Plenary Session IV
“Canadian Perspectives”

Moderator:
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Plenary Session IV
“Canadian Perspectives”

1. A Quick Glance at the Canadian Insurance Industry (GB)
2. Quebec’s Drug Insurance Plan (CM)
3. Financing Canada’s Health Care System (GD)
A Quick Glance at the Canadian Insurance Industry

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1. A Macro View
2. The L/H Market
3. The P/C Market
4. Current Issues
1. A Macro View

As of 2000 (Source: Swiss Re, Sigma No. 6 / 2001):

• Population of Canada: 30.7 million
• GDP: 711 billion USD (smaller of G7)
• Total premium volume: 46.6 billion USD
• Overall weighted share of world market: 1.91% (8th)
• Insurance density (in USD):
  $1,517 per capita for total business (14th)
• Insurance penetration:
  6.55% of GDP for total business (18th)
2. The Canadian L/H Market

• 1.53% of the world market (8th)
• Currently, 110 companies are monitored for financial soundness by OSFI (49 Canadian, 61 Foreign).
• Increasing concentration due to consolidation (MS of Top 5: 64% in 2000 vs. 47% in 1994).
• The market is dominated by 4 large stock groups:
  – Sun Life/Clarica, Great-West Life / London Life, Canada Life and Manulife.
• Market is shifting away from exclusive sales forces (45%) towards independent producers (55%).
2. Demutualization in the L/H Insurance Industry

• Major wave in 1999-2000 (largest wealth transfer in Canadian history):

<table>
<thead>
<tr>
<th>Insurer</th>
<th>IPO Date</th>
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<tbody>
<tr>
<td>Clarica:</td>
<td>July 21, 1999</td>
</tr>
<tr>
<td>Manulife:</td>
<td>Sept. 30, 1999</td>
</tr>
<tr>
<td>Canada Life:</td>
<td>Nov. 5, 1999</td>
</tr>
<tr>
<td>Industrial-Alliance</td>
<td>Feb. 10, 2000</td>
</tr>
<tr>
<td>Sun Life:</td>
<td>March 23, 2000</td>
</tr>
</tbody>
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2. IPO PERFORMANCE ANALYSIS

- Evidence of significant underpricing of L/H IPOs:
  - Offer-to-close: 9% on average.
  - Most short-run returns achieved during first day of trading.
- Evidence of strong returns even if first day excluded.
- Evidence that a secondary market investor holding those shares would have outperformed the market*:

  | Wealth Relative Index [Ritter (1991)] |  
  |--------------------------------------|---|
  | Day 1 to 6 months                    | 1.31 |
  | Day 1 to 1 year                      | 1.33 |
  | Day 1 to 2 years                     | 1.55 |

  * Here, the market is proxied by the TSE Financial Services Sub-Index.

Source: Babin & Bernier, 2001, Assurances
3. The Canadian P/C Market

- 2.53% of the world market (7th)
- Currently, 198 companies are monitored for financial soundness by OSFI (93 Canadian, 105 Foreign).
- P/C is a less concentrated market than L/H:
  - Specific regional markets or specific product lines.
- Top 5 MS in 2001: 34% (CGU Group Canada, ING Canada, Co-operators Group, Royal & Sun Alliance, Economical Ins.Group)
- Broker Co’s still have a dominant MS of 67% in 2001 (24% for Direct Writers and 9% for Reinsurers only)
4. Current Issues in the Canadian Insurance Industry

- In the L/H market:
  - Aging of population and increase in life expectancy
    - Shift from life insurance products to savings products (e.g. Segregated funds) and health products (e.g. Dread disease insurance).
    - LTC and LTC / DI hybrids are also starting to appear in the Canadian L/H market.
  - A.M.Best expects that the major Canadian life stock insurers will seek to expand in the USA.

Sources: Journal de l’assurance and A.M.Best Report, 7/17/2002
4. Current Issues (cont’d)

• In the Canadian P/C market: (Similarities with USA)
  – All time low industry profits in 2001 (Avg. ROE < 3%)
    • High Auto bodily injury claims mostly in Ontario & Atlantic Provinces
    • Low investment returns and excessive capital
    • Lack of support by provincial governments for auto insurance reform.
  – Slightly improving operating results in 1st quarter of 2002
    • Increased prices and tighter underwriting terms
  – Significant Shortage of Management Talent
    • Great opportunities for business university graduates.

Source: IBC, Canadian Underwriter and Canadian Insurance