well be more significant than changes in their open market business.

American Re's volume dropped 41.49%, from $51,817,000 to $30,320,000, and this was probably the largest genuine drop in volume. Two other professional reinsurers had drops of over 21%, Nationwide (27.98%) and Skandia (21.37%). Skandia, however, will show a significant increase in 1989, following their purchase of the portfolio of Sphere Reinsurance Company of Canada in 1989.

The greatest percentage increase in reinsurance assumed was by the New Zealand, increasing by 87.90% from $2,100,000 to $3,946,000. At a somewhat lower percentage (77.64%), was Lloyd's however the increase was far more dramatic, given their volume, going from $90,907,000 in 1987 to the top spot in 1988 at $161,485,000. Because of the variety of business written by Lloyd's, it is impossible to identify where such a major increase would have originated.

Of the other two reinsurers with more than $100,000,000 of reinsurance assumed in 1988, both had small drops in volume, the Munich Re of 4.41% and the Canadian Re of 1.89%.

On the other hand, the fourth largest reinsurer, Mercantile & General, climbed from eighth place in 1987 with a 33.26% increase in volume.

Of the professional reinsurers with at least $5,000,000 of reinsurance assumed, General Re produced the best combined ratio at 75.76%, followed by Nationwide at 78.98%, Christiania at 86.37% and Mercantile & General at 87.36%.

Altogether, 14 of this group of 26 reinsurers had a combined ratio below 100%.

At the other end of the scale was Royal Re, with a combined ratio of 140.79%. Other reinsurers with a combined ratio of over 110% were Abeille Re (114.40%), SCOR Re (113.91%) and Transatlantic Re (113.08%).

Twenty-one of the professional reinsurers have a Canadian office and, between them, averaged a net expense ratio after acquisition costs of 8.50%. This ranged from a low of 2.60% for Christiania to a high of 16.41% for Transatlantic Re, which specializes in facultative reinsurance.

Besides Christiania, reinsurers with a net expense ratio below 6% were Hannover Ruck (2.90%), Ancienne Mutuelle (3.20%), Employers Re (4.69%), Abeille Re (5.53%), Munich Re (5.69%) and Gerling Global Re (5.99%). Hannover Ruck, however, handle only facultative business out of their Canadian office, treaty business being done in Hannover.

Besides Transatlantic, five companies had net expense ratios over 10%, American Re (10.26%), Canadian Re (10.85%), Royal Re (11.46%), General Re (14.96%) and Mercantile & General (15.04%).

Reinsurance Regulations

Outside influences, particularly government activity, continue to shape the insurance market, as they have for most of the 1980's.

The longest running drama – new federal reinsurance regulations – looks as though it is now coming to an end.

The official process began in September 1982 with publication by what was then the Federal Department of Insurance of possible amendments to the Canadian and British Insurance Companies Act and the Foreign Insurance Companies Act.

Part of the changes proposed have already been incorporated into legislation and the final step, the revised reinsurance regulations themselves, were published in the Canada Gazette in April 1989. They are expected to come into force early in 1990 and apply to insurance companies' returns for that year.

Their primary purpose is to limit the amount of reinsurance which a company can place and also control the amount of reinsurance placed with unregistered reinsurers. The market has already developed to the point where few, if any, companies contravene the regulations as laid out, however they will provide a barrier against a return to the less disciplined use of reinsurance which was prevalent ten years ago.

Regulation of Financial Institutions

Another long running federal government initiative, which can be traced back to a Green Paper published in April 1985, is the revised regulation of financial institutions.

Some changes have been introduced already, however the changes which will have a major impact on the insurance industry have not yet appeared. These are expected to deal with limitations on ownership as well as the consolidation of the present two acts into a single one, removing the distinction between British and other foreign companies.

However, changes in the acts regulating other financial institutions are expected to have a greater impact on the day-to-day operations of the insurance industry.

Focus is particularly strong on the power which may be granted to the banks to enter the insurance industry. At present, banks are not allowed to own insurance companies, nor act as an agent selling insurance products.

There are six major banks in Canada, compared with over 300 property and casualty insurance companies. At the 31st December 1988, the total assets of the smallest of the six, the National Bank, were $30,834 million, compared to $1,217 million for Royal Insurance, the largest private insurance company.

Net assets for all federally licensed insurance companies in Canada, including reserves required by the Office of the Superintendent and the head office account for foreign companies, was $8,200 million, while those of the largest of the banks alone, the Royal Bank, were $5,145 million.

Considering that the banks, along with the provincial credit unions, have a distribution network which reaches into every corner of the country, already dealing with the financial affairs of almost every Canadian, it is easy to see why the insurance industry is concerned about their entry into the insurance field.

There are already certain arrangements in force between banks and insurance companies, which stretch to the limit the permissible activities of banks under the present legislation. The Toronto Dominion Bank has an arrangement to promote property business for the Simcoe & Erie General, while the Bank of Nova Scotia has a similar arrangement with Canada Life Casualty. In a similar vein, American Express promotes the homeowners policy of the Constitution of Canada to its credit card holders and the Bank of Commerce promotes the Allstate. The federal government has already approved the creation of the American Express Bank, but delayed its actual formation until the changes in the Bank Act are in place.

In Quebec, which is much further ahead in the reform of the regulation of financial institutions, the provincially licensed credit

unions are already selling personal lines insurance over the counter.

Indications from the federal government are that banks will not be permitted to sell insurance products directly. However, they will be allowed to own an insurance company subsidiary and also promote insurance products to their credit card holders.

There is no consensus on the likely impact of such measures and the experience with other "financial supermarket" operations has been mixed.

The experience in the United States suggests that the public will not automatically look to bankers as purveyors of all their financial services.

Both the Co-operators and the Laurentian Group have experimented with selling a series of financial products from a single location in Canada, with results still to be evaluated, although neither could be considered an overwhelming success at present.

On the other hand, the experience of the Desjardins Group of credit unions in Quebec suggests that, there at least, there is much interest in the approach.

While most of the attention has been concentrated on banks, with their branches on every street corner, insurers also have to keep a watch on other possible purveyors of insurance products, such as trust companies and real estate agents, many of which already have corporate ties to insurance companies and a significant presence in all communities.

The date for tabling the various pieces of legislation has been put back several times. The government has stated that they now intend to bring in the legislation in the spring of 1990. However, with their legislative timetable filling up and no consensus amongst the different sectors of the financial services industry on what the changes should be, it is impossible to be sure of any date, even whether the changes will now be introduced at all.

Goods and Services Tax

Another federal government initiative which is causing insurers concern at the moment is the planned introduction of a value added tax, known as the *Goods and Services Tax (GST).*

Under present proposals, insurance premiums and commissions would be exempted from the GST, which means that the insured does not pay the tax, but insurers and agents pay the tax on the goods and services which they purchase.

The effect of this is different, depending on the class of business and also the nature of the company's organization, however, insurers will presumably look to pass on the cost of the tax in their premiums.

The Insurance Bureau of Canada has asked the government to tax insurance premiums and commissions on the same basis as most other products, which would result in the insured paying the tax and insurers and agents obtaining a deduction for the tax they have paid.

Either basis will require changes in the administration procedures of insurers, however the taxable basis would cause the least disruption and avoid any necessity to adjust premiums.

The GST is scheduled to come into force on the 1st January 1991, however insurers should be preparing for it now.

Ontario Motorist Protection Plan

Without a doubt, however, the major government initiative which has occupied most insurers' minds in 1989 has been the proposed reform of Ontario automobile business.

Ontario automobile represents about 25% of the insurance premiums written by private companies and most if not all of their underwriting losses.

The Ontario government has now introduced a partial no-fault plan with a verbal threshold, which it hopes to have in place for the

1st June 1990, although that date is subject to change as the necessary legislation makes its way through the provincial legislature.

The no-fault plan will provide death benefits to the estate of any one killed in a car accident as well as rehabilitation, medical and future care benefits and salary replacement to anyone injured in such an accident.

The right to sue is retained in cases of death and permanent serious injury, however no-fault benefits received, as well as benefits from most other sources, will be deducted from any damages
502 awarded.

All existing automobile policies will be automatically changed on the effective date of the new plan and insurers will be allowed an average rate increase of 8% in urban areas and no increase in rural areas on the renewal of existing policies. A Commission, created from the merger of the Ontario Automobile Insurance Board and the Department of Insurance will have substantial powers over the operations of insurance companies, including the approval of rates for automobile coverage.

The plan, which was released in draft form in September and as legislation on the 23rd October is still too new for its full impact to be measured and parts of it, particularly the verbal threshold, will be measured by the courts before the full impact is known.

Judicial Climate

The changes now being proposed for Ontario automobile can be traced back to the liability crisis of 1985 and 1986, when it seemed that judicial decisions were taking the law of tort beyond what had ever been contemplated by Canadian insurers.

A series of decisions had been handed down by the courts which seemed to offer liability insurers a bleak future. The one which gained the most publicity, although by no means the only one to concern insurers, was the Brampton case – *McErlean v City of Brampton* – in which the City of Brampton was found largely responsible when McErlean, fourteen at the time, was injured while racing a dirt bike on fenced-off city property.

The Appeal Court however dismissed liability against the city, finding that McErlean was familiar with the site and, since he was indulging in an adult activity, he should be held to the same standard of care as an adult.

The Appeal Court also reduced the amount of damages awarded McErlean from $7,023,150 to $3,689,435. The award was reduced under a variety of headings, however the greatest single reduction was in the allowance for future income tax from $3,136,324 to $845,029.

In a British Columbia case, *Scarff v Wilson*, such gross-up for income tax was disallowed altogether, a decision which has been followed in Quebec and Manitoba. However, legislation has been introduced in Ontario which would require the courts to make an allowance for income tax for future care claims.

Offsetting this change in Ontario, however, is a provision in the same bill which permits the court to apply a structured settlement, and requires the court to do so where gross-up for income tax is requested by the plaintiff, unless the court finds that such an award would not be in the best interests of the plaintiff.

Since no income tax gross-up is necessary in a structured settlement, the savings these changes will bring in the cost of bodily injury losses are welcome news to insurers.

Another decision of a senior court which reversed a lower court ruling causing much concern to insurers was in *Bates v Zurich.*

In this case, a Board of Inquiry appointed under the Ontario Human Rights Code had held that charging an increased premium to a young single male driver was discriminatory and therefore not permissible. Ontario automobile insurers were therefore faced with the prospect of refunding millions of dollars to young drivers, without the possibility of adjusting the rates of older drivers to compensate.

The case was appealed to the Divisional Court, which held that the discrimination was reasonable and this decision has since been upheld by the Court of Appeals. Although it is expected that such rating will be replaced under the Ontario Motorist Protection Plan, this decision enables insurers to do it in an orderly manner.

Property

Despite fierce competition, the commercial property loss ratio in 1988 dropped to 53.94% from 60.32% in 1987. This was more than enough to offset deterioration in the personal property loss ratio from 60.46% to 64.80%, leaving a small improvement in property business overall, from 60.48% to 59.39%.

With prices dropping, it was only the lack of a major catastrophe, either natural or in the nature of a serious fire, which made such a result possible and a deterioration in 1989 seems inevitable.

Results for property over the last five years have been as follows :

Personal Property	Net Premium Written	Net Premium Earned	Loss Ratio
1984	1,519,652	1,482,950	59.69%
1985	1,492,527	1,499,355	65.91%
1986	1,765,207	1,686,612	59.40%
1987	1,938,382	1,864,142	60.46%
1988	2,088,787	2,011,086	64.80%

All figures in thousands of dollars.

Commercial Property	Net Premium Written	Net Premium Earned	Loss Ratio
1984	1,100,480	1,068,496	69.11%
1985	1,294,531	1,188,485	71.83%
1986	1,627,171	1,546,884	55.80%
1987	1,790,001	1,767,827	60.32%
1988	1,819,119	1,832,161	53.94%

All figures in thousands of dollars.

All Property	Net Premium Written	Net Premium Earned	Loss Ratio
1984	2,975,497	2,916,922	63.53%
1985	3,259,252	3,072,807	68.21%
1986	3,715,145	3,537,519	58.10%

1987	4,002,549	3,902,419	60.48%
1988	4,158,726	4,098,284	59.39%

All figures in thousands of dollars.

The expected deterioration in commercial property had become significant by the end of the second quarter 1989, however it is offset somewhat by an improvement in personal property.

Property loss ratios by quarter since 1984 have been as follows :

Personal Property	1st	2nd	3rd	4th
1984	59.7%	61.9%	62.1%	56.6%
1985	65.0%	70.6%	65.4%	61.9%
1986	62.0%	60.4%	61.8%	54.3%
1987	58.7%	57.2%	68.3%	54.8%
1988	64.1%	61.2%	70.6%	60.6%
1989	65.3%	58.7%		

Commercial Property	1st	2nd	3rd	4th
1984	64.6%	63.9%	64.6%	77.4%
1985	76.7%	75.7%	66.9%	65.0%
1986	66.2%	60.0%	53.7%	49.1%
1987	54.6%	53.3%	65.3%	70.4%
1988	61.1%	55.4%	60.1%	49.2%
1989	63.1%	64.4%		

All Property	1st	2nd	3rd	4th
1984	62.1%	62.8%	63.3%	66.1%
1985	70.0%	72.8%	66.0%	63.3%
1986	64.0%	60.2%	58.0%	51.7%
1987	56.7%	55.3%	66.9%	62.5%
1988	62.7%	58.5%	65.7%	55.2%
1989	64.3%	61.3%		

Personal lines in the western provinces produced significantly poorer results than in the east, particularly in Alberta, which suffered through a series of storms too small to have much impact on reinsurers, but enough to affect companies' net retentions. On the other hand, commercial business in Alberta was the best in the country, other than for Prince Edward Island. All other provinces, except Saskatchewan, were in the 50's.

Results by province in 1988 were as follows :

	Personal	Commercial	Total
Newfoundland	58.72%	58.45%	58.54%
P.E.I.	68.07%	30.51%	49.41%
Nova Scotia	59.85%	53.69%	56.90%
New Brunswick	57.69%	54.07%	56.05%
Quebec	55.16%	54.86%	54.99%
Ontario	54.57%	52.56%	53.51%
Manitoba	65.02%	55.83%	60.32%
Saskatchewan	73.27%	76.53%	69.04%
Alberta	120.22%	48.88%	76.51%
British Columbia	63.05%	52.77%	58.10%

With the bulk of their premium coming from proportional reinsurance on commercial business, reinsurers had a significantly better loss ratio than insurers in 1988 and their property business was the reason for their underwriting profit overall.

Reinsurers' results for the last three years have been as follows :

	Personal	Commercial	Total
1986	61.40%	65.21%	63.43%
1987	60.68%	55.67%	60.34%
1988	68.42%	53.10%	55.30%

Automobile

Automobile business remains the major problem for insurers, with the loss ratio still in the mid-90's.

Ontario represents by far the largest volume for private insurers and, with rate controls and major political intervention having been the major feature for several years, and continuing in 1989, no improvement seems likely. Some hope for improvement lies in 1990, with introduction of the Ontario Motorist Protection Plan, however it is too early to estimate the full impact of the new plan and how long it will take for insurers' results to turn around.

Results in automobile for the last five years have been as follows :

Section	Year	Net Premiums Written	Net Premiums Earned	Loss Ratio
Liability	1984	1,794,655	1,801,197	99.65%
	1985	2,040,322	1,917,763	111.68%
	1986	2,666,429	2,426,547	102.33%
	1987	2,980,357	2,869,733	101.85%
	1988	3,215,013	3,106,921	107.60%
Damage to the Vehicle	1984	1,750,277	1,733,252	68.64%
	1985	1,916,446	1,829,126	78.55%
	1986	2,286,916	2,136,885	73.42%
	1987	2,466,692	2,383,078	72.48%
	1988	2,740,037	2,624,901	75.29%
All Sections	1984	4,890,254	4,848,841	86.95%
	1985	5,380,867	5,138,134	95.20%
	1986	6,438,113	6,012,258	92.24%
	1987	7,120,548	6,853,381	93.47%
	1988	7,963,636	7,635,070	94.00%

All figures in thousands of dollars.

The following loss ratios by quarter in fact suggest that 1989 could become the worst year yet for this class.

Year	1st	2nd	3rd	4th
1984	78.90%	73.00%	81.80%	100.30%
1985	91.00%	84.30%	86.30%	110.90%
1986	89.70%	81.50%	85.60%	95.80%
1987	81.80%	80.40%	87.40%	97.70%
1988	90.30%	81.10%	89.90%	105.60%
1989	92.70%	85.60%		

The results by province show a wide variety, however it should be noted that those for Manitoba, Saskatchewan and British Columbia do not include the results for the compulsory coverages, which are the monopoly of government insurers, and those for Quebec do not include the results of the Régie, which covers all bodily injury losses occurring within the province.

Results by province in 1988 were as follows :

Newfoundland	76.36%
P.E.I.	89.14%
Nova Scotia	88.75%
New Brunswick	78.99%
Quebec	75.15%
Ontario	95.40%
Manitoba	36.88%
Saskatchewan	57.36%
Alberta	89.76%
British Columbia	55.86%

Reinsurance of automobile is almost entirely on an excess of loss basis, consequently reinsurers are more able to name their own price for the coverage they give. As a result, their loss ratio has been lower than that of the market as a whole, however since excess of loss premiums are net of commission, it is not directly comparable.

Reinsurers' loss ratios in this class have been 98.13% in 1986, 92.29% in 1987 and 84.27% in 1988.

Liability

Liability business continued its steady improvement from loss ratios in excess of 100% at the beginning of the 1980's, producing a result of 60.89% in 1988. However, the drop in written premium in 1988 does not bode well for 1989.

Results for liability in the last five years have been as follows :

Year	Net Premiums Written	Net Premiums Earned	Loss Ratio
1984	571,640	547,575	102.35%
1985	812,699	679,185	88.94%
1986	1,309,876	1,109,206	77.81%
1987	1,390,393	1,321,947	73.60%
1988	1,350,993	1,363,106	60.89%

All figures in thousands of dollars.

The quarterly results are beginning to show this deterioration, although the relatively small premium volume for the class inevitably makes the results more volatile than for automobile and property.

Quarterly results have been as follows :

Year	1st	2nd	3rd	4th
1984	99.1%	102.1%	101.0%	125.6%
1985	98.8%	93.5%	93.4%	103.4%
1986	64.5%	72.7%	73.3%	95.8%
1987	65.6%	64.4%	61.2%	98.1%
1988	66.4%	79.1%	60.2%	62.0%
1989	80.4%	70.6%		

These are of course accounting year results, not underwriting year, so that they do not fully reflect the results on current business.

Again the smaller premium volume produces more erratic results by province, however in every province except New Brunswick, insurers would have done no worse than a small underwriting loss and, in most cases, would have had an underwriting profit.

The results by province in 1988 were as follows :

Newfoundland	33.36%
P.E.I.	27.45%
Nova Scotia	31.64%
New Brunswick	67.35%

Quebec	55.73%
Ontario	61.31%
Manitoba	65.91%
Saskatchewan	56.61%
Alberta	39.49%
British Columbia	62.98%

Since reinsurers write most of their liability business also on an
510 excess of loss basis, their results do not match those of the industry as a whole and, in fact, have been substantially worse – 101.75% in 1986, 95.67% in 1987 and 87.40% in 1988.

Other Classes

Results for the last five years in other classes have been as follows :

Class	Year	Net Premium Written	Net Premium Earned	Loss Ratio
Surety	1984	83,391	78,236	44.77%
	1985	96,556	89,909	41.62%
	1986	95,918	94,790	47.65%
	1987	111,228	105,824	26.27%
	1988	136,470	124,650	28.84%
Marine	1984	66,596	65,333	69.83%
	1985	71,464	69,746	49.44%
	1986	75,515	73,933	57.28%
	1987	81,800	78,780	63.31%
	1988	86,525	86,967	65.23%
Aircraft	1984	55,447	49,972	81.73%
	1985	59,343	58,077	56.42%
	1986	82,595	77,167	42.50%
	1987	88,290	87,351	47.33%
	1988	67,157	66,663	46.82%
Fidelity	1984	37,749	33,674	61.39%
	1985	50,319	41,489	70.93%
	1986	70,627	59,431	23.99%
	1987	80,588	79,968	26.65%
	1988	82,735	84,089	35.82%

Hail	1984	22,157	22,041	76.14%
	1985	23,097	22,428	39.20%
	1986	17,118	17,756	51.53%
	1987	15,596	15,842	45.66%
	1988	15,849	15,755	101.83%

All figures in thousands of dollars.

In all classes except hail, the results have held to levels similar to 1987. Hail, on the other hand, had a very poor year in 1988 and it will be interesting to see if this will drive total premium income back up to the levels which existed at the beginning of the decade.

All Classes(5)

The rate of increase in outstanding losses, at 15%, was lower in 1988 than in the three previous years and much lower than in 1987, when it was 22%, a surprising change in a year which saw deteriorating results.

The major change, however, was in property, where the increase was only 1%, compared to 20% in 1987. This was offset by an increase in paid losses of 14%, compared to 5% in 1987.

In automobile liability, the rate of increase of outstanding losses has been fairly constant since 1985, at 22% in each year except 1987, when it was 24%.

In general liability, the fluctuation was much more, 17% in 1985, 22% in 1986, 24% in 1987 and down to 13% in 1988. Paid losses, on the other hand increased by only 2% in 1987 and 6% in 1988, after increases of 21% in 1985 and 11% in 1986.

Not surprisingly as automobile results have deteriorated, the ratio of oustanding losses to earned premiums for the liability section of the policy has increased, from 145% in 1984 to 168% in 1987 and 190% in 1988.

For general liability, which has seen a substantial improvement in loss ratio over the same period, the outstanding losses have decreased from 274% of earned premiums in 1984 to 226% in 1988.

(5) This section covers only federally registered companies and is based on analysis done by J.G. Dovey, Manager for Canada, The Baloise Insurance Company Limited.

The 1988 figure was however a deterioration from that of a year earlier, when it was 204%.

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Market Structure

The crisis in automobile insurance in Ontario has taken its toll on a number of companies and, along with the positioning of financial institutions resulting from the reform of the legislation governing them, has resulted in some important and continuing structural
 changes in the market.

Only one insurer has actually been pushed into bankruptcy by the Ontario motor situation, the Advocate General Insurance Company of Canada. It is the first company where unrecoverable losses will be paid for by the industry compensation fund.

Another casualty, although only in terms of ceasing underwriting, not actual bankruptcy, was the Eaton Insurance Company.

Other companies significantly curbed their underwriting of automobile, particularly in the Toronto area. Federated Insurance Company of Canada, Upper Canada Insurance Company, CIGNA Insurance Company of Canada and Co-operators General Insurance Company, the largest in the province, all restricted their underwriting or withdrew from the automobile market altogether.

Another company, the Prudential of America General, initially announced that it would not write any new policies to families with children between the ages of 16 and 24, however when it discovered that this could contravene discrimination laws, it decided to stop writing any new business entirely in Toronto and two other major urban areas.

More drastic action was taken by the Travelers, which sold its Canadian company to the Zurich and United States Fidelity & Guarantee which sold its Canadian company to Central Capital, a financial services company. Central Capital had already bought the Scottish & York group in 1989 and the Canadian General group in 1987.

Also up for sale are the Metropolitan Insurance Company, the larger of the two general insurance company subsidiaries of Metropolitan Life, and two Canadian owned companies, Pafco Financial Services and Canadian Surety Insurance Company.

Reinsurance Market

With almost all reinsurers operating in Canada being owned outside Canada, the changes in the reinsurance market usually come from outside as well. This is particularly true as European companies reorganize to prepare for major changes in their market in 1993.

As a result, although there are just as many reinsurers licensed in Canada, there are fewer owners.

For example, the Swiss Re Group now has three subsidiaries operating independently in Canada – Canadian Re, Switzerland General and Union Re – in addition to their Canadian branch.

SCOR/U.A.P. Re have both the SCOR Re of Canada and General Security of New York.

Gerling Konzern have the Gerling Global Re and Frankona Re. The GAN have Transcontinentale and GAN Canada, and there are a variety of other similar links.

While a consolidation of these companies' various interest in Canada may come about in the years ahead, and could result in a reduction of as much as 30% on the number of reinsurers in the market, there would be little reduction in the capacity available.

On the other hand, more reinsurers are seeking to become licensed in Canada. The Kölnische Ruck has just received its licence and the American Insurance Company, a subsidiary of Fireman's Fund, is expected to be licensed in the near future. Several others are reported to be seeking a license, although licenses are harder to come by now than ever before and it is not certain that they will succeed, at least in time to write business for 1990.

As the insurance industry wrestles with changes both within and without, the combination of an economic slowdown and high interest rates, along with the chronic over-capacity, do not offer a likely climate for short-term improvement in results.

However, with the future form of Ontario automobile now almost certainly known and the prospect of the reform of financial institutions regulation being completed in 1990, at last it will be able once again to address itself to problems largely within the industry's control.