



Brownridge
& Company
Insurance

What's New at Brownridge & Company Insurance

March 25, 2003

The Elliot Viewpoint – International issues dominate industry agenda

The property and casualty (P&C) insurance industry has plenty of well publicized challenges right here in Canada, but in the last 18 months, our local difficulties have taken a back seat to challenges of a global nature.

P&C insurers traditionally rely on investment return to offset more volatile underwriting results, but underwriting results in 2001 and 2002 were awful - and coincided with the worst investment return in decades.



Most insurers began 2003 with less capital than in December 2000.

European insurers who diversified into banking and mutual fund management to achieve business synergies have found that instead, their investments have been a huge drain on capital.

Although some insurers have secured additional funding, insurance capitalization isn't keeping pace with premium growth. This has put pressure on insurers' ratings. Insurers who have seen their ratings decline outnumber those whose ratings have risen or stayed the same. Insurers who are unable to generate new capital face limited or negative growth in 2003.

The return to profitability is held back by adverse loss development from litigation costs arising from business written many years ago. Insurers must regularly re-evaluate their reserves for old losses, especially for asbestos, environmental and sexual abuse claims. Insurers have been slow to adjust their reserves for long tail-lines, and such catch-up adjustments will continue to drag down earnings for several years.

Several European insurers and reinsurers have discontinued or cut back risk-taking in the U.S., out of fear that the U.S. litigation environment is spinning out of control.

However, the U.S. isn't the only hostile legal environment. Bodily injury litigation is on the rise around the world. Awards are rising much faster than the underlying rate of inflation globally, but especially in the U.K., Australia and here in Canada.

Reinsurers are also hurting. In 2003, reinsurance rates will rise faster than primary rates.

Commercial insurance in Canada is dominated by foreign insurers, so international issues such as these have a direct effect on Canadian commercial policyholders. Although we have experienced vigorous price correction for more than 18 months, P&C insurers still cannot claim a durable return to profitability. We expect the present business climate to continue for at least another year.