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Plowing On Through

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PLOWING ON THROUGH

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Marginally better industry results in 2010 over 2009 may muddy underlying weakness in industry performance

Mush-y

Adj. mush-i-er, mush-i-est
1) Resembling mush in consistency; soft
2) Soft and pulpy

Thesaurus

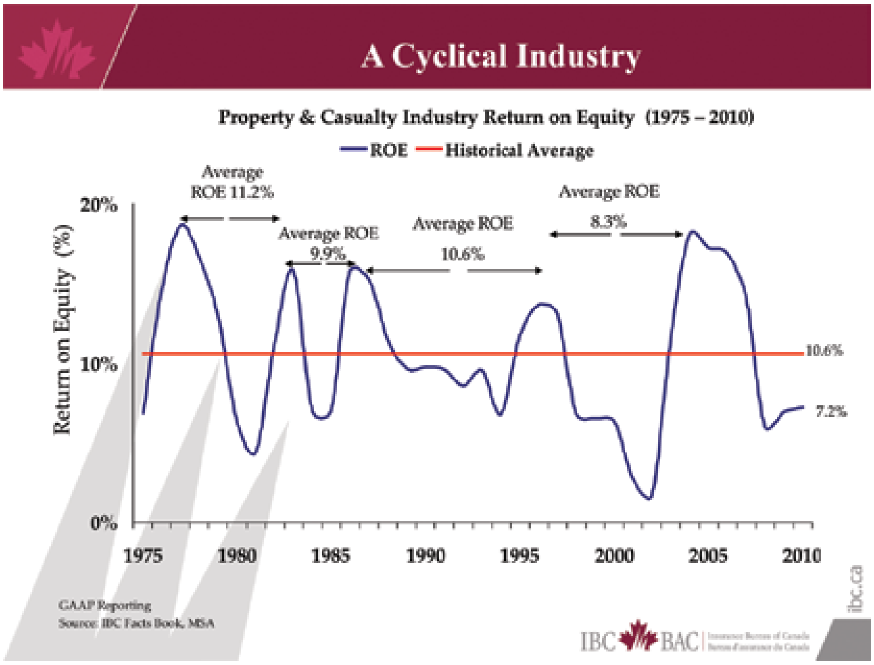
1) Having the consistency of mush
2) Soft, yielding readily to pressure or weight
3) Soft, squidgy, slushy, squashy, squelchy, pulpy, doughy, pappy, semi-liquid, paste-like, semi-solid

According to MSA Research, as of 2010 Q4, "commercial writers and reinsurers continued (and still continue) to compete in a mushy market."

Truth be told, "mushy" might be the best way to describe the lion's share – if not all – of the property and casualty market segments in Canada. On the surface, it may appear as though the market is moving in the right direction (albeit at a snail's pace). However, a closer look suggests that may not necessarily be true.

According to data released by Insurance Bureau of Canada (IBC) at Swiss Re's 26th Annual Outlook Breakfast held in Toronto on Mar. 31, 2011, financial results for the country's p&c insurers were "modestly positive," showing marginal improvement over 2009. But while underwriting results generally improved, the industry posted its third straight underwriting loss, said Gregor Robinson, IBC's newly minted senior vice president and chief economist. What's more, return on equity was 7.2% for both 2009 and 2010.

"On the positive side, the [underwriting] loss was substantially smaller last year – $54 million, compared to a loss of $207 million in 2009," Robinson noted. "The underwriting picture becomes less positive when we remove the effect of reserve adjustments." According to Robinson, "In 2010, there were net releases of prior-year reserves of about $1.2 billion. Removing these from the underwriting results shown [for 2010], the industry's underwriting loss grows to $1.3 billion." Additionally, when the effect of reserve development is removed, the 2010 combined ratio increases by three percentage points, up to 103.6%.



GAAP Reporting
Source: IBC Facts Book, MSA

THE NUMBERS

MSA data show Canadian commercial insurers had a combined ratio (COR) of 90.1% in 2010, about a percentage point better than the 90.8% posted in 2009. Reinsurers in Canada posted a dramatically better COR in 2010 (88.9%) than in 2009 (98.6%). Adding personal and multi-line insurers, the industry's combined ratio in 2010 was 101%, compared to 101.5% in 2009.

Out of the 221 insurers reporting 2010 year-end data to MSA Research, slightly more than half (53%) posted an improvement in their respective combined operating ratio. For the entire group of companies, the composite COR for 2010 hovered just under 100%, at 99.7%.

Calendar year results showed improvements in most lines, while accident year results gloss over the fact that both sectors are effectively running at an underwriting loss and, with low interest rates, substandard returns on capital, says MSA. "Prior year reserve releases have again saved the day but the well is drying up. So our outlook for the commercial lines sector for the balance of 2011 is not rosy," said the report.

Given a context in which industry analysts and writers have been commenting for many years about the "well running dry," and yet that never seems to happen, MSA's Joel Baker elaborated on his remarks: "Reserve releases over the past two years have ranged between 2% to 5% of outstanding provisions depending on the sectors (commercial or personal). While still favorable, these releases pale in comparison with those of 2008 and some earlier years where they approached 10%. There might be juice in the tank, but not as much as before."

MSA's report notes uncertainty as to whether "the tragic events in Japan, New Zealand and Chile will be sufficient to turn the global market..." Like other industry observers, the 2010 Q4 edition of the MSA/Baron Outlook Report says "an active U.S. hurricane season this fall may finally tip the balance and bring the prolonged soft commercial/reinsurance market to a close." (It's important to note that since the writing of this report, the outbreak of more than 350 tornadoes in the United States between Apr. 17 and 27 may result in total insured losses of between $2 billion and $5 billion, according to EQECAT.)

The net income of companies reporting to MSA increased for 125 of the 221 companies, while it decreased for 83. Overall, the group of insurers' collective net income for the year was $3.5 billion.

Ontario auto continues to plague insurers' results. The industry's direct Ontario loss ratio for the year was 99.4%.

According to James Cameron, president of Cameron & Associates Insurance Consultants Ltd., "the Ontario Auto Market remains cautiously optimistic the Sept. 1 changes to the regulations, recent FSCO bulletins encouraging insurers in the war on fraud and heightened activity from IBC and the government also respecting fraud, will reflect on the bottom line soon. On the other hand, the creativity of a few clinics and service providers in the GTA 'gaming' the system knows no bounds. It takes a long time to get convictions on the few bad apples."

He adds: "The backlog of cases for mediation and arbitration is now nine months. It may take until September 2012 to start to confirm how the changes will play out."

According to the 2010 annual report of the Property and Casualty Insurance Compensation Corporation (PACICC), industry results improved last year as price adjustments toward the end of

A large loss
firstonsite
Commercial Division

2009 began to work through the system. “However, despite finding better financial footing, the industry’s business environment in 2010 was quite turbulent,” the report says. “Storms and hurricanes affected all parts of the country and Ontario’s auto insurance accident benefits coverage continued to have unsustainably high loss ratios. Regulatory reforms enacted in 2010 will impact on the industry’s operating environment in 2011.”

Overall, industry underwriting profitability during 2010 saw improved loss ratios in many lines of business, as growth in premiums exceeded the growth in claims costs, PACICC notes. “This improvement in underwriting performance for the industry was welcome after underwriting losses during 2008 and 2009” it noted. “Together, with improvements in investment income, industry profitability saw improvement over the prior year.”

On the auto side, PACICC outlined a number of developments in Ontario, Alberta, Nova Scotia and New Brunswick. During 2010, several provinces introduced auto insurance product reforms that will have longer-term implications for claim cost trends in the industry.

> **“...when the effect of reserve development is removed, the 2010 combined ratio increases by three percentage points, up to 103.6%.”**

In Ontario, the government followed up on its five-year review of automobile insurance to introduce changes to the province’s auto insurance product. The changes include a new package of statutory accident benefits for those injured in auto accidents. This new package offered by all insurers will lower the amount of coverage that consumers must purchase to $50,000 for medical and rehabilitation expenses and $36,000 for attendant care expenses for non-catastrophic injuries. Drivers could opt for this lower-cost coverage, or increase it to the level of medical, rehabilitation and attendant care insurance they need.

PACICC noted that on July 29, 2010, the Alberta Automobile Insurance Rate Board mandated a 5% decrease in premiums for mandatory automobile insurance coverages, effective Nov. 1. PACICC says this is consistent with the estimated low scenario for bodily injury claims frequency and an assumed higher future return on investment.

In late November, the Nova Scotia government announced a review of the province’s automobile insurance system. It increased the cap on minor injury awards from $2,500 to $7,500, harmonized its definition of minor

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injury with Alberta and announced a broader automobile insurance review. In November, the government of New Brunswick announced it will also review its cap on minor injury awards and the definition of soft tissue injury.

From a product performance standpoint, "in aggregate, automobile insurance premium growth in 2010 was outpaced by continued growth in claims costs," PACICC says. "Despite not keeping pace with claims costs, auto insurance premiums had strong growth as rate increases introduced in late 2009 took effect. However, the net increase in premiums earned during 2010 remained less than half the increase in claims costs over the year."

Claims experience in the accident benefits component of the auto insurance product – specifically the Ontario auto insurance product – continued to be poor through 2010, says PACICC. "While still very high, the growth rate in claims costs was similar to that of 2009." Accident benefit claims costs were accelerating through the first half of 2010 but showed evidence of slowing in the latter part of the year. This suggests the Ontario auto reforms may have started to have some affect.

On the property side, premium growth exceeded growth in claims costs. In the volatile commercial liability lines, claims costs outpaced premium growth.

"...an active U.S. hurricane season this fall may finally tip the balance and bring the prolonged soft commercial/reinsurance market to a close."

Looking into the future, "the outlook for the p&c insurance industry for 2011 has improved, but is nevertheless subject to greater uncertainty than the healthy improvement in performance recorded between 2003 and 2009," PACICC says. "While industry results have improved and preliminary indications from reforms to the auto product in Ontario are encouraging, it is too early to ascertain the ultimate impact. Similarly, the outcome of pending reviews to the auto product in other provinces adds some additional uncertainty at the margin. In addition to product changes, the industry must manage significant accounting, capital and reinsurance changes."

Two years ago in this space, one facultative casualty underwriter was quoted as saying: "As far as the market overview is concerned, I think we are in a transitional casualty market. It has not hardened, but is expected to be on the verge of hardening – if not later this year, then in first quarter 2010."

Last year, he mused his timing was off. Of the 2009 market, he said: "I still think we are in a transitional market and hope we will see things start to tighten later this year, if not very early in 2011 as the Canadian economy continues to improve and outperform the U.S. economy."

Of 2010, he says: "What I wrote last year is still a good summary of what is going on in the casualty market today. My timing was wrong. It is more likely we will see the start of a hardening market in the first quarter of 2012, after the Jan. 1, 2012 treaties are renewed and following the poor results expected from reinsurers in 2011 – starting with the first quarter of 2011, [when] the effects of the New Zealand and Japanese earthquakes and other cat losses ... resulted in quarterly losses for Swiss Re, Munich Re, Everest Re and Lloyd's. The impetus to push for rate increases also has to come from the Canadian p&c industry; so far, nothing indicates this is either happening now or about to happen, which is a concern. Reinsurers alone will not turn the market. It needs the primary insurance market to move in that direction, too.

"There is very little profit margin in the rates we are seeing in the market today. None of the insurers seem to want to be the one to risk losing market share by pushing for across-the-board rate increases, even in tougher classes like E&O and long haul trucking. Competition is still intense and there is an overabundance of capacity, with new carriers like Axis, Berkley, Catlin and QBE adding even more capacity. We heard Zurich is going to enter the condominium market, a class where market rates for property and casualty are already far too low and profit margins are minimal. If they do, they will bring huge additional capacity to the market and no doubt push existing rates down even further."

INDUSTRY ISSUES

Insurers will move to International Financial Report Standards (IFRS) in 2011. OSFI issued a draft advisory outlining the regulator's expectations and requirements for the implementation in October 2009. While not all IFRS standards are complete (insurance contracts for example), IFRS will have important implications for insurer balance sheets and financial metrics. As a result, OSFI and provinces using the minimum capital test (MCT) framework introduced changes effective for implementation in 2011. These changes reflect the accounting and capital policy positions with respect to IFRS; they also introduce a number of other changes to the test. The Branch Adequacy of Assets Test (BAAT) introduced similar changes.

> **"Ontario auto continues to plague insurers' results. The industry's direct Ontario loss ratio for the year was 99.4%."**

OSFI also launched a consultation paper in December 2010 for other substantial changes to the MCT/BAAT tests. The proposed changes to the MCT/BAAT guidelines are motivated by a desire to ensure the guidelines continue to accurately reflect the risks in the property and casualty insurance industry. The proposed changes involve removing some capital charges that are, in effect, capital on capital; modifications to asset factors to add granularity by rating class and duration; and introducing margins for risks, such as interest rate risk, not currently in the tests. Any changes to the MCT/BAAT are expected to be effective for January 2012.

During 2010, OSFI also announced changes to the supervisory approach to reinsurance, says PACICC. The changes will remove the previous 75% fronting limit and 25% limit on unregistered reinsurance. It will also require insurers to adopt a reinsurance risk management policy. Following industry consultation, OSFI Guideline B-3: Sound Reinsurance Practices and Procedures was issued in December 2010. All federally regulated insurers must address the principles contained within the guideline by July 1, 2011 and demonstrate full compliance by July 1, 2012.

Elsewhere, in November 2010, Swiss Re announced the launch of a discussion paper entitled Making Flood Insurable for Canadian Homeowners. Released by the Institute for Catastrophic Loss Reduction (ICLR) and supported by Swiss Re, the paper outlines the steps and solutions to resolve the problem of Canadian homeowners being unable to purchase insurance for overland flood damages. The report demonstrates how flood insurance has many advantages over government relief programs. The report concludes the next step in establishing a successful flood insurance program involves an insurance industry-wide discussion of this important issue.

IN THE COURTS

In the February/March 2011 issue of Claims Canada, Christopher Dunn of Dutton Brock LLP provides a very useful and concise run-down of the Top 10 coverage decisions from 2010. "It was a relatively busy year in Canadian courts for insurers," he begins. "While all was relatively quiet on the Supreme Court of Canada front, with the exception of release of the much-anticipated decision in Progressive Homes v. Lombard, the Ontario Court of Appeal had a particularly busy year, with no less than six major insurance coverage decisions released."

DUNN'S TOP TEN INCLUDE:

1) *Progressive Homes v. Lombard Insurance Co. of Canada* (Supreme Court of Canada, September 2010).
2) *Lewis v. Economical Insurance Group* (Ontario Court of Appeal, July 2010) – Unidentified Automobile Coverage.
3) *Poplawski v. McGrimmon* (Ontario Court of Appeal, October 2010) – Homeowner's Liability Coverage.
4) *Meadows v. Meloche Monnex* (Ontario Court of Appeal, June 2010) – Homeowner's Liability Coverage.

5) *Rougoor v. Co-Operators* (Ontario Court of Appeal, January 2010) – Accident Benefits.
6) *Buchanan v. Wawanesa Mutual Insurance Co.* (British Columbia Court of Appeal, June 2010) – Homeowner's Property Insurance.
7) *Concord Pacific Group Inc. v. Temple Insurance Co.* (British Columbia Court of Appeal, June 2010) – Builder's Risk.
8) *Engle Estate v. Aviva Insurance Co. of Canada* (Alberta Court of Appeal, January 2010) – All Risks Property.
9) *Minox Equities v. Sovereign General Insurance* (Manitoba Court of Appeal, June 2010) – All Risks Property.
10) *Beaverdam Pools v. Wawanesa Mutual Insurance Co.* (New Brunswick Court of Appeal, January 2010) – Commercial General Liability.

All 10 of Dunn's choices would be of interest to most, if not all of the property and casualty carriers in the country. But half stand out because of a common thread running through each: the problem of improper or poor policy wordings. In the above list, these five would be: 1), 2), 3), 6) and 8). The full article can be viewed at http://bit.ly/dunntop10.

COVERAGE UNDER CGL POLICIES

According to Bill Blakeney of Blakeney Henneberry Murphy & Galligan, the insurance case of the year for lawyers who do coverage work was *Progressive Homes Ltd. v. Lombard General Insurance Co. of Canada*. The Supreme Court of Canada appears to have reversed a line of insurance cases that had taken a narrow view of the scope of coverage under CGL policies commonly used in Canada. The Court confirmed that the "primary interpretive principle" for insurance policies is that "when the language of the policy is unambiguous, the court should give effect to clear language, reading the contract as a whole".

This was not a new approach to policy interpretation, but the Court determined that "property damage" in CGL policies is not limited to damage to "third-party property" and can include damage from part of a building to another part. This was previously regarded as irrecoverable "pure economic loss". Going forward, the term "accident" may, depending on the facts of each case, include the consequences of defective workmanship.

Depending on context, the "own product/work" exclusion will be construed narrowly. Under certain circumstances, it may be limited to damage caused by the insured to its own work and not extend to "resulting damage". Because the case was concerned only with the insurer's duty to defend, the Court was not required to apply these new principles to a particular claim under a particular policy. It was enough that the insured showed the "mere possibility that a claim falls within the insurance policy."

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The upshot of this case expands coverage dramatically for insurers going forward. The interpretation of the "Business Risks" taken by many insurers has long been criticized by both brokers and lower courts as effectively nullifying the coverage that many builders and contractors believe they are buying under the CGL form. The countervailing argument is that the decision comes close to turning the CGL into a warranty for defective workmanship.

The upshot of the decision is that the language of the CGL "Business Risk" exclusions needs tightening up, or insurers in Canada risk having the decision applied more broadly.

NATURAL CATASTROPHES

The year in review marked yet another bad one from a catastrophe loss perspective. Year 2010 was the third year in five that losses in the country approached the billion-dollar mark (the others were 2005 and 2009) and the first time on record that the Canadian property and casualty industry experienced consecutive billion-dollar loss years. A $1-billion loss year has occurred four times since 1997, but did not occur once before then.

According to a Dec. 6 post in Canadian Underwriter's online news, "damage estimates related to severe weather events and one earthquake in Canada likely topped $700 million in 2010, extrapolating from information contained in Aon Benfield's November 2010 Monthly Cat Recap report. The report lists damage estimates, both insured and uninsured, related to 10 specific severe storm events and one earthquake in Canada in 2010. When known damage estimates for the above events are added together, all of these events caused at least $700 million in damages. However, the total is likely much higher, and may have even approached $1 billion."

Two events in 2010 are of particular interest, the first because of its size and the second because of its rarity.

The major hailer in Alberta on July 12-13 has gone down as the costliest hailstorm in Canadian history, surpassing the Calgary hailstorm of 1991, which caused insured losses of more than $386 million (1999 dollars) from about 62,000 claims.

> **"It is more likely we will see the start of a hardening market in the first quarter of 2012, after the Jan. 1, 2012 treaties are renewed and following the poor results expected from reinsurers in 2011..."**

From a rarity perspective, the magnitude-5.0 earthquake that struck 60 kilometers north of Ottawa on June 23 triggered more than $16 million in damage. Natural Resources Canada estimates it was likely the strongest earthquake experienced in the past 200 years by the region. While some damage occurred near the epicentre, the estimated shaking from the recorded ground motions for Ottawa were well below the design level of shaking used in the 2005 National Building Code of Canada. Even so, Canadian Underwriter on June 23, 2010 noted reports on Twitter of a roof coming off a church in Quebec, a blown-out office window in Ottawa, minor damage to public schools in the Ottawa area and a bridge closure in Quebec.

The billion-dollar catastrophe years of 2005, 2009 and 2010 in Canada underscored the need for a discussion about two main issue areas: the need for good catastrophe loss data, and the need for a reinsurance product that adequately addresses the problem of 'mini-' or secondary cats that aren't big enough to trigger reinsurance coverage, but that are big enough to affect insurers' bottom lines negatively.

The first has been addressed. ISO and MSA Research Inc. jointly announced the launch of PCS-Canada on Mar. 16, 2010. The service enables "insurers, reinsurers, brokers and other industry stakeholders to receive industry-wide data about Canadian catastrophes, including man-made and extreme weather events." The service was launched with the support of IBC and the Institute for Catastrophic Loss Reduction (ICLR), and with the endorsement of the Reinsurance Research Council (RRC).

The second issue, the need for a reinsurance product to address the mini-cat problem, is in its infancy and will need time to gain traction. A solution to the mini-cat problem seems to be a product known as an aggregate XS cover. As noted by CCR's Rob Finnie in Canadian Underwriter's November 2010 issue, "a catastrophe aggregate XS treaty is a reinsurance tool designed to help insurers manage the effects of multiple extreme weather events on their results... If the storm 'footprint' covers a broad area, it is likely an insurer's catastrophe XS treaties will be triggered. The common 'per-event' catastrophe XS program is intended to cover the losses that are too large for the insurer to retain comfortably. But if the storm footprint is smaller, the insurer may have a string of claims that do not add up to the attachment point of their reinsurance program. That is not a problem, because the insurer has already decided that it can handle the loss without serious repercussions to its business plan. But what happens when there are too many of these smaller events? Retentions start to add up. At the end of the fiscal period, their impact might be significant...A catastrophe aggregate XS cover is an effective solution to exactly this problem."

Don Callahan, president and CEO of Guy Carpenter Canada, says of aggregate covers: "I think the aggregate cat XL is an effective risk management tool and we have placed a number of them over the last couple of years. Properly designed and constructed, these contracts can add strong balance to a reinsurance program. They can also be cost-effective, in that the

"Two events in 2010 are of particular interest, the first because of its size and the second because of its rarity."

insurer can responsibly increase the retention of its main cat program and rely on the aggregate cover to deliver the necessary stability. We've had to be very careful as to how we structure them because reinsurers have been somewhat inconsistent with regard to pricing. I don't necessarily blame them because the loss activity in very recent years has been erratic.

Nevertheless, I've seen quotes jump by 100% in reaction to losses and we find that a little jarring. Essentially, some of the sellers were not understanding the exposures and were revising their loss assumptions from year to year. Furthermore, about half the market is not interested in participating in aggregate covers and that can also impact pricing. So, overall, we have to really watch the attachments and the aggregate limits and we bench test them actuarially and with our cat models before we go into the market. With a little fine-tuning, I think the products make good sense. We've also designed a couple of other structures that work well and are perhaps better received by the market. These are usually hybrids or modified second-event covers that we specifically design for the client."

Water damage continues to be highly problematic for the country's homeowner writers. It doesn't appear to matter how large or small a carrier is, or where they write the bulk of their business, right across the country water continues to be "the new fire" from a claims perspective. However, both IBC and ICLR are working diligently to address the problem on behalf of their respective members.

Development of IBC's Municipal Risk Assessment Tool (MRAT) is on track. The tool will allow municipalities to pinpoint the most vulnerable areas of their infrastructure and direct funds accordingly and will help Insurance companies rate and price property risks accurately. Phase 1 of the project, 'Proof of concept,' is complete. It has been confirmed the prospective tool works and has a predictive accuracy of 90%. IBC is now engaged in Phase 2 of the project, which will see the recruitment of 17 additional municipalities in four climatic zones (Atlantic, Central, Prairies and Pacific) to complete the calibration process (three municipalities were included in the initial phase). Concurrent with those efforts, IBC is building the database and Web portal that will enable municipalities to upload their data and allow insurers to use the tool. IBC's management, committees and board are currently working on issues related to future gover-

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	% of Market	2010 N.P.W.	2009 N.P.W.	% Change
1. Intact Financial Corporation	11.05	4,352,337,000	4,151,289,000	4.84
2. Aviva Canada Inc	7.95	3,132,910,000	3,222,686,000	–2.79
3. TD General Insurance	5.93	2,334,783,000	2,100,279,000	11.17
4. Co–operators General Insurance Co	5.41	2,131,290,000	2,099,371,000	1.52
5. RSA Canada Group	5.03	1,981,181,000	1,820,486,000	8.83
6. Lloyd's Underwriters	4.97	1,959,781,000	1,729,476,000	13.32
7. State Farm Insurance Company	4.92	1,937,320,000	1,827,768,000	5.99
8. AXA Canada Group Of Companies	4.81	1,894,338,000	1,781,103,000	6.36
9. Wawanesa Mutual Insurance	4.78	1,883,107,000	1,694,037,000	11.16
10. The Economical Insurance Group	4.13	1,626,378,000	1,747,468,000	–6.93
11. Desjardins General Insurance Group	4.11	1,618,806,000	1,471,075,000	10.04
12. The Dominion Of Canada	3.08	1,214,959,000	1,128,003,000	7.71
13. Northbridge Financial Corporation	2.56	1,007,728,000	1,042,176,000	–3.31
14. Zurich Insurance Company Ltd	1.65	651,336,000	579,006,000	12.49
15. Allstate Insurance Co of Canada	1.57	618,365,000	548,775,000	12.68
16. Chubb Insurance Co of Canada	1.52	598,135,000	607,834,000	–1.60
17. Chartis Insurance Co of Canada	1.49	586,596,000	574,369,000	2.13
18. Ontario Mutual Insurance	1.22	480,446,000	432,620,000	11.05
19. RBC General Insurance	1.21	476,188,000	384,390,000	23.88
20. La Capitale Assurances Gen Inc	1.14	448,792,000	423,955,000	5.86
21. SGI Canada Group	1.10	434,508,000	398,026,000	9.17
22. RBC Insurance Company Of Canada	0.92	361,683,000	310,394,000	16.52
23. Green Shield Canada	0.86	340,070,000	301,959,000	12.62
24. Jevco Insurance Company	0.79	311,924,000	171,767,000	81.60
25. Travelers Canada	0.79	309,697,000	326,159,000	–5.05
26. Munich Reinsurance Cda Group	0.74	291,363,000	291,861,000	–0.17
27. Gore Mutual Insurance Company	0.71	280,858,000	242,928,000	15.61
28. Guarantee Co Of North America	0.68	266,641,000	259,189,000	2.88
29. Factory Mutual Insurance Company	0.63	249,786,000	218,564,000	14.29
30. Alberta Motor Association	0.61	241,770,000	239,485,000	0.95
31. CNA Canada	0.60	236,489,000	225,350,000	4.94
32. ACE INA Insurance	0.53	208,123,000	221,255,000	–5.94
33. SSQ, Societe d'Assurances Gen	0.44	172,356,000	144,707,000	19.11
34. GCAN Insurance Company	0.43	171,001,000	161,459,000	5.91
35. Allianz Global Risks US	0.43	169,676,000	143,586,000	18.17
36. Portage La Prairie Mutual	0.42	165,777,000	149,329,000	11.01
37. SCOR Canada Reinsurance	0.40	156,186,000	148,508,000	5.17
38. Everest Reinsurance Company	0.39	154,699,000	136,057,000	13.70
39. Swiss Reinsurance Group	0.39	152,062,000	137,496,000	10.59
40. Industrielle Alliance Compagnie	0.38	151,461,000	128,683,000	17.70
41. CAA Insurance Company (Ontario)	0.37	145,862,000	130,203,000	12.03
42. York Fire & Casualty Insurance	0.35	137,598,000	128,172,000	7.35
43. Pembridge Insurance Company	0.35	136,395,000	109,367,000	24.71
44. Motors Insurance Corporation	0.35	136,151,000	129,376,000	5.24
45. Echelon General Insurance	0.34	135,324,000	112,326,000	20.47
46. FCT	0.34	132,734,000	114,833,000	15.59
47. Hannover Ruckversicherung AG	0.30	118,613,000	100,785,000	17.69
48. Transatlantic Reinsurance	0.30	118,055,000	119,105,000	–0.88
49. Liberty Mutual Insurance	0.30	117,575,000	109,236,000	7.63
50. Farm Mutual Reinsurance Plan	0.30	116,566,000	107,826,000	8.11
51. Canadian Direct Insurance	0.29	115,505,000	109,571,000	5.42
52. Promutuel Reassurance	0.29	114,108,000	110,913,000	2.88
53. Peace Hills General Insurance	0.29	112,343,000	111,717,000	0.56
54. L'Unique Assurances Generales	0.28	111,782,000	97,205,000	15.00
55. Cumis General Insurance	0.26	104,008,000	34,087,000	205.13

(Continued On Page 34)

nance and implementation. Roll-out is planned for early 2012.

In 2010, ICLR continued to lead research into the best design and construction practices to reduce the risk of sewer backup and basement flooding. ICLR's Handbook for Reducing Basement Flooding continues to be adopted by municipalities and insurance professional across Canada. It has established ICLR as a centre of expertise for basement flooding. During the year in review, ICLR conducted a survey of residents in the Sherwood Forest neighbourhood of London, Ontario in partnership with the City of London Wastewater and Drainage Engineering Division. Implications of the research results relate to strategies for communicating basement flood risk to city residents, the reliability of insurer sewer backup questionnaires, homeowner knowledge of sewer backup coverage, homeowner knowledge of lot-level sewer backup mitigation measures, the importance of bylaws and building codes for basement flood reduction, reporting of flood events to municipal authorities, the role of insurers and insurance brokers in communicating basement flood reduction measures and the importance of addressing all types of urban flood.

> **"Water damage continues to be highly problematic for the country's homeowner writers."**

Further, in 2010 ICLR continued to work on its agreement with the Government of Ontario to participate in the province's Regional Adaptation Collaborative (RAC), designed to facilitate the integration of climate change adaptation considerations into decision-making at the community

(Continued From Page 32)

How The Private Companies Rank (Total Business) N.P.W. (Excluding Life & Purely A&S Companies)

	% of Market	2010 N.P.W.	2009 N.P.W.	% Change
56. Partner Reinsurance Co of the U.S.	0.26	102,301,000	103,292,000	–0.96
57. Boiler Inspection & Insurance Co	0.24	95,944,000	90,670,000	5.82
58. Optimum General Inc	0.23	90,980,000	82,884,000	9.77
59. American Bankers of Florida	0.23	88,680,000	94,156,000	–5.82
60. XL Insurance	0.22	86,536,000	89,729,000	–3.56
61. Pafco Insurance Company	0.20	77,415,000	54,897,000	41.02
62. Affiliated FM Insurance Company	0.20	76,948,000	65,091,000	18.22
63. Stewart Title Guaranty Company	0.19	75,971,000	68,976,000	10.14
64. XL Re America Inc – Cdn Branch	0.17	67,687,000	72,641,000	–6.82
65. Odyssey America Rein Corp	0.16	62,137,000	45,180,000	37.53
66. North Waterloo Farmers Mutual	0.15	61,030,000	54,526,000	11.93
67. Red River Mutual	0.15	57,144,000	50,542,000	13.06
68. General Reinsurance Corp	0.14	56,301,000	51,018,000	10.36
69. Arch Insurance (Canada)	0.14	53,806,000	36,494,000	47.44
70. Aspen Insurance UK Limited	0.12	49,252,000	65,449,000	–24.75
71. Caisse Centrale De Reassurance	0.12	47,990,000	46,095,000	4.11
72. Old Republic Insurance Company	0.12	45,920,000	35,431,000	29.60
73. Saskatchewan Mutual Insurance	0.11	43,012,000	40,611,000	5.91
74. Grain Insurance & Guarantee	0.11	42,427,000	41,504,000	2.22
75. Le Groupe Estrie–Richelieu	0.09	35,847,000	32,231,000	11.22
76. Toa Reinsurance Co of America	0.09	35,832,000	37,156,000	–3.56
77. Co–operative Hail Ins Co Ltd	0.08	33,491,000	25,593,000	30.86
78. Ontario School Board's Insurance	0.08	33,131,000	32,520,000	1.88
79. Trisura Guarantee Insurance	0.08	31,978,000	25,003,000	27.90
80. Legacy General Insurance	0.07	29,288,000	33,769,000	–13.27
81. Lumbermen's Underwriting Alliance	0.07	27,570,000	22,735,000	21.27
82. Tokio Marine & Nichido Fire	0.07	26,081,000	25,345,000	2.90
83. Berkley Insurance Company	0.07	25,830,000	0	0.00
84. Mutual Fire Insurance Co of BC	0.06	25,186,000	19,058,000	32.15
85. Mitsui Sumitomo Insurance	0.06	21,868,000	22,230,000	–1.63
86. Great American Insurance	0.05	20,073,000	33,610,000	–40.28
87. MAPFRE Re Compania De Re, S.A	0.04	15,760,000	13,096,000	20.34
88. Omega General Insurance	0.04	14,568,000	1,993,000	630.96
89. White Mountains Reinsurance	0.04	14,279,000	6,748,000	111.60
90. Munich Reinsurance America, Inc.	0.04	13,954,000	14,444,000	–3.39
91. Western Surety Company	0.04	13,910,000	11,992,000	15.99
92. PEI Mutual Insurance Company	0.03	13,758,000	13,220,000	4.07
93. Hartford Fire Insurance	0.03	12,935,000	13,644,000	–5.20
94. Euler Hermes American Credit	0.03	11,128,000	16,765,000	–33.62
95. Triton Insurance	0.02	8,972,000	26,798,000	–66.52
96. Kings Mutual Insurance Company	0.02	6,087,000	5,897,000	3.22
97. Mennonite Mutual Fire Insurance	0.02	6,058,000	5,601,000	8.16
98. Sompo Japan Insurance Inc	0.02	5,968,000	4,891,000	22.02
99. Pacific Coast Fishermen's Mut	0.02	5,916,000	6,070,000	–2.54
100. American Road Insurance Company	0.01	5,886,000	5,005,000	17.60
101. The Mearie Group	0.01	4,846,000	0	0.00
102. Antigonish Farmers' Mutual	0.01	3,633,000	3,274,000	10.97
103. Fundy Mutual Insurance	0.01	2,167,000	0	0.00
104. Nipponkoa Insurance Co Ltd	0.00	1,015,000	1,170,000	–13.25
105. Clare Mutual Insurance Company	0.00	944,000	942,000	0.21
106. T.H.E. Insurance Company	0.00	88,000	19,000	363.16
107. Alea (Bermuda) Ltd	0.00	22,000	42,000	–47.62
108. Endurance Reinsurance Corp Am	0.00	16,000	96,000	–83.33
109. Pool Insurance Company	0.00	–171,000	1,843,000	–109.28
110. Lumbermens Mutual Casualty	0.00	–1,250,000	1,000	–125,100.00
TOTALS		**39,401,670,000**	**36,999,637,000**	

level. Through the RAC project, ICLR made three building code submissions to the Government of Ontario. One of the three was to make sewer-backflow valves mandatory for all new homes in the province. Ontario has not yet made a decision on ICLR's recommendations. An announcement is expected in the spring of 2011.

Regardless of the government's ultimate decision, making the three submissions has been useful in helping ICLR, and Canada's property and casualty insurers, to understand the building code development process.

LOOKING FORWARD

PACICC notes in its annual report that from a solvency perspective, the outlook for the property and casualty insurance industry for 2011 has improved. But it is nevertheless subject to greater uncertainty than the healthy improvement in performance recorded between 2003 and 2009. While industry results have improved and preliminary indications from reforms to the auto product in Ontario are encouraging, it is too early to ascertain the ultimate impact. "Overall, however, the industry is entering the point in the insurance cycle where history signals a reduced risk of insolvency and financial distress."

Although the auto product, particularly Ontario auto, continues to dominate headlines and attention in the Canadian insurance press and in company boardrooms, the focus over the last year and a half to two years has been on the natural catastrophe front. In an interesting article by Joel Auchenbach in Slate Magazine ('The Century of Disasters: Meltdowns. Floods. Tornadoes. Oil spills. Grid crashes. Why more and more things seem to be going wrong, and what we can do about it (May 13, 2011)),' he notes of low frequency/high impact loss events:

[B]lack swans will seem to occur with surprising frequency. There are several reasons for this. We have chosen to engineer the planet. We have built vast networks of technology. We have created systems that, in general, work very well, but are still vulnerable to catastrophic failures. It is harder and harder for any one person, institution, or agency to perceive all the interconnected elements of the technological society. Failures can cascade. There are unseen weak points in the network. Small failures can have broad consequences... We have more people, and more stuff, standing in the way of calamity. We're not suddenly having more earthquakes, but there are now 7 billion of us, a majority living in cities. In 1800, only Beijing could count a million inhabitants, but at last count there were 381 cities with at least 1 million people. Many are "megacities" in seismically hazardous places-Mexico City, Caracas, Tehran, and Kathmandu being among those with a lethal combination of weak infrastructure (unreinforced masonry buildings) and a shaky foundation."

As reported in the Insurance Journal ("Risky Business: Insurance Industry Entering 'New Era' of Catastrophes;" May 10, 2011), Dr. Erwann Michel-Kerjan of the Wharton Risk Management and Decision Processes Center in Pennsylvania says the world has entered into a "new era of catastrophes" that will redefine the insurance industry. "For many years, people had the very reassuring assumption ... about extreme events ... that we'll maybe see a major catastrophe every 20 to 25 years," Michel-Kerjan writes. "That was very reassuring in the sense that you really don't have to pay attention to that every day. The conventional wisdom that these extreme events are of low priority [doesn't hold true] in the world where we're more interdependent with each other...There has not been a six-month period in the past few years without a major crisis that simultaneously affected several countries or industry sectors."

The increase in significant catastrophes suggests the insurance industry should re-think the way it looks at risk management, especially because the impact of disasters is greater as countries are more interdependent on each other, Michel-Kerjan says. Given the increase in significant catastrophes, he recommends the insurance industry embrace the mindset that we've entered into a new era of catastrophes and develop different risk models. "Models should not just look at issues in a silo, but instead, look at the links and interdependencies in risks," Michel-Kerjan says. "I'm not saying that's easy, but you have to take the leadership as an insurance company or reinsurance company, or insurance agent to say, 'this is a different world. We simply cannot continue to do business as usual as we have' been doing for decades or hundreds of years."

Food for thought.

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