

A RIDDLE WRAPPED IN A MYSTERY INSIDE AN ENIGMA, AND OTHER CONSIDERATIONS



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In the story of how the legend of the Gordian Knot came to be, an oracle in a troubled town in Asia Minor was said to have told the people that their troubles would end once their new king arrived. The king, he said, will be the next man to enter the town riding an oxcart. “When Gordius, his wife, and his son, Midas, arrived on such a cart, the people of the city, trusting in the oracle, proclaimed Gordius king. In gratitude, Gordius dedicated his cart to Zeus and tied it with a knot named Gordian for the new king.

Another oracle foretold that the person who undid the Gordian Knot would rule Asia. Many years later, when Alexander the Great came to the city in Phrygia, which had been named Gordium in honour of this ancient king, he determined to undo the knot. He could have spent time trying to figure out which way the ropes were wrapped or try to pry out an end, as eager ambitious hopefuls may have done before him, but instead Alexander made one quick, decisive move. (www.ancienthistory.about.com).

As legend has it, rather than mounting a prolonged effort to solve the problem at hand in a conventional way, Alexander simply unsheathed his sword and sliced through the knot.

As noted in Wikipedia, “The Gordian Knot... is often used as a metaphor for an intractable problem.”

If only solving the Ontario auto challenge was as simple as Alexander’s solution.

THE NUMBERS

According to Gregor Robinson, Senior Vice President and Chief Economist at Insurance Bureau of Canada, at Swiss Re’s 28th Annual Canadian Insurance Outlook Breakfast April 4, Canada’s

property and casualty insurance industry as a whole showed improvement last year with an industry-wide loss ratio of 64.9%, down 4.5 points from 68.4 in 2011. Direct written premiums rose year-over-year from \$43.6 billion in 2011 to \$44.9 billion in 2012 and the combined ratio came in at 95.4%, down from 98.6% in 2011.

“As is often the case, the numbers mask wide diversity in the performance of individual players,” he cautioned, explaining that while the top quarter of companies had combined ratios of less than 85.1%, the bottom quarter had combined ratios of greater than 105.1. A rising tide, it appears, doesn’t lift all boats.

He noted that in 2012, insurers were holding a higher proportion of their assets in equities and short-term deposits. On the equities side, he illustrated how the industry went from 6.2% of its investments in common shares in 2008, to 7.5% in 2009, 8.7% in 2010, 8.2% in 2011 and 8.9% in 2012. And while the industry’s investments in short-term deposits had previously been dropping — from 6.8% in 2006 to 2.2% by 2011, in 2012 the proportion crept up to 3.7%. Roughly three-quarters of the industry’s investment portfolio has been in bonds since

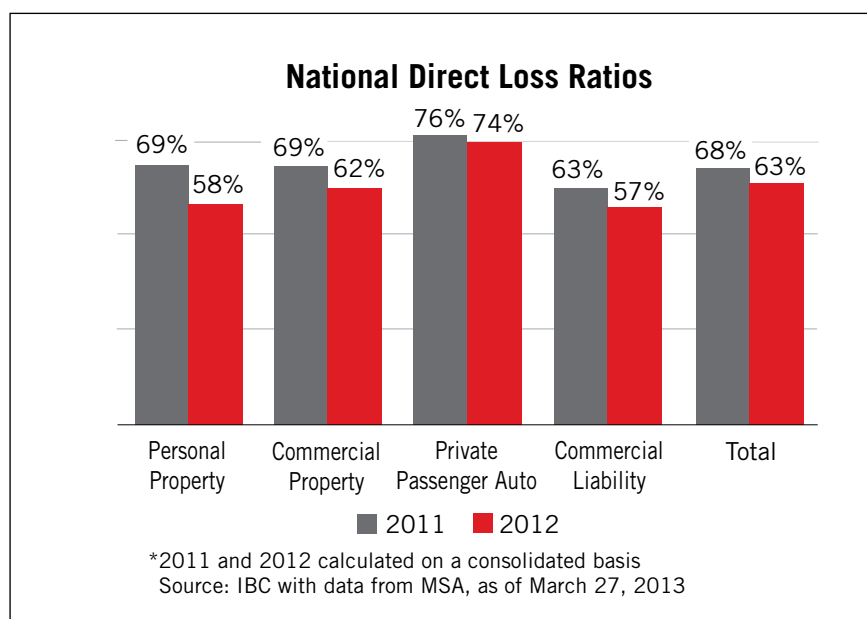
2006, when it was 73.3%. The proportion of investments in bonds in 2012, he noted, was 76.5%.

“Personal and multi-line insurers made significant headway in 2012 — finally reaping some benefit from the September 2010 Ontario auto reforms — specifically on the accident benefit side and enjoying a less calamitous catastrophe year.”

In MSA’s 2012 Year in Review, Joel Baker, President and CEO of MSA Research Inc. wrote: “The Canadian p&c industry, as a whole, posted relatively strong results at year-end marked by an ROE north of 11% (the first time it broke into two-digit territory since 2007), a combined ratio of 96% and even some top line growth of 3.3% (or 3% without the government monopolies).”

However, in line with last year’s Statistical Issue theme that ‘things aren’t always what they seem’, he warned that the story is more complex once one begins to unpack the details and look at each a little closer: “First of all, there’s a stark difference between the growth profile of commercial writers (including Lloyd’s) who, as a group, saw DPW shrink by 4.7% versus personal and multi-line writers who saw their top line grow by 3.5%. This is partly due to their stealing some of the commercial business away from the pure-play commercial writers, and in part due to growth in personal property writings.”

Looking line-by-line, Baker noted that, “Personal and multi-line insurers made significant headway in 2012 — finally reaping some benefit from the September 2010 Ontario auto



reforms — specifically on the accident benefit side and enjoying a less calamitous catastrophe year. Top-line premiums went up due to an increase in exposure, higher property rates and auto rates. Canada-wide, property premiums grew 7.7% for this sector and auto rates were up 3%... Reserve releases for this segment were more or less in line with prior years (hovering around the \$1-billion mark)."

On the commercial side, Baker outlined how writers released about \$1 billion in reserves in 2012 (\$600 million, not including Lloyd's), helping to lift the segment's combined ratio up over the 100% mark. He asked: "Can these writers wring another \$1 billion out of reserves at the end of 2013? If not, then watch the reported combined ratio march onwards and upwards and their ROEs slip below 10%."

One shift in the commercial segment Baker detected was the move in market share away from what he calls the big four 'pure-play' commercial writers (Lloyd's, Northbridge, AIG and Zurich) to those multi-line commercial writers who look at the business "as a vehicle for profitable growth." Said Baker, "[T]he multi-line carriers write as much commercial business (\$9.1 billion) as the pure commercial players do (\$9.6 billion). This is up from 2011 when the multi-line writers wrote \$8.5 billion in commercial versus \$10.4 billion that the pure writers had." "The shift," he says, "shows that the commercial market itself was flat Y/Y, but that \$600 million moved to the multi-line writers."

When asked for his take on the move of more than half a billion in premium from the pure-plays to the multi-liners — specifically, whether he thought it was driven by pricing or part of a bigger move or shift in the market — Baker offered the view that



“Companies that focus on commercial lines have been more profitable than personal lines insurers for several years. This trend continued in 2012 with loss ratios improving in eight of 10 provinces. As a result, price competition has intensified.”

it is due to intense competition “and a desire by the multi-line companies to push deeper into what they perceive to be the higher margin commercial lines space. Especially with the volatility in Ontario auto as a backdrop.”

In the Property and Casualty Insurance Compensation Corporation's yearly overview of the market, it

remarked that for the past five years, homeowners' insurance in Canada has been a healthy product. “This remains true in most parts of the country. In seven of the 10 provinces, results for 2012 were stronger than the most recent five-year average.” This, despite about \$1.2 billion in catastrophe losses (i.e. loss events of more than \$25 million in insured damage, as declared by Property Claim Services Canada, or PCS). Said PACICC in its 2012 annual report, “Interprovincial differences in homeowners claims paid have been driven by more large storms causing damage in the Prairies and in Atlantic Canada. In Alberta, the average loss ratio for homeowners insurance for the past five years has been 96.8 percent. In Saskatchewan, the ratio is 88.6 percent. Sustained high-loss ratios would likely erode the capital base of insurers operating primarily in these markets.”

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focus on commercial lines have been more profitable than personal lines insurers for several years. This trend continued in 2012 with loss ratios improving in eight of 10 provinces. As a result, price competition has intensified.”

According to the PACICC analysis, loss results over the most recent five-year period shows that the commercial market was weakest in New Brunswick and, to a lesser extent, in Alberta.

Of auto markets other than Ontario, PACICC noted that most of the other auto insurance markets appear healthy and competitive as 2012 closes, “although five of the six markets experienced losses in 2012 that were above the most recent five-year average.”

ONTARIO AUTO

Representing a very significant quarter of all p&c premiums written in Canada and a product that seems always to be in a state of flux, Ontario auto deserves a separate section all its own.

As noted by IBC’s Robinson at the venerable Swiss Re breakfast event, while the overall industry loss ratio improved sharply in 2012 over 2011, from 1994 to the year under review the average financial loss ratio for writers of Ontario auto was 82% and in some years, higher than that. “Following the 2010 reforms to no-fault injury coverage, results improved from the abysmal losses of preceding years,” he said, referring to several changes the Ontario government implemented in September of that year.

“What is happening on the Ontario auto scene is that the industry is under siege. Car insurance has entered the political arena again — if it ever left.”

According to PACICC “Early results following these reforms have been positive, with the overall loss ratio for Ontario auto falling to 74.8 percent in the third quarter of 2012 from 96.6 percent in 2010. The reduction in loss costs was driven by improvements to the province’s accident benefit system, as the loss ratio for this

portion of the Ontario auto product fell from an unsustainably high 150 percent in 2010 to a modest 55 percent in 2012. Over the same period the loss ratio for the liability portion of the Ontario auto product rose from 75.8 percent in 2010 to an unsustainable 94.3 percent in the third quarter of 2012. The Ontario Court of

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Appeal's for Ontario decision to allow claimants to combine psychological and physical injuries when determining catastrophic impairment could increase claims costs. In addition, the government's decision to prorogue the legislature delayed legislation that

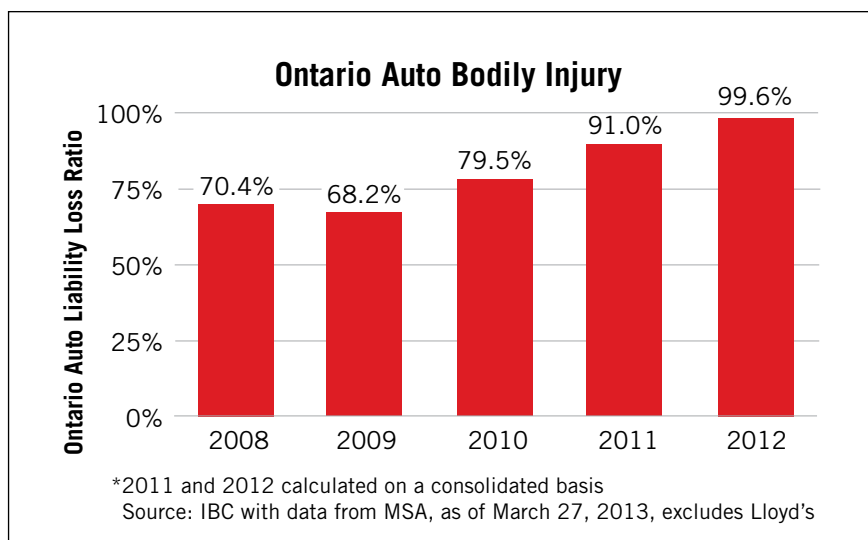
would have provided greater certainty. Coupled with thousands of cases seeking mediation, this raises questions about whether improved results can be sustained."

Robinson suggested that the effect of these changes on carriers depends

on the outcome of cases currently before arbitration at the Financial Services Commission of Ontario (FSCO) and before the courts: "There are thousands of cases in the dispute resolution system, which suggests to us that a lot of people are betting against the ultimate success of those reforms," Robinson said, adding the reforms "did nothing to deal with pressures in the tort system."

Robinson's remark that, "What has plagued Ontario auto for the past 25 years has been politics," is well-illustrated in the Ontario New Democratic Party's bid to have FSCO force carriers to reduce premiums by 15%. NDP leader Andrea Horwath claimed in the legislature the industry made \$2 billion in "extra profits" in 2011, though IBC notes the profit of \$233.2 million in 2011 was earned after an industry-wide loss of \$1.7 billion in 2010.

Jim Cameron, President of Cameron



“There is still no shortage of casualty capacity available and that is keeping the market very competitive with no signs on the horizon of any real tightening...”

& Associates notes, “What is happening on the Ontario auto scene is that the industry is under siege,” he said in his annual comments solicited for this piece. “Car insurance has entered the political arena again — if it ever left.

“In the budget delivered on May 1st, the Liberal minority government revealed plans to implement a rate reduction of 15%, the timing of which was not spelled out. This is coupled with the release on an arbitration decision, *Scarlett v. Belair* (see CU article May 2013, *Frankly Scarlett* by Jim Cameron) which effectively attempted to nullify the Minor Injury Guideline (MIG), and other decisions have come down hard on the definition of incurred expenses (which was thought to have been ‘tightened up’ in the 2010 reforms).”

Cameron continued, “The dire situation with FSCO mediations and a backlog of over 30,000 cases has been addressed, in part, by the hiring of ADR Chambers to conduct mediations for FSCO. The number of new mediations has fallen for the first time in four years. However, once the mediations take place and the case is still not settled (and fewer are being settled) the cases often move to arbitration, where there now appears to be over a year delay in getting a pre-hearing (a type of super mediation that often settles the case). Companies that believe that their loss ratio has come down since the changes will see the ultimate numbers start to leak



as these cases go through the system,” he said. “In addition, bodily injury (third-party tort) claims costs have increased 32%. All in all, a recipe for disaster in the Ontario auto market.”

In ‘Ontario Auto — A Big Political Hot Potato Again!’ (MSA Quarterly Outlook Report Q4-2012) Joel Baker and Willie Handler offer five dilemmas facing writers of Ontario auto:

- 1) The prospect of a mandated rollback in rates;
- 2) The erosion or unravelling of the Minor Injury Guideline;
- 3) The combined impact of two court cases, *Kusnierz v. Economical Mutual* and *Pastore v. Aviva Canada*;
- 4) The above-described arbitration backlog at FSCO; and
- 5) Questions as to the effectiveness of anti-fraud measures currently in the works.

Says PACICC, “It is clear that Ontario drivers pay very high premiums for auto insurance and that the

government has maintained a strict prior approval system of rate regulation. Given the uncertainty, it is difficult for insurers operating in Ontario to price and reserve the Ontario auto insurance product.

THE REINSURANCE SIDE

Of the sector, Joel Baker reported that while reinsurers also saw growth in DPW and GPW, they also experienced a drop in NPW due to increased retrocessions of their own. “Of the three sectors, commercial, personal/multi and reinsurance, only reinsurers saw their ROE come in below 10%,” he noted, pointing to the fact that reinsurers carried so much capital.

“Reinsurer volume growth is tricky to measure due to intercompany transactions but, looking at unaffiliated assumptions by Canadian reinsurers since 2010, we see that the nominal hemorrhaging in volume caused by primary company M&A and increased

retentions has been arrested for now (with assumptions of \$1.598 billion in 2012 versus \$1.568 in 2011 and \$1.738 in 2010),” he said.

“Reinsurers, as a whole, benefited from significant reserve releases in 2012 so on an accident-year basis their combined ratio was north of 100%. Like commercial writers, their investment yield was meager. They saw their investment income drop by 25% Y/Y — not pretty, but not as bad as the commercial writers.”

On the facultative casualty side, as observed by one underwriter, “Unfortunately my comments would be very similar to last year in that very little has changed on the casualty facultative or primary side. For this year, primary and facultative rates are generally flat, and if a rate increase is obtained it is usually only

a small increase of up to 5%. There is still no shortage of casualty capacity available and that is keeping the market very competitive with no signs on the horizon of any real tightening, despite some occurring in the U.S. where rates are definitely on the rise. Typically what happens south of the border eventually migrates north, but not so far.

So I see no changes for the remainder of 2013, and really nothing to indicate any change in 2014, even though at the current rates there is no margin for profit on casualty business and we sorely need significant rate increases. I look at roofers, which is a tough class, as a pretty good bellwether of where the casualty market is at, and right now, they can find affordable casualty cover with no difficulty. So that is one indicator we are still in a pretty soft market.”

IN THE COURTS

According to Christopher Dunn, partner at Dutton Brock, the year in the courts was marked by an ongoing trend towards substantially increased damage awards for personal injuries, particularly with respect to cost of future care. “While Ontario is leading the charge, other provinces are no doubt soon to follow,” said Dunn.

The Institute for Catastrophic Loss Reduction now considers large-loss catastrophe years to be the new normal for Canadian p&c insurers

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“Insurers and brokers will continually have to revisit what qualify as ‘reasonable’ third-party liability limits for drivers homeowners and, particularly, businesses.”

“Of particular concern to insurers,” he noted, “was the ongoing approach taken by courts in dealing with the obligations of insurers towards additional insureds under their policies, and the continued willingness to embrace an approach that requires the payment of multiple sets of defence costs in relatively minor injury cases.”

In his own take on the legal side of the Ontario auto dilemma, Dunn commented: “[O]f concern to insurers in Ontario was the ongoing complications facing accident benefit providers. This included both a FSCO decision and an Ontario Superior Court of Justice decision deeming an accident benefit mediation to be

“At bottom, a sound insurance operation needs to adhere to four disciplines. It must (1) understand all exposures that might cause a policy to incur losses; (2) conservatively assess the likelihood of any exposure actually causing a loss and the probable cost if it does; (3) set a premium that, on average, will deliver a profit after both prospective loss costs and operating expenses are covered; and (4) be willing to walk away if the appropriate premium can’t be obtained. Many insurers pass the first three tests and flunk the fourth. They simply can’t turn their back on business that is being eagerly written by their competitors. That old line, ‘The other guy is doing it, so we must as well,’ spells trouble in any business, but none more so than insurance.”

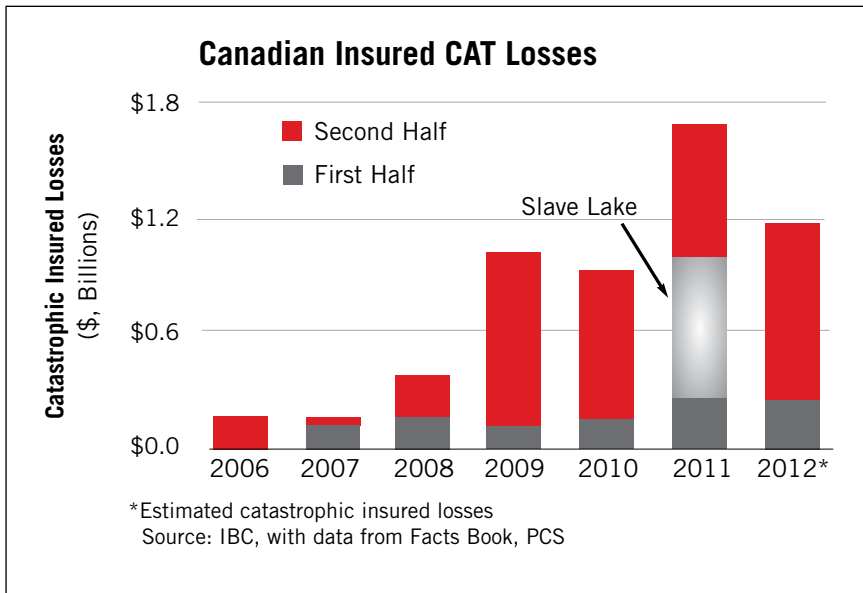
(Warren Buffet’s 2012 letter to the shareholders of Berkshire Hathaway Inc.)

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“The industry may yet be able to swing another two-digit ROE in 2013, but several factors are working against that possibility.”



‘failed’ where the 60-day requirement was not met, paving the way for an automatic right to pursue arbitration or litigation. There are likely to be a number of developments on this front in the accident benefit world in 2013, as well as cases coming forward to challenge the application of the Minor Injury Guideline, which became effective in late 2011.”

NATURAL CATASTROPHES

In 2012, Canada experienced an unprecedented fourth consecutive year of insured weather-related catastrophes at or exceeding the \$1 billion mark. Canadian carriers paid out about \$1 billion for each of the last four years and, in the case of 2012, slightly more than that — about \$1.2 billion. In the case of 2011, the industry paid out about \$1.7 billion, largely owing to the wildfire in Slave Lake, Alberta. Even with the wildfire removed, insurers still paid out \$1 billion in natural catastrophe claims that year. Since 2009, total catastrophe-related losses paid out by the industry approach or exceed \$5 billion. As noted by PACICC, average catastrophic losses over the past four years are more than double the average losses of the past 10 years.

These reflect only those losses that meet or exceed PCS Canada’s \$25 million claims threshold. Not included in the tally are many smaller events that fall under this minimum as well as those everyday, run-of-the-mill weather-related losses, which, at present, no single system captures. ICLR estimates that severe weather costs for Canadian insurers now exceed \$2 billion annually when losses from extreme events and smaller loss events are combined.

The Institute for Catastrophic Loss Reduction (ICLR) now considers large-loss catastrophe years to be the new normal for Canadian p&c insurers, and in November 2012 formally went on the record as saying so. The Institute does caution, however, that

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

	% of Market	2012 N.P.W.	2011 N.P.W.	% Change
1. Intact Financial Corporation.....	15.06	6,290,072,000	4,340,614,000	44.91
2. Aviva Canada Inc.....	8.23	3,437,983,000	3,291,024,000	4.47
3. TD Insurance, General Insurance.....	6.33	2,646,002,000	2,519,036,000	5.04
4. RSA Canada Group.....	6.00	2,507,328,000	2,360,019,000	6.24
5. Lloyd's Underwriters.....	5.01	2,093,962,000	2,206,620,000	-5.11
6. Wawanesa Mutual Insurance.....	4.99	2,083,019,000	2,002,286,000	4.03
7. Co-operators General Insurance.....	4.84	2,023,203,000	2,229,026,000	-9.23
8. Desjardins General Insurance Group.....	4.65	1,944,721,000	1,801,808,000	7.93
9. State Farm Insurance Company.....	4.41	1,842,450,000	1,931,286,000	-4.60
10. Economical Insurance.....	4.13	1,723,656,000	1,630,836,000	5.69
11. The Dominion Of Canada.....	2.89	1,206,918,000	1,210,921,000	-0.33
12. Allstate Insurance Co of Canada.....	2.49	1,041,006,000	941,720,000	10.54
13. Northbridge Financial Corporation.....	2.27	950,054,000	1,085,923,000	-12.51
14. Zurich Insurance Company Ltd.....	1.54	641,825,000	649,716,000	-1.21
15. Chubb Insurance Co of Canada.....	1.45	605,175,000	615,310,000	-1.65
16. Ontario Mutual Insurance.....	1.29	539,580,000	519,070,000	3.95
17. Chartis Insurance Co of Canada.....	1.29	539,317,000	562,336,000	-4.09
18. RBC General Insurance.....	1.29	537,307,000	528,837,000	1.60
19. La Capitale Assurances Gen Inc.....	1.24	516,810,000	500,498,000	3.26
20. SGI Canada Group.....	1.19	496,707,000	476,488,000	4.24
21. RBC Insurance Company Of Canada.....	0.96	400,871,000	403,888,000	-0.75
22. Jevco Insurance Company.....	0.89	372,619,000	333,361,000	11.78
23. Gore Mutual Insurance Company.....	0.76	315,846,000	296,142,000	6.65
24. Guarantee Company Of North America.....	0.68	282,395,000	273,811,000	3.14
25. CNA Canada.....	0.67	281,226,000	244,604,000	14.97
26. Munich Reinsurance Cda Group.....	0.65	272,680,000	270,977,000	0.63
27. Industrielle Alliance Compagnie.....	0.65	271,618,000	218,527,000	24.29
28. Travelers Canada.....	0.64	267,840,000	298,192,000	-10.18
29. Alberta Motor Association.....	0.62	260,653,000	251,083,000	3.81
30. Factory Mutual Insurance Company.....	0.58	241,168,000	239,090,000	0.87
31. ACE INA Insurance.....	0.53	220,896,000	210,713,000	4.83
32. SSQ, Societe D'Assurances Gen.....	0.46	191,925,000	210,240,000	-8.71
33. Portage La Prairie Mutual.....	0.45	187,023,000	183,883,000	1.71
34. CAA Insurance Company (Ontario).....	0.44	183,875,000	168,742,000	8.97
35. Pembroke Insurance Company.....	0.43	179,190,000	155,018,000	15.59
36. Hannover Ruckversicherung AG.....	0.42	177,277,000	138,874,000	27.65
37. Allianz Global Risks US.....	0.42	174,385,000	167,156,000	4.32
38. Echelon General Insurance.....	0.40	166,409,000	152,585,000	9.06
39. SCOR Canada Reinsurance.....	0.36	151,456,000	157,280,000	-3.70
40. Swiss Reinsurance Group.....	0.34	142,567,000	152,279,000	-6.38
41. L'Unique Assurances Generales.....	0.34	141,302,000	123,386,000	14.52
42. Farm Mutual Reinsurance Plan.....	0.34	141,183,000	119,007,000	18.63
43. Liberty Mutual Insurance.....	0.31	128,892,000	122,119,000	5.55
44. Promutuel Reassurance.....	0.30	126,102,000	110,921,000	13.69
45. Canadian Direct Insurance.....	0.30	125,410,000	120,772,000	3.84
46. Peace Hills General Insurance.....	0.28	117,582,000	111,919,000	5.06
47. Partner Reinsurance Company of the U.S....	0.26	107,478,000	110,005,000	-2.30
48. Optimum General Inc.....	0.25	105,195,000	94,442,000	11.39
49. Lawyers' Professional Indemnity.....	0.25	104,777,000	109,784,000	-4.56
50. Transatlantic Reinsurance.....	0.25	103,318,000	111,894,000	-7.66
51. FCT.....	0.24	102,271,000	169,145,000	-39.54
52. Pafco Insurance Company.....	0.24	99,033,000	99,320,000	-0.29
53. Affiliated FM Insurance.....	0.23	97,600,000	82,822,000	17.84
54. Cumis General Insurance.....	0.22	92,205,000	91,975,000	0.25
55. Stewart Title Guaranty Company.....	0.22	91,741,000	79,852,000	14.89
56. XL Insurance.....	0.22	90,416,000	73,717,000	22.65

(Continued On Page 32)

while it considers the trend toward larger weather-related losses to be the 'new status quo,' this does not mean Canadian insurers will experience billion-dollar losses every year. Rather, there will continue to be good years and bad years for such losses, with large-loss years no longer being the rarities they were just a few years ago.

So, with four consecutive billion-dollar loss years under our belt the question, of course, is whether we'll make it five. We'll have to wait out the year to find out. As of the writing of this piece in mid-May, just one event — an April winter storm in southern Ontario — has been isolated by PCS as a reportable catastrophe. However in the first half of 2012 Mother Nature was also silent for the first half of the year. We still managed, however, to catch up to a billion-plus in insured catastrophe losses. The lesson here is the year isn't over until it's over.

On another note, 2012 saw the federal Office of the Superintendent of Financial Institutions (OSFI) require insurers to stress test their financial preparedness for four scenario earthquakes. OSFI then compiled the results and presented them to the industry in December 2012. PACICC explains, "OSFI reported that a large subduction earthquake in British Columbia causing economic damage of 5% of Canada's 2011 GDP would result in insured losses of approximately \$30 billion. This earthquake

"...the top industry sore spots refuse to budge: low interest rates, excessively soft casualty markets, adverse court decisions and — of course — Ontario auto."

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

	% of Market	2012 N.P.W.	2011 N.P.W.	% Change
57. Unica Insurance.....	0.21	88,030,000	107,126,000	-17.83
58. Boiler Inspection & Insurance Company.....	0.21	87,794,000	101,502,000	-13.51
59. Odyssey Reinsurance Company.....	0.20	83,937,000	65,677,000	27.80
60. Arch Insurance (Canada).....	0.20	82,729,000	69,286,000	19.40
61. North Waterloo Farmers Mutual.....	0.18	74,375,000	70,695,000	5.21
62. Everest Reinsurance Company.....	0.16	68,359,000	154,352,000	-55.71
63. Red River Mutual.....	0.16	65,394,000	64,737,000	1.01
64. XL Re America Inc — Cdn Branch.....	0.15	61,102,000	56,657,000	7.85
65. Motors Insurance Corporation.....	0.13	56,008,000	134,752,000	-58.44
66. Old Republic Insurance Company.....	0.13	55,801,000	49,764,000	12.13
67. Saskatchewan Mutual Insurance.....	0.12	51,300,000	47,508,000	7.98
68. Wynward Insurance Group.....	0.12	50,748,000	45,863,000	10.65
69. General Reinsurance Corp.....	0.12	50,283,000	50,408,000	-0.25
70. Caisse Centrale De Reassurance.....	0.12	48,931,000	50,183,000	-2.49
71. Toa Reinsurance Co of America.....	0.11	46,345,000	39,341,000	17.80
72. Trisura Guarantee Insurance.....	0.11	46,334,000	39,531,000	17.21
73. Triton Insurance.....	0.11	44,424,000	25,514,000	74.12
74. Berkley Insurance Company.....	0.10	43,244,000	40,767,000	6.08
75. Western Financial Insurance.....	0.10	41,747,000	39,825,000	4.83
76. Great American Insurance.....	0.10	41,545,000	46,810,000	-11.25
77. Mutual Fire Insurance Co of BC.....	0.09	38,336,000	32,802,000	16.87
78. Ontario School Board's Insurance.....	0.09	35,934,000	34,832,000	3.16
79. Co-operative Hail Ins Co Ltd.....	0.08	32,861,000	31,537,000	4.20
80. Le Groupe Estrie — Richelieu.....	0.08	32,735,000	36,278,000	-9.77
81. Tokio Marine & Nichido Fire.....	0.07	27,303,000	25,460,000	7.24
82. Mitsui Sumitomo Insurance.....	0.05	21,017,000	20,739,000	1.34
83. Omega General Insurance.....	0.04	17,927,000	18,437,000	-2.77
84. Associated Electric & Gas Ins Svs.....	0.04	16,821,000	0	0.00
85. MAPFRE Re Compania De Re, S.A.....	0.04	16,571,000	16,770,000	-1.19
86. PEI Mutual Insurance Company.....	0.04	15,621,000	14,819,000	5.41
87. Sirius America Insurance.....	0.04	14,846,000	15,526,000	-4.38
88. Western Surety Company.....	0.03	13,038,000	13,340,000	-2.26
89. Federal Insurance Company.....	0.03	12,807,000	14,026,000	-8.69
90. Euler Hermes North America Insurance.....	0.03	12,252,000	11,980,000	2.27
91. Legacy General Insurance.....	0.03	12,082,000	13,893,000	-13.04
92. Hartford Fire Insurance.....	0.03	11,793,000	12,668,000	-6.91
93. Munich Reinsurance America, Inc.....	0.03	11,756,000	13,354,000	-11.97
94. Aspen Insurance UK Limited.....	0.02	9,013,000	30,810,000	-70.75
95. Mennonite Mutual Fire Insurance.....	0.02	7,019,000	6,472,000	8.45
96. American Road Insurance Company.....	0.02	6,697,000	6,470,000	3.51
97. Kings Mutual Insurance Company.....	0.02	6,573,000	6,371,000	3.17
98. The Mearie Group.....	0.01	5,768,000	6,772,000	-14.83
99. Pacific Coast Fishermen's Mutual.....	0.01	5,470,000	6,070,000	-9.88
100. Sompo Japan Insurance Inc.....	0.01	5,379,000	5,103,000	5.41
101. Everest Insurance Co of Canada.....	0.01	4,401,000	4,817,000	-8.64
102. Antigonish Farmers' Mutual.....	0.01	4,294,000	0	0.00
103. Atradius Credit Insurance N.V.....	0.01	4,087,000	4,227,000	-3.31
104. Fundy Mutual Insurance.....	0.01	2,400,000	2,306,000	4.08
105. Protective Insurance Company.....	0.00	1,244,000	0	0.00
106. Clare Mutual Insurance Company.....	0.00	1,113,000	994,000	11.97
107. Nipponkoa Insurance Co Ltd.....	0.00	1,066,000	1,151,000	-7.38
108. T.H.E. Insurance Company.....	0.00	160,000	88,000	81.82
109. Corepoint Insurance.....	0.00	52,000	-86,000	-160.47
110. Alea (Bermuda) Ltd.....	0.00	44,000	4,000	1,000.00
111. Utica Mutual Insurance Co Ltd.....	0.00	19,000	0	0.00
TOTALS		41,780,448,000	39,369,227,000	

would cause more than half of all federally regulated p&c insurers to fall below the regulatory minimum capital test (MCT of less than 150 percent) — before management action. OSFI also reported that approximately 40 percent of these insurers would have negative capital scores.”

Also in 2012, OSFI released revisions to its Earthquake Exposure Sound Practices Guideline. PACICC notes that several important changes to the 15-year-old guideline were identified by OSFI, including: a focus on earthquake risk at the national level rather than on regional perils; clearer direction for p&c insurance company Boards of Directors in their oversight of earthquake risk; and emphasis on data quality. The final guideline was released in February 2013, and can be read in full at <http://bit.ly/osfiquake>

LOOKING FORWARD

In an industry where statistics abound and there is not shortage of topics on which to concentrate, the challenge is always to keep this discussion as fresh as possible. And that's hard to do when the top industry sore spots refuse to budge: low interest rates, excessively soft casualty markets, adverse court decisions and — of course — Ontario auto.

In a bid not to be overly morose, bright spots include a not stellar, but decent, industry ROE in excess of 11%, which is better than the 10-year industry average and the first double-digit ROE since 2007. Also on the high side is a healthy outlook for the industry from a solvency perspective.

“When rates do finally start rising, a large portion of the industry's portfolio will be tied up in low-yielding securities...”

Yet, as Joel Baker cautions in his 2012 outlook, “The cross winds are many.”

“The industry may yet be able to swing another two-digit ROE in 2013 but several factors are working against that possibility. The first being the low interest rates — they are increasingly biting as bonds roll over and need to be reinvested. When rates do finally start rising, a large portion of the industry’s portfolio will be tied up in low-yielding securities and, depending on durations, will cause varying degrees of pain on the way up, too.

The second headwind is the fragility of the recovery in Ontario auto. Loss ratios on the BI side (third-party bodily injury) continue to head the wrong way (due in part to reserve strengthening) while AB (statutory accident benefit) loss ratios came down (thanks to large reserve releases).”

And the knot tightens. ☰



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