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Article abstract

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The state of Canadian general insurance in 1987

by

Christopher J. Robey[1]

L'auteur examine dans son article les résultats de l'exercice 1986. Il fait les commentaires qu'il a jugé nécessaires et il les fait suivre de certaines conclusions, aussi bien pour l'année 1986 que pour 1987 et même 1988. Si la partie la plus importante du texte vient un an après la fin de l'exercice, par contre, le lecteur y trouvera l'étude que M. Robey consacre chaque année aux résultats obtenus. Il y a là une continuité qui permet de suivre l'évolution de l'assurance et de la réassurance durant l'exercice.

1986 and 1987 could well prove to be the highlights of the 1980's for the insurance industry in Canada. Not only has the industry achieved a dramatic improvement in results but it has, at least for the moment, fought off the threat of nationalization of automobile

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business in Ontario as well as seeing the beginning of the process of the return to private hands of Saskatchewan Government Insurance and the possibility of the eventual privatization of automobile insurance in British Columbia.

As always, therer are clouds on the horizon, the improvement in results generating some increased competition in all lines, although tempered somewhat by the Edmonton tornado, which produced the largest catastrophe loss in the industry's history. In addition, the threat of nationalization of Ontario automobile has not

totally disappeared, the results of a further study being awaited before changes in the standard coverage provided can be discussed with the government.

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

Year	Gross direct Premiums	Net Premiums Written	Net Premiums Earned	Loss Ratio	Underwriting Result
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)
1986	11,842	10,949	10,124	74.31%	(569.1)

All figures in millions of dollars.

After investment income of $1,844,000,000, the industry's net profit topped the billion dollar mark for the first time, reaching $1,275,000,000.

Figures for the general insurance division of Saskatchewan Government Insurance were not available and therefore no meaningful results can be shown for government insurers in their general insurance divisions, that is, the part of their operation in which they

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

compete with private industry, since only Manitoba and Saskatchewan now have such divisions.

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Insurers

Of the 102 companies and groups writing a general property and casualty portfolio with at least $10,000,000 of gross premium and $5,000,000 of net premium, 25 showed an underwriting profit, however 72 had an improvement in loss ratio over 1985.

The largest underwriting profit of the year was a remarkable $84,585,000 generated by Lloyd's, the $9,842,000 of the Groupe Commerce, the second highest, paling in comparison. Three other insurers, Chubb, Guarantee Company of North America and Lumbermen's Underwriting Alliance topped $5,000,000 of underwriting profit in 1986.

At the other end of the scale, the major losers were the Cooperators, at $56,758,000, Dominion of Canada at $47,134,000, Allstate of Canada at $45,829,000 and the Royal at $43,040,000.

The lowest loss ratio in 1986 was achieved by Affiliated FM at 24.60%, followed by Lloyd's at 43.65%, Lumbermen's Underwriting Alliance (46.64%), Lumbermens Mutual Casualty (51.36%) and Chubb (52.91%).

However, the greatest improvements in loss ratio from 1985 to 1986 were achieved by INA (225.04% to 78.31%) and Firemans' Fund (186.61% to 65.11%), although the poor 1985 loss ratios were probably more the result of accounting anomalies than a true reflection of the underwriting. More notable was the improvement by Scottish & York from 179.44% in 1985 to 90.03% in 1986.

At the high end of the loss ratio scale were Symons General at 120.42%, Employers of Wausau at 110.20% and Metropolitan at 100.38%.

The following list gives the results of a selected group of insurers in 1986, showing their ranking in brackets based on gross and net premiums written :

Company	Gross Premiums Written (000)	Net Premiums Written (000)	Underwriting Result (000)	Loss 1986	Ratio 1985
Royal	652,356 (1)	585,754 (1)	(43,040)	76.45	90.18
Cooperators	601,028 (2)	550,933 (2)	(56,758)	83.80	89.61
Phoenix Cont'l	434,362 (3)	316,599 (8)	(2,787)	67.72	81.29
Economical	400,677 (4)	372,771 (4)	(27,804)	80.88	86.12
General Accident	370,796 (5)	337,686 (6)	(21,910)	77.66	89.87
Lloyd's	348,323 (7)	440,034 (3)	84,585	43.65	69.84
Travelers	332,245 (9)	320,249 (7)	(20,627)	75.07	88.51
Laurentian General	327,855 (11)	269,212 (14)	(6,266)	65.74	61.83
Guardian	308,442 (14)	267,299 (16)	(22,311)	78.80	84.52
Prudential Ass.	295,245 (15)	268,318 (15)	(17,141)	72.12	78.47
Simcoe Erie	235,895 (17)	129,793 (22)	(10,010)	79.51	82.53
Groupe Commerce	225,695 (19)	208,263 (17)	9,842	64.27	66.91
Pilot	206,569 (20)	193,844 (18)	620	71.30	74.60
Wellington	178,623 (21)	165,183 (19)	(14,251)	76.95	85.68
Chubb	160,792 (22)	143,899 (20)	7,630	52.91	61.82
Halifax	145,944 (24)	118,124 (26)	(20,332)	82.99	80.01
Scottish & York	144,576 (26)	56,477 (41)	(5,009)	90.03	179.44
Guarantee of N.A.	138,548 (28)	116,410 (27)	6,386	56.46	65.22
Groupe Desjardins	106,692 (33)	86,113 (33)	163	58.37	69.03
Global General	106,276 (34)	39,199 (53)	3,085	60.78	67.66
Commonwealth	95,837 (39)	52,620 (45)	(3,397)	95.51	92.39
Gore Mutual	92,188 (40)	82,201 (38)	(9,139)	78.56	85.30
I.I.M.	89,658 (41)	82,942 (37)	(9,792)	78.64	86.45
Provinces-Unies	71,157 (44)	56,179 (42)	(194)	71.69	66.61
Federation	69,506 (45)	54,753 (43)	(4,563)	79.34	81.97
National Ins. Grp.	54,864 (49)	29,823 (59)	(1,067)	63.87	62.89
Crum & Forster	52,434 (50)	39,678 (52)	(12,086)	88.97	98.16
Western Union	51,743 (52)	45,642 (49)	161	65.37	63.02
Anglo-Gibraltar	46,395 (56)	24,087 (65)	(4,832)	80.62	67.11
Capitale	41,600 (59)	39,890 (51)	2,033	71.16	78.18
Cdn. Northern Sh.	41,548 (60)	36,733 (56)	(3,060)	60.45	83.22
Cooperants	39,815 (61)	23,743 (66)	(5,353)	78.33	69.56
Sovereign Gen.	37,642 (63)	25,823 (64)	(830)	70.34	91.57
Union Canadienne	36,329 (64)	32,099 (58)	(1,039)	70.49	73.51
Pafco	31,355 (68)	19,665 (69)	(948)	73.03	70.11
Saskatchewan Mutual	30,610 (70)	23,182 (68)	(3,545)	77.68	67.85
Pru of America	28,885 (72)	28,317 (61)	(8,238)	91.88	91.32
Symons General	25,626 (74)	14,565 (80)	(8,619)	120.42	81.65
St-Maurice	22,464 (78)	13,975 (82)	340	62.11	62.88
Metropolitan	21,374 (80)	19,538 (70)	(4,063)	100.38	—
Equitable	20,432 (82)	18,948 (73)	(1,133)	68.59	73.90
Canada West	16,439 (88)	10,838 (88)	(1,117)	72.61	66.15
Nova Scotia Gene-					

ral	14,885 (92)	9,497 (91)	(375)	67.28	76.87
York Fire	12,195 (96)	11,220 (86)	(616)	66.81	105.29
Peace Hills	11,453 (99)	6,986 (97)	(682)	71.74	62.35
Unique	11,217 (100)	6,857 (98)	(464)	65.88	65.05
North Waterloo	10,166 (102)	7,732 (95)	(877)	61.83	58.29

While 41 of the 102 companies analysed have had an underwriting loss in each of the last five years, only one company, the Commerce Group, has had a profit in each of those years. Nine companies, Guarantee Company of North America, Gerling Global, General Motors, Capitale, Transit Insurance, Jevco, Pilot, Western Union and Security National have shown a profit in four of the last five years. Pilot and Guarantee Company of North America, which both stumbled in 1985 with an underwriting loss for the first time in many years, returned to their profitable ways in 1986, the Guarantee Company with their largest underwriting profit of the last ten years. American Home suffered only their second underwriting loss since 1970.

As was the case in 1985, amongst those companies with the largest underwriting loss are the larger national companies writing a general book of property casualty business. The Royal, the largest company, more than halved their underwriting loss, reducing it from $115,914,000 in 1985 to $43,040,000 in 1986. However, amongst those companies with at least $100,000,000 of gross premiums and an underwriting loss in 1985 and 1986, the Royal's was not the most dramatic improvement in percentage terms. That prize went to Phoenix Continental, reducing its loss by 93%, from $38,088,000 to $2,787,000. Also amongst the major companies more than halving their underwriting loss were State Farm ($50,565,000 to $10,895,000), United States Fidelity and Guarantee ($14,638,000 to $3,505,000), Prudential Assurance ($46,694,000 to $17,141,000), Wellington ($36,754,000 to $14,251,000), Travelers ($52,315,000 to $20,627,000), General Accident ($54,702,000 to $21,910,000) and Home ($28,904,000 to $12,571,000).

The share of the property and casualty business written by Canadian owned companies climbed back up to 35.30% in 1986, after dropping to 33.51% in 1985. British companies stayed about the same, 23.49% compared to 23.91%, while American and other foreign companies dropped their share from 42.58% to 41.21%.

British companies, however, had the best loss ratio at 70.02%, Canadian companies coming in with 75.09% and American and other foreign companies at 76.09%.

The Royal remained the largest company in Canada on the basis of both gross and net premiums, a position they recovered from the Cooperators in 1985.

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Reinsurers

474 Reinsurers also saw their loss ratio improve in 1986, though not as much as insurers did, no doubt because the reinsurance market took corrective measures in advance of insurers and thus had already seen a small improvement in 1985. Nonetheless, reinsurers underwriting loss of $53,100,000 was the lowest since 1979.

Results for the last five years for reinsurers have been as follows (licensed reinsurers only and not including reinsurance assumed by companies also writing insurance) :

Year	Reinsurance Assumed	Net Premiums Written	Net Premiums Earned	Loss Ratio	Underwriting Result
1982	$ 869.3	$ 596.2	$ 586.6	79.55%	(76.5)
1983	813.9	578.1	580.8	78.25%	(74.8)
1984	769.5	583.4	584.6	78.83%	(81.6)
1985	876.0	730.1	669.7	78.51%	(85.4)
1986	1,115.5	923.0	859.7	76.28%	(53.1)

All figures in millions of dollars.

Only nine of the 38 active licensed reinsurers showed an underwriting profit in 1986, and almost half – 16 of 37 – had a loss ratio higher than in 1985.

Results of all active licensed reinsurers were as follows :

Reinsurer	Reinsurance Assumed (000)		Net Premiums Written (000)		Underwriting Result (000)	Loss 1986	Ratio 1985
Abeille Re	59,882	(5)	59,335	(4)	(7,394)	82.15	79.92
Gerling Global	55,502	(6)	34,273	(9)	1,256	65.27	70.06
American Re	55,253	(7)	55,253	(5)	(6,645)	86.41	84.58
M. & G.	50,857	(8)	45,807	(6)	(7,485)	79.67	78.35
S.M.R.Q.	44,613	(9)	28,262	(11)	2,740	56.57	60.71
Prudential Re	43,487	(10)	39,668	(8)	5,558	61.16	86.45
National Re	35,602	(11)	16,474	(16)	(1,165)	72.43	69.87
Employers Re	31,358	(12)	44,308	(7)	993	74.56	70.04
Skandia	23,039	(13)	21,298	(12)	(3,189)	83.09	90.57
Victory Re	21,831	(14)	20,242	(13)	(2,842)	87.98	84.30
F.M.R.P.	20,167	(15)	12,138	(22)	(2,117)	100.67	113.19
Transatlantic	18,472	(16)	14,319	(18)	(2,727)	85.62	129.05
Hannover Ruck	17,996	(17)	17,838	(14)	1,239	64.50	96.54
Sphere Re	17,506	(18)	17,022	(15)	(1,642)	77.59	82.18
Nationwide Mutual	16,264	(19)	14,026	(20)	(426)	74.05	79.12
Ancienne Mutuelle	15,992	(20)	10,398	(23)	(1,040)	98.32	90.73
Great Lakes Re	14,839	(21)	14,490	(17)	(1,209)	77.42	67.92
Frankona Ruck	14,143	(22)	14,143	(19)	(1,477)	86.37	86.78
S.A.F.R.	12,312	(23)	12,312	(21)	1,167	54.30	70.70
Union Re	9,874	(24)	9,874	(24)	(1,480)	85.40	72.77
Netherlands Re	8,831	(25)	8,831	(25)	341	62.18	63.23
M.G.F.A.	8,581	(26)	8,104	(26)	(988)	75.06	76.72
Storebrand Re	8,509	(27)	7,682	(27)	(312)	70.33	71.21
A.G.F. Re	7,380	(28)	7,378	(28)	(328)	66.72	65.98
Kemper Re	7,350	(29)	6,156	(29)	(783)	93.00	95.10
Norwich Winterthur	5,811	(30)	5,811	(30)	863	56.32	59.53
Transcontinentale	5,079	(31)	5,079	(31)	(745)	79.14	79.54
NERCO	4,065	(32)	2,846	(33)	(2,635)	169.68	100.52
Pohjola	3,486	(33)	3,486	(32)	(189)	74.80	66.01
Re. Corp. N.Y.	3,435	(34)	2,810	(34)	(479)	93.61	60.68
Philadelphia Re	2,072	(35)	1,376	(36)	(551)	82.01	29.38
Gen. Security NY	1,882	(36)	1,882	(35)	393	71.44	114.71
MONY Re	1,564	(37)	1,203	(37)	285	51.46	131.55

Loss ratios are not as easily comparable between reinsurers as they are between insurers, since the make-up of the reinsurer's portfolio can have such a significant effect on the acquisition costs. In 1986, acquisition costs averaged 23.24%, but ranged from a low of

7.19% for Ancienne Mutuelle Re to a high of 35.19% for A.G.F. Re.

Amongst reinsurers doing at least a substantial amount of their underwriting and administration in Canada, office expenses averaged 6.99% and ranged from 4.10% (Employers Re) to 15.84% (Mercantile & General).

The most profitable reinsurer was also the largest, the Munich Re, with $7,130,000, while the reinsurer with the largest loss was the second largest, Canadian Re, with a loss of $17,446,000. Gerling

Global Re added an eighth year to its string of profitable underwriting, which was also the most profitable of the eight at $1,256,000. During the eight years, its gross reinsurance assumed has increased only from $49,174,000 to $55,502,000, however this must be looked at in terms of a 1982 level of $54,482,000 which had dropped by 1984 to $39,885,000 before climbing up to the present level.

Of the eleven reinsurers to show a profit in 1986, only four were also profitable in 1985 ; apart from Gerling Global Re, they were the S.M.R.Q., now with four years of consecutive profit, Norwich Winterthür (two years) and Netherlands Re (two years). The Pohjola, Reinsurance Corporation of New York and Philadelphia Re, the other three profitable companies in 1985, all suffered a loss in 1986.

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Property – Personal

Results of personal lines property business for the last five years have been as follows :

	Net Premiums Written (000)	Net Premiums Earned (000)	Loss Ratio (%)
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
1986	1,756,207	1,686,612	59.40

The Cooperators are the largest writers of personal property insurance in Canada, with \$108,800,000 of written premiums in 1986, but at a loss ratio of 70.44%, more than ten points higher than the loss ratio for the market as a whole. Economical (\$92,703,000, 52.41%), Wawanesa (\$89,484,000, 68.74%) and Royal (\$70,663,000, 56.15%) were the other major writers.

Of those companies with at least \$5,000,000 of net earned premium in personal lines, Chubb had the best loss ratio at 40.91%, followed by Groupe Desjardins at 41.52% and Liberty Mutual (42.16%). Home (43.60%), Hartford (45.01%), Lloyd's (46.41%), National Insurance Group (49.42%) and Groupe Commerce (49.73%) also had loss ratios under 50%.

At the other end of the scale, U.S. Fidelity & Guarantee had a loss ratio of 115.80%, well above the market average but nonetheless a significant improvement over their 1985 loss ratio of 183.28%. Crum & Forster were next at 78.12%, followed by Western General (77.87%) and Saskatchewan Mutual (76.24%). Cooperators (70.44%), Zurich (70.35%) and Advocate General (70.12%) were the others with a loss ratio in excess of 70%.

Expenses for all companies averaged 42.6%.

Results have continued to improve into 1987, as the following table of quarterly loss ratios shows :

	Loss Ratio by Quarter (%)			
Year	**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		

The personal lines business in Canada is expected to go through substantial changes over the next five years, not so much in the coverage provided but rather in the delivery system.

At present, the bulk of the business is sold to the public either through independent agents or by direct writers on an individual basis, although there is increasing penetration by companies selling through employees and other groups.

With changes in the regulations governing financial institutions in Canada, it will be possible for other financial institutions to own insurance companies and set up sales desks selling insurance alongside the other services they sell. While the retail sale of insurance is specifically excluded from the permission to create sales networks, under which employees of one financial institution can sell the products of another, there is nothing to prevent an insurance sales repre-

sentative being located close to an employee of a related financial institution forming part of such a network.

Because of this, there is considerable interest in personal lines insurance by banks and trust companies, which have substantial branch networks throughout the country providing an extensive delivery system ready to be accessed. Already, in Quebec, the Caisses Populaires Desjardins have announced the creation of a separate insurance company, the purpose of which will be to sell direct to the public through the various *caisses populaires* around the province. Both the Toronto Dominion Bank and the Bank of Montreal have said that they are studying a possible entry into the insurance industry and most of the major trust companies are already under common ownership with insurance companies.

While the initial thrust of these major financial institutions has been into the securities industry, entry into the personal lines insurance industry appears inevitable in a future stage.

For the most part, the banks and other institutions developing an insurance capability will do so through the creation of a new insurance company, since they are prevented under the revised regulations from purchasing an insurance company with more than $50,000,000 of capital and, in any case, they are likely to wish to orient their sales effort in a way which would be incompatible with the portfolio of most existing companies.

Another development which has been going on in Quebec for some time and has accelerated in the last year or two in the rest of Canada is the creation of property and casualty subsidiaries by life insurance companies. Already geared to the sale of group business through employers and individual business through tied agents, the life companies are thus using their already established sales force for the sale of personal lines insurance, permitting them to offer a complete personal insurance package to their potential clients.

As these various trends accelerate over the next few years, it is to be expected that there will be major competition for the personal lines business and the strong financial backing of most of the participants could result in the competition being fierce and the structure of the personal lines market, once it is over being substantially different from what it is now.

The impact which these changes will have on reinsurers seems likely to be mixed. The strong financial backing available to new entrants into this market suggests that the need for reinsurance will not be great, however what reinsurance is purchased will usually be on an excess of loss basis, where reinsurers are able to price their product themselves and therefore are less affected by competition which may exist at the primary level.

For those companies which already have substantial personal lines portfolios, it can be anticipated that they will go through a difficult period while the market adjusts to the new competition, however again, for reinsurers, the impact should not be great since little personal lines business is reinsured on a proportional basis and, as previously mentioned, reinsurers control their own destiny to a much greater extent on excess of loss.

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Property – Commercial

Results in commercial property business have improved to a greater extent than for personal lines, as the following results show :

	Net Premiums Written (000)	Net Premiums Earned (000)	Loss Ratio (%)
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
1986	1,627,105	1,546,729	55.78

As can be seen from the following loss ratios by quarter, the improvement has continued into 1987.

Loss Ratio by Quarter (%)

Year	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		

Expenses on commercial business averaged 38.7% in 1986, meaning that there was a 5.5 point profit for the market overall last year.

With the loss ratio for the four quarters ending the 30th June 1987 at 52.7%, the underwriting profit margin is at 8.5%, which has inevitably attracted a significant increase in competition, particularly in the larger risks. However, losses from the Edmonton tornado on commercial risks were substantial and will certainly eat into the profit for the full year.

Lloyd's Underwriters were the largest writers of commercial property business in Canada, with $138,089,000 in 1986 and a loss ratio of 35.43%. Their results have varied significantly in the last five years, with loss ratios around 80% in 1982, 1984 and 1985, but 49.16% in 1983 and 35.43% in 1986.

The other two companies with more than $100,000,000 of net premiums were Royal ($118,117,000, 56.66% loss ratio) and Phoenix Continental ($115,709,000, 60.34% loss ratio).

Although at 35.43%, Lloyd's had an excellent loss ratio in this class, they were only the third best amongst companies writing more than $5,000,000 of premiums, with Groupe Desjardins being at 33.53% and Liberty Mutual at 34.16%. However, these loss ratios were obtained on substantially less premium, $11,015,000 for Groupe Desjardins and $5,495,000 for Liberty Mutual. Others with a loss ratio below 40% were Groupe Commerce (37.28%), Cooperators (37.71%) and Halifax (39.77%).

At the other end of the scale, Commonwealth had a loss ratio of 153.17% and American Home were also over 100% at 106.29%. Only three others were over 70% : Wellington at 76.29%, Symons General at 73.11% and Protection Mutual at 70.52%.

Property – All

The loss ratio for all property business in 1986, at 57.96%, was the lowest since 1978 (54.14%) and the improvement has continued through the first six months of 1987, for which the loss ratio is 55.3%.

The largest property insurer in 1986, based on direct premiums written, was the Royal at $230,052,000, at a loss ratio on net premiums of 56.46%, followed by Phoenix Continental ($181,461,000, loss ratio 59.53%), Cooperators ($151,270,000, loss ratio 62.84%), Lloyd's ($133,596,000, loss ratio 38.74%) and Economical $132,168,000, loss ratio 52.26%).

Royal obtained approximately 39% of their property business from Ontario and 27% from Quebec, the next largest provinces being Alberta at 8.5% and British Columbia at 7%. The Phoenix Continental had a similar proportion of their business in Quebec and Ontario as the Royal, but wrote more than the Royal in British Columbia and Manitoba.

The other three companies in the top five had a substantially different breakdown. The Cooperators have very little business in Quebec, 41% of their volume coming from Ontario, 18.5% from Alberta, where they are the largest company, and 14% from Saskatchewan, where they are also the largest. On the other hand, Lloyd's have 40% of their volume in Quebec and only 20% in Ontario, while they are the largest writer in British Columbia with 18% of their volume. Economical are concentrated in Ontario where they are the largest writer with 69% of their volume, another 18% coming from Quebec and no other province totalling more than 5%.

Lloyd's has the best loss ratio at 38.74%. Eight other insurers with at least $5,000,000 of net premiums had loss ratios below 50% : Groupe Desjardins (39.41%), Liberty Mutual (39.70%), Groupe Commerce (45.81%), Lumbermen's Underwriting Alliance (46.64%), Chubb (47.01%), Home (47.08%), Western Union (47.67%) and Federated Mutual (48.49%).

At the other end of the scale, the highest loss ratios were those of Commonwealth at 153.07% and American Home at 106.29%. The only others above 70% were Symons General (76.67%), Coop-erants (75.43%), Advocate General (74.49%), Saskatchewan Mutual (73.67%), Western General (72.25%) and Protection Mutual (70.52%).

Industry expenses for property business Canada-wide averaged 40.79% in 1986, down from 42.22% in 1985, no doubt reflecting the 12% increase in net premiums written over 1985 more than any significant reduction in actual expenses.

Results for the industry as a whole on property business for the last five years have been as follows :

	Net Premiums Written (000)	**Net Premiums Earned (000)**	**Loss Ratio (%)**
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
1986	3,647,741	3,469,986	57.96

Earned premiums for the first six months of 1987 are 13% higher than those for the first six months of 1986, compared to an inflation rate of 4.8% for the 12 months ending the 30th June 1987 and an increase in the gross domestic product of 6.1% for the first half of 1987.

However, the year-end property results will certainly show less of a profit than the six months results would suggest, because of the Edmonton tornado of the 30th July, where the insured loss is expected to be in the range of $300,000,000 to $350,000,000 and the Montreal rainstorm of the 14th July, where the loss is currently estimated at $50,000,000 of property losses and $10,000,000 of automobile, but will probably go higher.

Development of the loss ratios by quarter for property nonetheless show the steadily improving trend in this branch.

	Loss Ratio by Quarter (%)			
Year	**1st**	**2nd**	**3rd**	**4th**
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	60.2	58.0	51.7
1987	56.7	55.3		

Property – Reinsurance

Reinsurers' loss ratio on property business was 62.20%, a substantial improvement from the 72.03% recorded in 1985.

The Munich Re and Canadian Re were the two largest writers, with $98,575,000 and $43,824,000 respectively, Munich Re with a loss ratio of 61.99% and Canadian Re with 68.32%. Other companies writing more than $20,000,000 of written premium were Abeille Re ($34,889,000, 64.27%), General Re ($28,586,000, 53.69%), American Re ($25,843,000, 64.44%) and Mercantile & General ($24,126,000, 52.25%).

The best loss ratio on property business among reinsurers with more than $2,000,000 of premium was produced by Norwich Winterthür with 41.77%, followed by the two specialist farm mutual reinsurers, S.M.R.Q. at 44.22% and F.M.R.P. at 49.41%. Other reinsurers below 55% were Victory at 51.86%, Mercantile & General at 52.25% and General Re at 53.69%.

Because the Edmonton tornado probably affected reinsurers proportionately more than insurers, 1987 may not be such a good year for them overall. However, the medium term outlook in this class is quite promising, since commercial business, which is more heavily reinsured on a proportional basis than personal lines, has been improving more rapidly than personal lines and, although it is

presently the subject of increased competition at the primary level, it is in personal lines, with the entry of other financial institutions, where the most competition is expected over the next few years. On non-proportional business, of course, reinsurers can control their own pricing and their main concern will therefore be monitoring the level of primary rates which would affect the base premium on which the excess of loss rates are calculated.

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Liability Insurance

The liability class has been the greatest improvement in recent years, dropping from a loss ratio of 105.78% in 1983 to 77.69% in 1986 and 65.00% for the first six months of 1987. Results for the last five years have been as follows :

	Net Premiums Written (000)	Net Premiums Earned (000)	Loss Ratio (%)
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
1986	1,299,418	1,097,851	77.69

Although the improvement appears to be continuing in 1987, the quarter by quarter results shown below make it clear that the full year's loss ratio will not be known until the completion of the fourth quarter, which is regularly significantly worse than the rest of the year.

Year	Loss Ratio by Quarter (%) 1st	2nd	3rd	4th
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	72.7	73.3	95.8
1987	65.6	64.4		

The 60% increase in net premiums written in 1986 over 1985 is a clear indication of the reason for the improvement, further underlined by the fact that the 1986 net premiums written are two and a quarter times those of 1984. The increase in 1987 over 1986 is continuing, though not at the same pace, the earned premiums for the first six months being 33% higher than the earned premiums for the corresponding period a year earlier.

The largest writer of liablity business in 1986 was the Royal, with $80,613,000 and a loss ratio of 100.75%. Royal was followed by American Home with $63,026,000 and a loss ratio of 72.34% and Zurich with $60,784,000 and a loss ratio of 69.17%. Others with more than $50,000,000 of net premiums written were General Accident ($60,402,000, 79.34%), Lloyd's ($57,312,000, 31.90%), Chubb ($51,315,000, 58.86%) and Simcoe Erie ($50,036,000, 93.00%).

Of insurers with at least $5,000,000 of net premiums in 1986, Sun Alliance had the best loss ratio at 21.75% followed by Lloyd's with 31.90%. Six other companies were below 50% : Hartford (42.51%), Canadian Northern Shield (43.16%), Commonwealth (45.12%), Allstate (48.69%), Elite (48.96%) and Cooperators (49.94%).

At the other end of the scale, Crum & Forster had the highest loss ratio at 142.85%, followed by Scottish & York at 116.51% and St. Paul at 115.75%. Three other companies were over 100% : CIGNA (101.33%), Dominion of Canada (101.28%) and Royal (100.75%).

The major event for insurers was undoubtedly the reversal of the finding of negligence and the reduction of the quantum in the case of the McErlean vs. Sarel and the City of Brampton. In this case, McErlean, then 14 years old, became severely physically and mentally handicapped as a result of a trail bike collision with Sarel on a sharp blind curve on a gravel road running through land owned by the city of Brampton, which was intended to be converted to a park but where no work had yet been done. The city was held 75% responsible, Sarel, also a teenager, 15% and the victim 10% ; the total award was $7,023,150.

The 1985 decision was reversed by a unanimous decision of the Court of Appeal of Ontario, which found that the city of Brampton was not negligent since, because the child engaged in an "adult activity", he should not be accorded special treatment because of this immaturity, but should be held to the same standard of care as an adult. As a result, the two young motorcyclists were held equally responsible for the accident.

On the question of quantum, the Court of Appeal reduced the total award from $7,023,150 to $3,689,435, reducing the amount for future care and the amount awarded for gross-up, i.e. income tax payable on income earned from investment of the award. While this remains the largest bodily injury award in Canada, it is now more in line with earlier awards, being one of three awards over $3,000,000, the others having been made in 1986 and 1983.

The tragedy is that the other party involved in the accident was insured for only $100,000, resulting in only a minimal recovery for the McErlean family, despite the very serious injuries to their son and the amount of damages fixed by the Court of Appeal.

Further good news for the industry came from Newfoundland, with a declaratory judgement from the Court of Appeal upholding the Workers' Compensation Law which replaces the right to sue by payment of fixed benefits following injury.

The removal of the right to sue had been challenged on constitutional grounds in the case of Piercey v. General Bakeries. In the original judgement, the Court found that the case was time-barred, but nonetheless ruled that the removal of the right to sue was unconstitutional. The Workers' Compensation Commission sought a declaratory judgement from the Appeal Court that the lower Court was in error, which it was successful in obtaining ; since the original case was time-barred, no appeal to the Supreme Court of Canada seems likely.

Although the decision has force of jurisprudence only in Newfoundland, it is nonetheless a strong argument to be referred to in other cases and, indeed, a case based on the same arguments is currently under appeal in Alberta.

Liability Reinsurance

The liability loss ratio for reinsurers in 1986 was 94.95%, down from 106.45% in 1985.

Liability is the smallest of the three main classes, particularly so for reinsurers where almost all of it is on an excess of loss basis. As a result, only eight reinsurers had net earned premiums of $5,000,000 or more and only fourteen of $2,000,000 or more.

The largest writer amongst reinsurers was General Re, with $30,446,000 and a loss ratio of 111.36%. They were followed by Munich Re with $26,491,000 and 66.10%, Employers Re ($20,431,000, 85.73%) and Prudential Re ($18,899,000, 51.78%).

Prudential Re also had the best loss ratio amongst those reinsurers with at least $2,000,000 of premiums, followed by Munich Re and Gerling Global Re (69.64% on $10,717,000). Employers Re completed the list of only four reinsurers of that size with loss ratios below 100%.

At the other end of the scale, Canadian Re had a loss ratio of 165.02% on $10,367,000 of premiums and Skandia 136.58% on $2,760,000. They were followed by Great Lakes ($3,323,000, 129.28%), SCOR Re of Canada ($2,241,000, 128.26%), Mercantile & General ($14,451,000, 127.05%) and Kemper Re ($2,533,000, 120.80%).

Apart from those reinsurers with substantial amounts of facultative premium, most liability reinsurance is written in conjunction with automobile, with automobile making up the bulk of the base premium and thus being the major factor in determining the pricing. As a result, the liability results taken alone are not too meaningful.

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Automobile Insurance

Automobile insurance is in private hands in the provinces of Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Ontario and Alberta, as well as the Yukon and Northwest Territories. In addition, all coverage in Quebec except for bodily injury

on accidents occurring in the province is given by private insurers and, in Saskatchewan, coverage other than compulsory cover can be given by private insurers, although the Saskatchewan Government Insurance, which provides the compulsory cover, also provides the bulk of the additional coverage.

About 55% of the automobile insurance written by private industry originates from the province of Ontario, where there has been intense political pressure over the last 18 months as the Liberal minority government has evaluated the basis on which it should be offered to the public while its supporters in the minority government, the New Democratic party, have pressed for a government takeover.

With the emergence of a majority Liberal government in October 1987, the immediate threat of nationalization has receded somewhat but the whole question of automobile insurance in Ontario remains a highly political issue and major changes in coverage are still a possibility, with the threat of nationalization remaining, if private industry is not able to provide the coverage which the government considers necessary.

As a part of the review process, the government introduced in 1987 legislation to establish an automobile rating board and also to freeze premium rates at their April levels, except for premiums for male drivers under 25 and taxis insured by the Facility Association, which were to be reduced by 10%. Neither piece of legislation was passed before the October election, however with the re-election of the Liberal government, they are expected to be re-introduced and passed without delay, the rate freeze being retroactive to April as originally planned.

Viewed in this context, the improvement in the total automobile loss ratio from 95.20% to 92.06% in 1986 and for automobile liability from 111.68% to 102.39% is encouraging, even if the loss ratio figures themselves are well above what would be necessary for an underwriting profit. Results for automobile for the last five years have been as follows :

Section	Year	Net Premiums Written (000)	Net Premiums Earned (000)	Loss Ratio (%)
Liability	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
	1986	2,666,141	2,425,006	102.39
Damage to the vehicle	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
	1986	2,286,938	2,136,899	73.44
All sections	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
	1986	6,206,764	5,781,888	92.06

Insurers' average expenses on automobile business in 1986 were 29.0%, down from 31.6% in 1985.

By far the largest writer of automobile was the Cooperators with $408,349,000 and a loss ratio on net premiums of 92.26%. The four other companies with direct premiums of more than $200,000,000 were the Royal ($289,643,000, 85.63%), Economical ($246,677,000, 96.15%), State Farm ($230,026,000, 88.54%) and Allstate ($211,693,000, 102.23%).

Not surprisingly, all of the top five companies received the bulk of their business from Ontario, ranging from 91% for State Farm to 57% for Allstate. Allstate obtained 25% of their business from Quebec and 8% from Alberta, while Economical obtained 71% from Ontario, 16% from Quebec and 5% from Alberta, Royal 61% from

Ontario, 13% from Quebec and 10% from Alberta and Cooperators 68% from Ontario and 17% from Alberta, with none from Quebec.

Amongst insurers with at least $5,000,000 of automobile premium, the best loss ratio was produced by Jevco, with 65.08% on premiums of $8,655,000, followed by Kent General (68.34% on $5,059,000) and York Fire (69.67% on $7,675,000). The next company is Markel, the specialist trucking insurer, with premiums of $36,097,000 and a loss ratio of 70.72%. The only other insurers below a 75% loss ratio were Groupe Commerce (71.36% on
490 $138,059,000), Gerling Global General (71.63% on $6,543,000), Canada West (73.25% on $9,782,000), Groupe Desjardins (73.50% on $36,461,000), Kansa General (73.80% on $8,695,000) and St. Maurice (73.90% on $9,589,000).

The highest loss ratio was that of Symons General at 137.35%, with two others, American Home (119.32%) and CIGNA (117.60%) being over 110%. Ten other insurers have loss ratios over 100%, but only Commercial Union (108.08% on $153,334,000) and Allstate (102.23% on $209,833,000) had premiums of more than $100,000,000.

Despite legislative action in Ontario in 1987, not all the news for automobile insurers has been bad, because of the increasing evidence that the Court of Appeal will not tolerate decisions by lower courts which extend the previously established standards on negligence, quantum and policy interpretation.

In a decision directly affecting automobile business, the Divisional Court of Ontario heard an appeal by the Zurich Insurance Company of a decision under the Ontario Human Rights Code which held that the premium quoted to a single 20-year-old male driver for automobile insurance was discriminatory because it resulted from a classification based on age, sex and marital status. The Divisional Court found that the discrimination was reasonable and therefore permitted it to stand so that, while the industry as a whole is moving away from such distinctions in rating, is will have the time needed to develop a new plan which will appear fairer to both government and the general public.

The city of Brampton case referred to earlier, although a general liablity case, was also viewed with relief by automobile insurers, since the principles of the establishment of negligence and quantum of damages are equally applicable to automobile liability. These two cases, added to the Court of Appeal decision in 1985 of the Borland vs. Muttersbach case, which reversed the decision of the trial judge that the limit under the automobile endorsement SEF #42 of $1,000,000 applied per person rather than per accident, complete a group of cases, which are considered to have arrested the trend in Canadian courts towards a more liberal interpretation of negligence, policy wording and quantum.

Nonetheless, the McErlean case clearly demonstrates the inequity which the tort system can produce, since the family will receive a minimal recovery despite the serious injuries to their son. Although this was a general liability case not an automobile one, it will no doubt add substantial force to the argument for introduction of a complete no-tort automobile system in Ontario, which was recommended by the Ontario Task Force on insurance, known as the Slater Commission, and is being studied by Mr. Justice Osborne, who must report to the Ontario government on the future of automobile insurance before the end of 1987.

Automobile Reinsurance

Reinsurers in 1986 had a loss ratio 95.91% on $232,113,000 of automobile business, about three points worse than the market as a whole. However, on automobile liability, reinsurers fared better than insurers with a loss ratio of 97.48%, almost five points better than the market as a whole.

Canadian Re was the largest writer of automobile business with $21,367,000 at a loss ratio of 97.68%, followed closely by Abeille Re at $21,270,000 and a loss ratio of 107.29%, although surprisingly Abeille Re's loss ratio on liability only was significantly better at 80.32%. Of those reinsurers with at least $2,000,000 of premiums in 1986, Farm Mutual Re had the worst loss ratio at 149.76% on $2,135,000 of premiums, followed by Union Re (124.21% on $3,107,000) and Victory Re (123.62% on $6,576,000). Altogether, eleven reinsurers had a loss ratio over 100%.

At the other end of the scale, Prudential Re had a loss ratio of 30.27% on premiums of $3,393,000 and Hannover Rück 48.44% of $2,862,000. Frankona Rück (53.90% on $5,058,000) and Gerling Global Re (69.51% on $7,232,000) were the only other reinsurers below 70%.

Reinsurers must also be concerned with the current automobile situation in Ontario, since, although most automobile business is written on an excess of loss basis and reinsurers can therefore set their own pricing, they must do so based on estimates of the primary

pricing which are difficult to determine in the present climate.

In addition, with options ranging from the current pure liability system to a complete no-tort system being examined, both the nature of coverage provided in the future by excess of loss reinsurance and the evaluation of the statistical base for rating, it will require considerable imagination.

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Other classes

Property, automobile and liability make up about 95% of the property casualty insurance market and probably more of the reinsurance market, however the other classes are nonetheless important, particularly to specialist companies. The results for the last five years in the other classes have been as follows :

Class	Year	Net Premiums Written (000)	Net Premiums Earned (000)	Loss Ratio (%)
Surety	1982	77,055	77,061	32.97
	1983	74,700	74,959	36.41
	1984	83,391	78,236	44.77
	1985	96,556	89,909	41.62
	1986	94,671	93,561	48.11

Marine	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
	1986	74,485	72,901	57.46
Aircraft	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
	1986	75,180	69,962	41.83
Fidelity	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
	1986	70,377	59,187	23.71
Hail	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
	1986	17,118	17,756	51.53

As the market moves into 1988, it can look back at a remarkable recovery from the huge losses of 1984 and 1985 but look forward to a future with a number of question marks. Increasing activity by other financial institutions in personal lines business, increased competition on commercial property business and the unknown future of Ontario automobile are set against a profitable first half of 1987 and the roll-back by the Court of Appeal of the judicial tendency to follow American patterns in tort law.

Results of the second half of 1987 will give some indication of the extent of the return of competition in property business, however they will be distorted by the Edmonton tornado and the Montreal flood, making it difficult to draw any firm conclusions. The first half of 1988 is more likely to give a clearer indication and will probably also be the period during which the Ontario government will indicate its plans for the future of automobile insurance in that province. For personal lines business, however, the impact of competition from other financial institutions will take longer to be felt and will last over a longer period. In addition, considerable time will be necessary to discover the impact of any changes which may be introduced in Ontario automobile, so that some volatility in the market's results can be anticipated into the beginning of the next decade.

The future is further clouded by the recent dramatic drop in share prices around the world, including Canada. There will be little

impact on the surplus of insurers, since they are limited in the amount they can invest in stocks and there is in any case ample financial capacity available to write Canadian business.

However, if the substantial 1987 operating profits which now seem assured are followed in 1988 by a recession, as some forecasters are predicting, there will be more capacity chasing less business, one of the factors which produced the fierce competition from which the market has so recently recovered. While a firmer reinsurance market would help shore up pricing, such a scenario can only complicate the picture for insurers.

Insurers best hope is that, during this period of increased volatility, the shortened cycle of peaks and valleys, while keeping the peaks lower, will also prevent the valleys from becoming too deep.

For reinsurers, there is comfort in the fact that the reinsurance market has remained firmer than the insurance market. In addition, excess of loss reinsurance, which reinsurers are better able to price themselves, is generally used on much of the business causing uncertainty to insurers. Nonetheless, for reinsurers as well, the future is by no means clear and close attention to the market will be necessary, if they are to avoid the same volatility in results.