



# 'WHAT IFS' AND WILDCARDS



**Glenn McGillivray**  
Managing Director,  
Institute for Catastrophic  
Loss Reduction

**Modestly improved industry results  
in 2011 over 2010 continue to  
mask underlying weakness and  
blur potential pitfalls in near-term  
industry performance**

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One of the fundamental bases underfooting the concept of 'cautious optimism' involves grasping the notion that 'things aren't always what they seem.'

Sure, one could look at 2011 Canadian property and casualty industry results in a vacuum and conclude that the industry is forging ahead nicely and that things bode well for the future.

Such a take can certainly be seen as at least partly accurate.

But to seasoned industry participants and the handful of hardcore industry analysts out there, 2011 industry stats need to be looked at with a critical eye and taken with at least a couple of grains of salt.

On one hand, there are several 'what-ifs' that could easily go one way or another, with Ontario auto

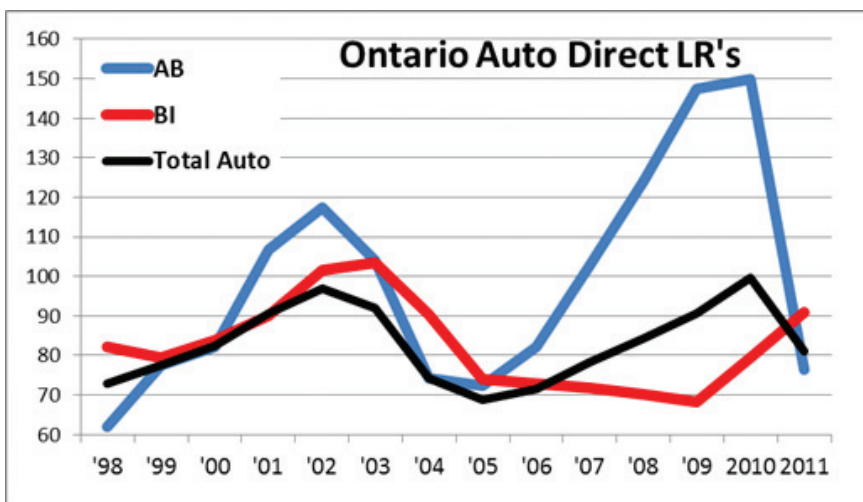
BI claims and future draw-downs of reserves being just two areas that need to be watched closely.

On the other hand there are wildcards, like large natural catastrophes, that can rear up and bite the industry at any time.

### THE NUMBERS

According to Insurance Bureau of Canada, "The industry's return on equity (ROE) rose slightly in 2011 to 8.0%, a modest improvement over 2010's ROE of 7.5% (based on MSA data)."

"Direct premiums written increased, but at a slower pace than in 2010 – 4.4% compared to 5.5% – which is not surprising given the economic environment. Claims increased by 3.6%, which is less than the premium increase noted above. We can attribute this to the significant decline in auto claims following the [Ontario auto] reforms introduced in late 2010. On the other hand, property claims costs took a big jump, by 19.3% in personal property and



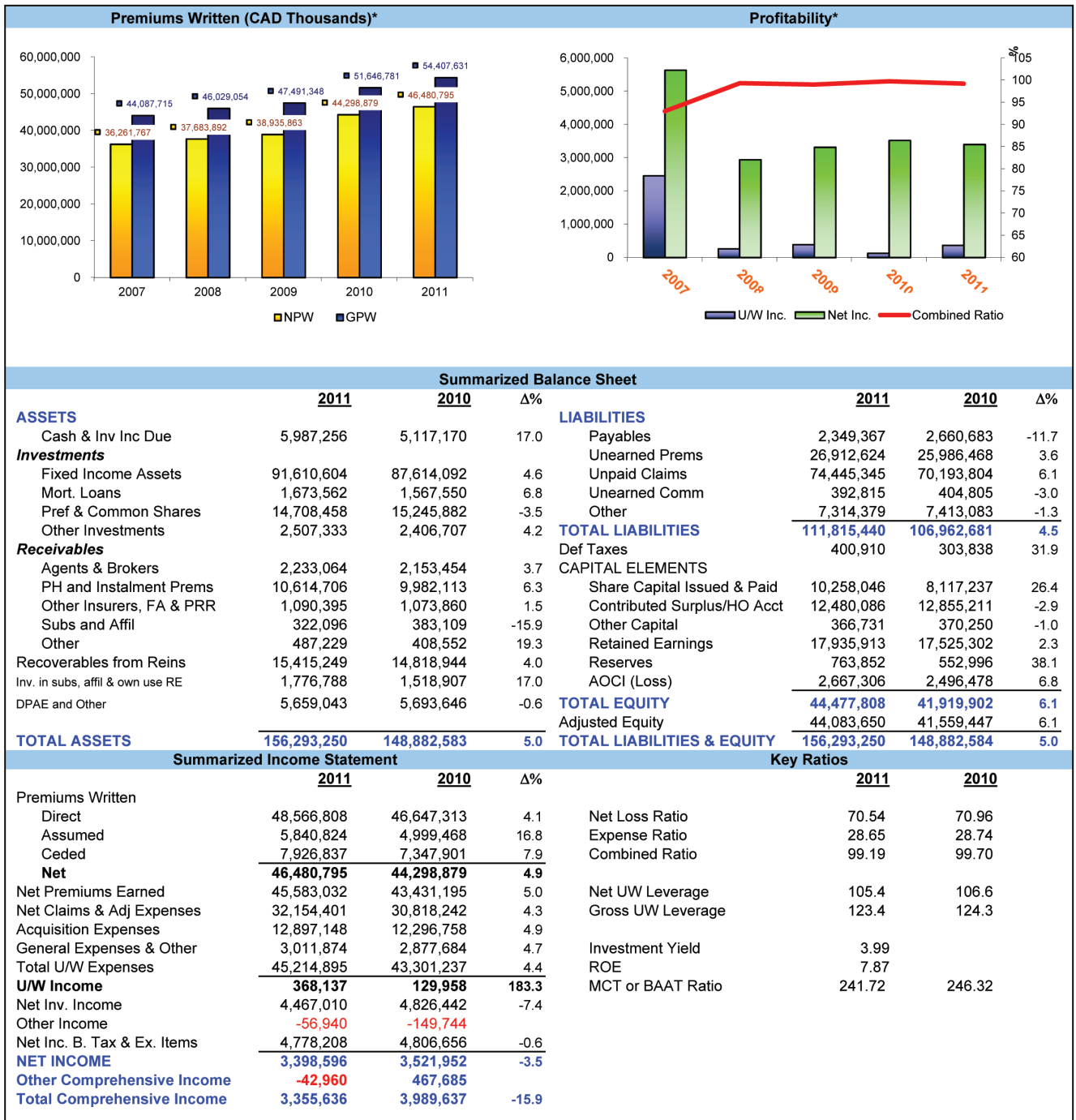
32.6% in commercial property, driven by severe weather and natural catastrophic events," says IBC's Gregor Robinson in the April 2012 issue of Canadian Underwriter ("Keeping a Steady Hand on the Tiller", page 44).

"Overall, the industry reported positive underwriting income of \$587 million compared to a loss of \$89 million in 2010. About 46% of companies reported an increase in underwriting income year over year," says Robinson.

In MSA's assessment of 2011 industry performance, Joel Baker writes: "CAT losses aside, most of urban Canada enjoyed a mild year which acted as a buffer, lowering non-CAT property losses and substantially

**Canadian P&C Industry\* at year-end 2011**

**Financials**



**“...all sectors of the industry experienced various degrees of underwriting loss on a 2011 accident-year basis.”**

benefiting auto results. Indeed, the improvement in auto results, primarily in the troubled Ontario market, offset the property losses and helped personal lines writers (as a group) lower their net loss ratios by 3 points thereby narrowing their underwriting losses substantially over 2010. Commercial writers and reinsurers, on the other hand, saw their loss ratios deteriorate by 2 and 9 points respectively, resulting in a flat overall industry result showing a very narrow underwriting gain of \$368 million in 2011 on \$45.5 billion of NPE.”

He notes: “Despite murmuring and twitching indicating firming. We don’t believe a turn in the commercial market has happened or is imminent despite the low interest rate environment and the diminishing returns. This is largely because capital levels among commercial writers in Canada remain stubbornly high. Not enough pain, so no gain.”

According to PACICC (the Property and Casualty Insurance Compensation Corporation) in its 2011 annual report, “Overall, industry underwriting profitability remained steady in 2011 with a loss ratio of 70.5% compared to 70.7% in 2010. However, there were significant changes in profitability in many major markets. In particular, the 2010 auto insurance reforms made by the Government of Ontario significantly reduced losses for the auto product. The improvement in auto insurance was, however, offset by increased claims costs in both personal and commercial property. Together with improvements in

investment income, industry profitability remained steady in 2011.”

While Baker reports that “...all sectors of the industry experienced various degrees of underwriting loss on a 2011 accident-year basis,” he notes that favourable development “reduced the losses and put some sectors (commercial and reinsurers) into

underwriting profit on a calendar year basis.” He does warn, however, that reserve releases are slowing down, indicating that “...reserve releases reduced the industry’s combined ratio by 10 points in 2011, the lowest benefit since 2005.”

When asked to comment on prior year reserve releases for last year’s

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Statistical Issue, Baker said “Reserve releases over the past two years [2010 and 2009] have ranged between 2 to 5 per cent 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 per cent. There might be juice in the tank, but not as much as before.”

Of the favourable development for 2011, he explains “When investment income backing reserves is excluded, the reduction to the combined ratio in 2011 was only 3 points, about the same as in the past two years. Favorable development has to come to a halt and turn into the adverse variety to influence firming in commercial pricing.”

Providing a brief analysis by line, Baker reports that personal property loss ratios increased 6.4 points year-over-year on a national basis while commercial loss ratios increased 14.8%: “Commercial property loss ratio deterioration afflicted much of the country, while personal property deterioration was most pronounced in Alberta (up 40 points!),” according to Baker.

On homeowners, PACICC reports that “For the past five years the homeowners’ insurance line has been a very stable product, with associated solvency risks being low. This remains true in most parts of the country.



However, at current interest rates, 2011 underwriting results indicate that several markets are approaching break-even status.”

New Brunswick, says PACICC, represents an important exception: “It appears that underwriting results in the New Brunswick homeowners’ insurance market is not sustainable. The average loss ratio for homeowners insurance in the province for the past five years has been 99.8%. A sustained high loss ratio would likely erode the capital base of insurers operating in this market.”

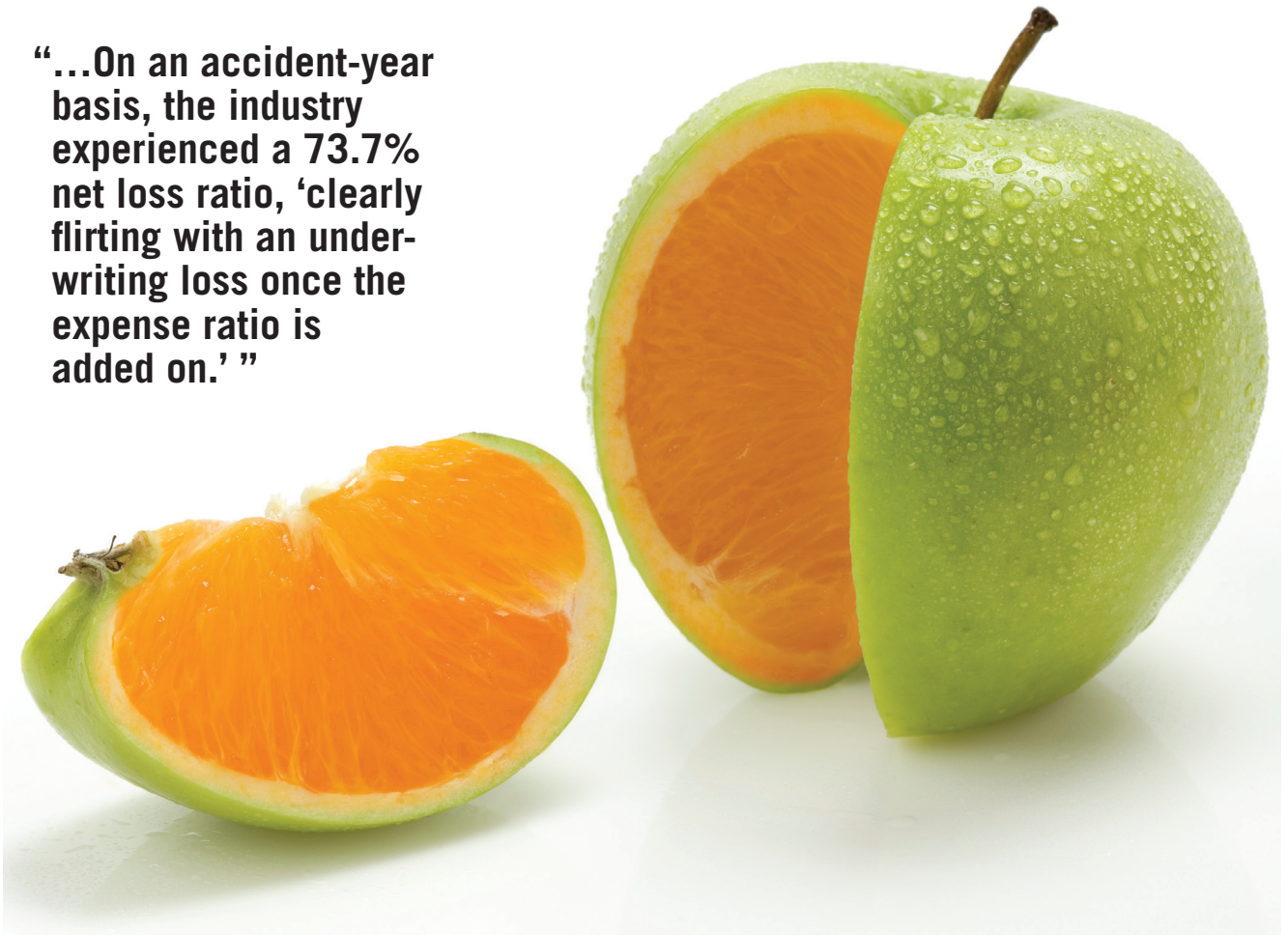
Of the auto line, Baker reports that “results improved only in Ontario where the direct auto loss ratio dropped by 18.5 points following a disastrous 2010. However...that improvement does not automatically

indicate that Ontario’s auto woes are over.”

In his Quarterly Outlook Report for Q4-2011, Baker cautions in a separate piece on auto: “Results in 2011 look better – however, they are still nothing to brag about. AB direct loss ratios plummeted to slightly over 76%, bringing the overall Ontario DLR down with it to 81%. 81% is still a far cry from providing insurers an underwriting profit on this line. Further, third-party liability – or Bodily Injury (BI) losses continued to climb cracking 91% and boding ill for 2012.”

“The most striking revelation,” he warns, “is that the industry (and most participants) released large volumes of reserves backing accident benefits – in total, juicing the AB loss ratio

**“...On an accident-year basis, the industry experienced a 73.7% net loss ratio, ‘clearly flirting with an underwriting loss once the expense ratio is added on.’ ”**



by 20 points on the net AB loss ratio. So, excluding those reserve releases would bring the 2011 accident-year DLR for Ontario AB nearer to 100%.”

PACICC expresses concerns of its own: “Ontario auto insurance...has been a source of significant concern since 2007. In 2010, the government enacted reforms to the accident benefit portion of the Ontario auto insurance product...An important source of solvency risk for PACICC is the sustainability of these reforms. The Ontario Court of Appeal’s decision to allow claimants to combine psychological injuries with physical when determining catastrophic impairment could increase claims costs. In addition, there are thousands of cases seeking mediation and these outcomes could further increase claims costs. It is not clear from public data if insurers are adequately reserving for these potential cost pressures.”

As to auto in other provinces, “the only other province with worrisome auto results was Newfoundland where the loss ratio jumped 11 points to around 77,” says Baker.

PACICC notes that “In Alberta, the Auto Insurance Rate Board’s annual industry-wide rate adjustment process may affect solvency risk because it forces all companies in the province to adjust risks based on the industry average results instead of their company experience. This type of rate regulation has not yet impacted the solvency of insurers operating in the province due to a stable claims environment. Auto insurance markets in Atlantic Canada and Quebec appear profitable and stable at this time with little solvency risk.”

Casualty/liability results deteriorated 3.6 points on a Canada-wide basis, according to Baker. On an accident-year basis, the industry experienced a

73.7% net loss ratio, “clearly flirting with an underwriting loss once the expense ratio is added on.”

#### **THE REINSURANCE SIDE**

According to Don Callaghan, CEO of Guy Carpenter Canada in “After the losses” (Canadian Underwriter March 2012, page 28): “Given the catastrophic activity of 2011, both globally and locally, industry observers expected the reinsurance market to harden as of January 1, 2012. The surprise lay in the extent of the hardening and the degree in which capacity was reduced.”

Callaghan writes: “noteworthy characteristics of the major catastrophic events of 2011 are as follows: Earthquake (with tsunami) frequency and severity was sufficient to remind reinsurers that Canada is subject to major quakes on the West Coast, in Quebec and in zones where

faults have not yet been identified; Canada is a non-peak zone. As such, it delivers insufficient premium to cover potentially severe catastrophe losses; CBI (contingent business interruption) coverage has not been sufficiently modeled or adequately priced; Events occurring late in the year, particularly the Thailand floods globally and the Calgary windstorm locally, set the treaty quote process back by at least two weeks; and, Canadian mini-cat (\$10 million plus) frequency was higher than it has ever been, with harsh implications for cat aggregate contracts.”

“Given these caveats, I can report that our average client probable maximum loss exposure grew by 17%. Average catastrophe limits increased from \$660 million to just over \$800 million. Top layer rates on line moved up 12%, whereas

program rates on line were 6% higher than a year earlier. Catastrophe aggregate excess of loss, risk and attachment adjusted, were up more than 50%. Overall, our catastrophe clients spent 28% more, keeping in mind that they also purchased more reinsurance,” says Callaghan.

On the facultative casualty side, as observed by one facultative casualty underwriter: “In the first quarter of 2012 we saw some slight upward movement in rates and premiums on casualty business, although most accounts were being renewed at as is rates with only a small number garnering any significant rate increases. Some business was still being renewed with rate decreases. The Canadian casualty market remains soft and very competitive with abundant capacity available. There is anecdotal evidence that the U.S. casualty market started to tighten

**“...my sense is a slightly firmer market in Canada in 2012 compared to 2011 and a hard market in 2013/2014.”**

in the first quarter 2012 with rate increases of up to 5%. However, from my recent conversations with colleagues in our U.S. offices they advised that roughly half their accounts were renewed at as is rates and half got rate increases of up to 5% and, like here, several companies talk about getting rate increases, but don't always do so. The Canadian market tends to lag behind the U.S. market by 6 to 12 months, so assuming the U.S. market does continue to tighten in 2012 then the Canadian market may follow suit in 2013 and more so in 2014, by which time we could be in the midst of a hard market.

Most automobile/casualty treaties in Canada were renewed as is at 1/1/2012. There were price increases on some per risk property and most catastrophe treaties, following the dismal year in 2011 for the insurance industry's results with an upward spike in natural catastrophe losses around the world in 2011. So the lack of price increases on casualty treaties means that there is no push to increase rates coming from the treaty side in 2012. Again, my sense is a slightly firmer market in Canada in 2012 compared to 2011 and a hard market in 2013/2014. Based on past cycles the hard market may last up to 18 months and I don't think there will be as much hardening as we saw in prior hard markets, such as in the mid nineties.”

#### **IN THE COURTS**

In the February/March 2012 issue of Claims Canada Magazine, Christopher

**“...several of the cases noted in Dunn’s 2011 top ten saw insurers’ coverage refusals reversed by the court, and a few saw lower court decisions overturned by higher courts.”**



Dunn of Dutton Brock, LLP once again provided a very useful and concise run-down of the top ten coverage decisions from 2011 of interest to insurers. As he begins, “The Ontario Court of Appeal was particularly busy this past year, while the Supreme Court of Canada rested a little in the wake of *Progressive Homes v. Lombard* in late 2010.”

**Dunn’s Top Ten include:**

- 1) *Cabell v. Personal Insurance Co.* (Feb. 8, 2011, Ontario Court of Appeal) - Homeowner’s property
- 2) *Pietrangelo v. Gore Mutual Life Insurance Co.* (Feb. 23, 2011, Ontario Court of Appeal) - Homeowner’s property insurance
- 3) *Bulldog Bag v. AXA Pacific Insurance Co.* (Apr. 12, 2011, British Columbia Court of Appeal) - Commercial General Liability
- 4) *ING Insurance Co. of Canada v. Miracle* (Apr. 26, 2011, Ontario Court of Appeal) - Commercial General Liability
- 5) *Maccaroni v. Kelly* (May 30, 2011, Ontario Court of Appeal) -

Auto Liability — OPCF 44R

- 6) *Saskatchewan Government Insurance v. Patricia Hotel* (1973) Ltd. (Jun. 20, 2011, Saskatchewan Court of Appeal) - Commercial General Liability
- 7) *Mahoney v. Cumis Life Insurance Co.* (Mar. 30, 2011, Nova Scotia Court of Appeal) - Accident and Sickness
- 8) *Swales v. Insurance Corp. of British Columbia* (Mar. 2, 2011, British Columbia Court of Appeal) - Automobile property insurance
- 9) *Onex Corp. v. American Home Assurance Co.* (Jun. 30, 2011, Ontario Court of Appeal) - Directors and Officers Liability
- 10) *Lancer Enterprises Ltd. v. Saskatchewan Government Insurance* (Mar. 9, 2011, Saskatchewan Court of Appeal) - All-risks property

While in 2010, there was a clear common thread weaving through a good half of the top ten cases then cited by Dutton (i.e. the problem of improper or poor policy wordings), a common thread for 2011 is not as clear. One may, however, point out that several of the cases noted in Dunn’s 2011 top ten saw insurers’ coverage refusals reversed by the court, and a few saw lower court decisions overturned by higher courts.

The full article can be viewed at <http://bit.ly/dunn1012>.

**NATURAL CATASTROPHES**

When hurricanes Katrina, Rita and Wilma (KRW) teamed up to trigger massive economic and insured damage in the United States in 2005, many believed that those records



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would stand for many years – if not decades – to come. Yet just seven years later, the record insured loss events of 2005 have been exceeded (according to Munich Re) or, at the very least, very closely rivalled (according to Swiss Re).

According to Munich Re, 2011 goes down as the costliest year ever in terms of natural catastrophe losses, for both economic damage (USD 380 billion vs. USD 220 billion in 2005) and insured damage (USD 105 billion versus USD 101 billion in 2005). Swiss Re puts the year down as the most expensive from an economic loss perspective (USD 370 billion) and the second most expensive from an insured loss perspective (USD 110 billion).

Interesting to note is that while the three hurricanes in 2005 themselves triggered the lion's share of insured losses recorded that year (more than USD 100 billion according to Swiss Re); 2011 could go down as what is colloquially referred to as a 'kitchen sink' year, with a wide variety of different kinds of catastrophes contributing to the overall toll.

While it is very true that earthquake caused a large proportion of the losses in 2011 (the Tohoku event alone contributed about USD 35 billion to the insured damage toll and the New Zealand event USD 12 billion); record flooding in Thailand and Australia

added USD 12 billion and USD 2.25 billion respectively; a major outbreak of tornadoes in the U.S. added USD 14 billion; and Hurricane Irene added USD 5.3 billion (Swiss Re). A number of other, much smaller events (175 in total) rounded out the total.

Closer to home, as noted by Joel Baker “Canada, while avoiding a

human toll, was not spared economically - with the Slave Lake, Alberta fire in May, Alberta storms in July, the Goderich tornado in August and back to Alberta in November.”

Of the late-year windstorm in Alberta, Guy Carpenter's Callaghan notes: “Despite its lower quantum... [the storm] seemed to shake the mar-

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

	% of Market	2011 N.P.W.	2010 N.P.W.	% Change
1. Intact Financial Corporation.....	11.06	4,340,614,000	4,352,337,000	-0.27
2. Aviva Canada Inc .....	8.39	3,291,024,000	3,132,910,000	5.05
3. TD Insurance General .....	6.42	2,519,036,000	2,323,947,000	8.39
4. RSA Canada Group .....	6.02	2,360,019,000	1,981,181,000	19.12
5. Co-operators General Insurance Co .....	5.68	2,229,026,000	2,131,290,000	4.59
6. Lloyd's Underwriters.....	5.62	2,206,620,000	1,959,781,000	12.60
7. Wawanesa Mutual Insurance.....	5.10	2,002,286,000	1,883,107,000	6.33
8. State Farm Insurance Company.....	4.92	1,931,286,000	1,937,320,000	-0.31
9. Desjardins General Insurance Group.....	4.59	1,801,808,000	1,618,806,000	11.30
10. The Economical Insurance Group .....	4.16	1,630,836,000	1,626,378,000	0.27
11. The Dominion Of Canada .....	3.09	1,210,921,000	1,214,959,000	-0.33
12. Northbridge Financial Corporation .....	2.77	1,085,923,000	1,007,728,000	7.76
13. Allstate Insurance Co of Canada .....	2.40	941,720,000	618,365,000	52.29
14. Zurich Insurance Company Ltd .....	1.66	649,716,000	651,336,000	-0.25
15. Chubb Insurance Co of Canada .....	1.57	615,310,000	598,135,000	2.87
16. Chartist Insurance Co of Canada.....	1.43	562,336,000	586,596,000	-4.14
17. RBC General Insurance .....	1.35	528,837,000	476,188,000	11.06
18. Ontario Mutual Insurance .....	1.32	519,070,000	480,446,000	8.04
19. La Capitale Assurances Gen Inc.....	1.28	500,498,000	448,792,000	11.52
20. SGI Canada Group .....	1.21	476,488,000	434,508,000	9.66
21. RBC Insurance Company Of Canada.....	1.03	403,888,000	361,683,000	11.67
22. Jevco Insurance Company .....	0.85	333,361,000	311,924,000	6.87
23. Travelers Canada.....	0.76	298,192,000	309,697,000	-3.71
24. Gore Mutual Insurance Company.....	0.75	296,142,000	280,858,000	5.44
25. Guarantee Company Of North America.....	0.70	273,811,000	266,641,000	2.69
26. Munich Reinsurance Cda Group .....	0.69	270,977,000	291,363,000	-7.00
27. Alberta Motor Association .....	0.64	251,083,000	241,770,000	3.85
28. CNA Canada .....	0.62	244,604,000	236,489,000	3.43
29. Factory Mutual Insurance Company.....	0.61	239,090,000	249,786,000	-4.28
30. Industrielle Alliance Compagnie .....	0.56	218,527,000	151,461,000	44.28
31. ACE INA Insurance .....	0.54	210,713,000	208,123,000	1.24
32. SSQ, Societe D'Assurances Generales .....	0.54	210,240,000	172,356,000	21.98
33. Portage La Prairie Mutual .....	0.47	183,883,000	165,777,000	10.92
34. FCT .....	0.43	169,145,000	132,734,000	27.43
35. CAA Insurance Company (Ontario).....	0.43	168,742,000	145,862,000	15.69
36. Allianz Global Risks US.....	0.43	167,156,000	169,676,000	-1.49
37. SCOR Canada Reinsurance .....	0.40	157,280,000	156,186,000	0.70
38. Pembridge Insurance Company .....	0.40	155,018,000	136,395,000	13.65
39. Everest Reinsurance Company .....	0.39	154,352,000	154,699,000	-0.22
40. Echelon General Insurance.....	0.39	152,585,000	135,324,000	12.76
41. Swiss Reinsurance Group .....	0.39	152,279,000	152,062,000	0.14
42. Hannover Ruckversicherung AG.....	0.35	138,874,000	118,613,000	17.08
43. Motors Insurance Corporation.....	0.34	134,752,000	136,151,000	-1.03
44. L'Unique Assurances Generales.....	0.31	123,386,000	111,782,000	10.38
45. Liberty Mutual Insurance .....	0.31	122,119,000	117,575,000	3.86
46. Canadian Direct Insurance .....	0.31	120,772,000	115,505,000	4.56
47. Farm Mutual Reinsurance Plan.....	0.30	119,007,000	116,566,000	2.09
48. Peace Hills General Insurance.....	0.29	111,919,000	112,343,000	-0.38
49. Transatlantic Reinsurance .....	0.29	111,894,000	118,055,000	-5.22
50. Promutuel Reassurance.....	0.28	110,921,000	114,108,000	-2.79
51. Partner Reinsurance Company of the U.S..	0.28	110,005,000	102,301,000	7.53
52. Lawyers' Professional Indemnity .....	0.28	109,784,000	0	0.00
53. Unica Insurance .....	0.27	107,126,000	137,598,000	-22.15
54. Boiler Inspection & Insurance Company .....	0.26	101,502,000	95,944,000	5.79
55. Pafco Insurance Company .....	0.25	99,320,000	77,415,000	28.30

(Continued On Page 32)

ket more than the Slave Lake event. This is partly because it happened so late in the year. Also, it caused damage that hadn't really been seen before — like glass blowing out of downtown office towers.”

“Property writers in Alberta did not have a happy year,” says Baker. “It is also worth mentioning that, even if the Slave Lake fire is excluded, Canadian CAT losses in 2011 outstripped those of 2010.”

The Slave Lake fire is fascinating on a few fronts.

First, unlike the fires that ravaged British Columbia in 2003, the fire in Slave Lake did not come on the heels of a hot and tinder dry spring and summer (according to some reports, there was snow on the ground around Slave Lake a week prior to the fire). Rather, the conditions that came together to make that area rife for a big fire were just three days in the making. Just three days of low humidity combined with high wind gusts and an ignition source, and the fire took off. The Slave Lake fire highlights what any seasoned fireboss will tell you: that wildfire can happen at any time, almost anywhere, if the conditions are right.

Second, the fire is fascinating for the insured damage it caused. Put

**“...Despite the loss, there are still challenges getting the Canadian insurance industry's attention on wildfire risk.”**

in simple terms, the destruction of one-third of a town of 7,000 people located two hours north of Edmonton triggered \$700 million in claims. This leads one to ask What if the fire consumed half, two-thirds or all of the town, or if fire got into Fort McMurray, as it almost did on one or two occasions last year?

Third, despite costing \$700 mil-

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56. Cumis General Insurance.....	0.23	91,975,000	104,008,000	-11.57
57. Affiliated FM Insurance Company.....	0.21	82,822,000	76,948,000	7.63
58. Stewart Title Guaranty Company.....	0.20	79,852,000	75,971,000	5.11
59. XL Insurance .....	0.19	73,717,000	86,536,000	-14.81
60. North Waterloo Farmers Mutual .....	0.18	70,695,000	61,030,000	15.84
61. Arch Insurance (Canada) .....	0.18	69,286,000	53,806,000	28.77
62. Odyssey Reinsurance Company .....	0.17	65,677,000	62,137,000	5.70
63. Red River Mutual .....	0.17	64,737,000	57,144,000	13.29
64. XL Re America Inc – Cdn Branch .....	0.14	56,657,000	67,687,000	-16.30
65. General Reinsurance Corp.....	0.13	50,408,000	56,301,000	-10.47
66. Caisse Centrale De Reassurance .....	0.13	50,183,000	47,990,000	4.57
67. Old Republic Insurance Company.....	0.13	49,764,000	45,920,000	8.37
68. Saskatchewan Mutual Insurance.....	0.12	47,508,000	43,012,000	10.45
69. Great American Insurance .....	0.12	46,810,000	20,073,000	133.20
70. Grain Insurance & Guarantee.....	0.12	45,863,000	42,427,000	8.10
71. Berkley Insurance Company.....	0.10	40,767,000	25,830,000	57.83
72. Trisura Guarantee Insurance.....	0.10	39,531,000	31,978,000	23.62
73. Toa Reinsurance Co of America .....	0.10	39,341,000	35,832,000	9.79
74. Le Groupe Estrie-Richelieu.....	0.09	36,278,000	35,847,000	1.20
75. Ontario School Board's Insurance.....	0.09	34,832,000	33,131,000	5.13
76. Mutual Fire Insurance Co of BC .....	0.08	32,802,000	25,186,000	30.24
77. Co-operative Hail Ins Co Ltd.....	0.08	31,537,000	33,491,000	-5.83
78. Aspen Insurance UK Limited .....	0.08	30,810,000	49,252,000	-37.44
79. Triton Insurance .....	0.07	25,514,000	8,972,000	184.37
80. Tokio Marine & Nichido Fire.....	0.06	25,460,000	26,081,000	-2.38
81. Mitsui Sumitomo Insurance .....	0.05	20,739,000	21,868,000	-5.16
82. Omega General Insurance .....	0.05	18,437,000	14,568,000	26.56
83. MAPFRE Re Compania De Re, S.A .....	0.04	16,770,000	15,760,000	6.41
84. Sirius America Insurance .....	0.04	15,526,000	14,279,000	8.73
85. PEI Mutual Insurance Company .....	0.04	14,819,000	13,758,000	7.71
86. Federal Insurance Company.....	0.04	14,026,000	0	0.00
87. Legacy General Insurance .....	0.04	13,893,000	29,288,000	-52.56
88. Munich Reinsurance America, Inc. ....	0.03	13,354,000	13,954,000	-4.30
89. Western Surety Company.....	0.03	13,340,000	13,910,000	-4.10
90. Hartford Fire Insurance.....	0.03	12,668,000	12,935,000	-2.06
91. Euler Hermes American Credit .....	0.03	11,980,000	11,128,000	7.66
92. The Mearie Group .....	0.02	6,772,000	4,846,000	39.74
93. Mennonite Mutual Fire Insurance .....	0.02	6,472,000	6,058,000	6.83
94. American Road Insurance Company.....	0.02	6,470,000	5,886,000	9.92
95. Kings Mutual Insurance Company.....	0.02	6,371,000	6,087,000	4.67
96. Pacific Coast Fishermen's Mutual .....	0.02	6,070,000	5,916,000	2.60
97. Sompo Japan Insurance Inc .....	0.01	5,103,000	5,968,000	-14.49
98. Everest Insurance Co of Canada.....	0.01	4,817,000	0	0.00
99. Atradius Credit Insurance N.V .....	0.01	4,010,000	0	0.00
100. Fundy Mutual Insurance .....	0.01	2,306,000	2,167,000	6.41
101. Nipponkoa Insurance Co Ltd.....	0.00	1,151,000	1,015,000	13.40
102. Clare Mutual Insurance Company .....	0.00	994,000	944,000	5.30
103. T.H.E. Insurance Company.....	0.00	88,000	88,000	0.00
104. Alea (Bermuda) Ltd .....	0.00	4,000	22,000	-81.82
105. Corepoint Insurance .....	0.00	-86,000	0	0.00
106. Hanover Insurance Company .....	0.00	-400,000	0	0.00
107. Endurance Reinsurance Corp America.....	0.00	-1,490,000	16,000	-9,412.50
108. Lumbermen's Underwriting Alliance.....	-0.01	-3,177,000	27,570,000	-111.52
<b>TOTALS</b>		<b>39,229,676,000</b>	<b>36,803,553,000</b>	

lion, representing the most expensive wildfire and the second most expensive natural catastrophe in Canadian history, insurers appear – at least on the outside – as being quite nonchalant about the loss, and about wildfire risk in general. Despite the loss, there are still challenges getting the Canadian insurance industry's attention on wildfire risk. This, despite the fact that Canada is one of the most forested countries in the world, and population growth in the wildland/urban interface (WUI) continues at an accelerated pace.

### INDUSTRY ISSUES AND LOOKING FORWARD

MSA's Baker sees five main issues to keep an eye on this year and beyond: Ontario auto; Merger and Acquisition (M&A) activity (indeed, at writing, Intact announced its \$530 million

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acquisition of JEVCO); Natural catastrophe trends; How companies will address declining investment returns; and, how changes to the regulatory minimum capital test (MCT) pan out.

Of this last point, PACICC explains: “Changes made by the Office of the Superintendent of Financial Institutions (OSFI) to its Minimum Capital Test (MCT) and Branch Asset Adequacy Test (BAAT) came into effect January 1, 2012. The intention of the changes was to make these tests more risk-based and to bring greater consistency with other financial institutions. OSFI also notified insurers that they plan to implement an additional margin for foreign exchange risk in 2013. These changes should reduce solvency risk for insurers operating in Canada.”

“In addition, in 2011 the Canadian Council of Insurance Regulators established a Solvency Working Group that

will provide a forum for provincial regulators to discuss their solvency issues. PACICC welcomes the opportunity to work with the CCIR members to further reduce solvency risks at provincially regulated entities.”

On the financial performance side, IBC’s Robinson comments: “While ROE remains below levels of the past, there are reasons for optimism. The last three years have seen slow but steady improvements in underwriting performance, ROE and capital. Looking two to three years out, most forecasters expect economic growth in North America to improve. Eventually interest rates will rise. The skills that firms have developed over the past few years in managing in a low interest rate environment and improving underwriting should stand them in good stead in the years ahead.”

Much will depend, of course, on the ‘what-ifs’ and wildcards. ☰

