



*The 1982 "Shoestring Cutting" that marked the official launching of IAO's computerized RAPIDSCAN System. Michael Neal, Chairman of the Board of PolyCom Systems Ltd.; Alan Saville, Chairman of IAO's Board of Directors; Ted Belton, President, IAO.*

## CHAPTER XI

# THE 1980s AND BEYOND

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Looking back at the first five years of IAO from the vantage point of 1980, the organization, by all accounts, had been successful in achieving its major objectives. Stability had returned to the industry and underwriting results did improve. It became clear that the organization would survive and prosper.

But storm clouds had already begun to emerge on the horizon. Competition heated up, rate-cutting again set in and underwriting results deteriorated. People in the industry began to hear more talk of 'excess capacity' and 'surplus supply'.

By the early 1980s it was as bad or worse than it ever had been and prices were being cut to the bone. Underwriting results took a nosedive. In 1980 the underwriting loss set a new record at \$572 million, more than double the previous record of \$283 million established in 1974. 1981 was a shocker. The underwriting loss climbed to \$889 million. The only thing that was keeping the industry alive was its investment income. Return on equity had plummeted to 4.26 percent against an inflation rate of 12.6 percent.

Clearly, corrective measures had to be taken but the insurers that tried to take the lead quickly found their business rapidly fleeing to other markets. Trying to come to grips with the economic upheaval of the early 1980s was just one of IAO's major challenges of the new decade. There were many others that the organization — in what had become 'typical' fashion — also tackled head on.

At the start of the 1980s, IAO remained committed to the development of new ways and means of improving the quality and speed of service to members and reducing their costs. Despite glimmers of hope in the late 70s, the industry settled into the worst 'down' cycle in its history, as both external and internal factors combined to produce a chaotic market.

1980 was a year of 'stagflation' during which real GNP showed virtually no growth. Consumer prices increased more than 10 percent, interest rates reached unheard-of levels and the value of the Canadian dollar declined. Economic problems were aggravated by developments in the political arena. The new federal government — preoccupied with constitutional matters — found it impossible to reach an agreement with the oil-producing provinces. This political uncertainty shook the confidence of both domestic and international businessmen and precipitated an outflow of investment capital.

The political and economic malaise affecting the business community was exacerbated by conditions within the property and casualty fields. Here the supply of insurance capacity continued to exceed demand. While the economy generated little real growth, more insurers and reinsurers entered the market in quest of a share of the available premium income. The situation degenerated into a rate war producing the following results:

Operating expenses increased 13.2 percent;  
Losses incurred increased 14.7 percent;  
Net written premiums increased only 7.2 percent;  
Earned premiums increased only 6.0 percent.

The subsequent underwriting loss reached a record \$572 million. Including investment income, net income was a mere

\$212 million, which represented only a 4.2 percent return on earned premiums and an obviously unsatisfactory return on investment.

IAO's Chief Actuary Herbert Phillips observed the emergence between 1976 and 1980 of alarming trends in underwriting results and ratemaking. The underwriting loss of one-half of one percent in 1976 had increased to 11.2 percent by 1980. He also pointed out there had been an "alarming erosion of the effectiveness of underwriting/rating functions during the current soft market." This trend was not confined to a single class of business:

The Property classes, both Personal and Commercial, increased from a 61% loss ratio in 1976 to 73% in 1980 to an estimated 84% in the first quarter of 1981; the Automobile classes from 71% to 82.3% during the same period and an estimated 97.2% for the first quarter of 1981. These 1980/81 loss ratios are an all-time high in modern times.

Ted Belton's comments on the status of the industry at the end of 1980 and the prospects for the future included this warning:

...our industry will undergo fundamental and radical changes which will severely test the mettle of all the players in the league. To be sure, the 'good old days' are gone forever. Today's conditions, regarded by many as 'abnormal' are, in reality, but a mild rain shower compared to the storms of the future... obviously, the future is no place for the faint-hearted, the rigid traditionalists and the seekers of the status quo. The survivors will be the courageous, the alert, the flexible, the imaginative, the planners and the managers of change. With the continued support of its Members, IAO would like to be counted among the latter.

With increasing competition and unfavourable economic conditions, underwriters placed less emphasis on the quality of underwriting information and adequacy of rates. IAO predictably experienced a further decline in the demand for its inspection, engineering and rating services. This situation did not discourage organization officials who, perhaps naively believing that the market would eventually 'tighten up', continued to improve and refine ratemaking techniques and to develop methods for obtaining more responsive statistical data. But, as IAO discovered, there were no simple solutions.

This proved to be a time of introspection and anguish within the organization. In spite of major improvements that did occur in ratemaking methods, plus a significant upgrading of inspection and engineering capabilities and increased cost effectiveness, underwriters were ignoring IAO's advice. Simply put, underwriters



*W.L. Williams, IAO Chairman, 1980-81*

were not underwriting. There was so much excess capacity available that companies could hardly cut prices fast enough to entice business away from competitors or to protect the business they already had on their books. Careful underwriting was definitely not a high priority.

Demand for IAO's services dropped sharply, and management could foresee the possibility of a weakening of the members' willingness to bear the costs of developing information which competitive conditions would not permit them to use. During a particularly agonizing strategic planning session, it was decided that there was a need for a better understanding of the excess capacity phenomenon on which everyone was blaming cut-throat competition. Although there was much talk about supply exceeding demand, no one had quantified the extent of the surplus capacity and no one was measuring the relationship between supply and demand. Therefore, the impact of surplus capacity was not well understood and little solid information was available on which to base projections of future trends.



*J. Robitaille, IAO Chairman, 1982-83*

IAO attacked the problem with vigour. Its actuarial department set about analyzing economic and industry data and came up with some fascinating charts and graphs. One that proved to be particularly meaningful was a graph depicting the relationship between supply and demand which tracked identically with underwriting cycles. Research began to demonstrate clearly that the supply of insurance capacity was a very powerful force in the marketplace.

It was also becoming clear that surplus capacity had probably been the culprit all along but, because its scope was not being measured and because its power was not understood, insurance company managers tended to blame conditions on their competitor's greed and 'weakness in the back'. While it certainly could not be claimed that the publication of information on the relationship between supply and demand was having the effect of firming up the market, there was some evidence that it was at least helping people to understand why the marketplace was behaving as it was.

To everyone's relief, industry results did improve in 1982. The market began to firm up and



*J.B. Murch, IAO Chairman, 1981-82*

significant price increases were implemented for personal lines. The underwriting loss fell back to \$562 million and after tax return on equity rose to 11.27 percent against an inflation rate of 10.9 percent. The year closed on a particularly strong final quarter and hopes were high that 1983 would produce an underwriting profit.

Good results did continue into the second quarter of 1983. But June 30th 1983 marked the end of the reprieve ... three successive quarters in which the frequency of losses declined, earned premiums increased and underwriting results were profitable. For the first six months of 1983, the underwriting profit was \$62.7 million.

However, the industry was far from being 'out of the woods'. Supply began to increase sharply in relation to demand and IAO was warning that this recovery could be the shortest on record. The prediction proved to be accurate when third quarter results were released and it became

# In recognition

of a job well done . . . and as the final stage in modernizing the Insurers' Advisory Organization's management structure, President E. F. 'Ted' Belton is pleased to announce the following appointments:



EDWARD F. 'TED' BELTON

## STEWART H. AYRES, BSc, AIIC

*Vice-President, Property Insurance and Secretary*



A graduate of McGill University (Bachelor of Science, 1949), Stewart Ayres has worked in the general insurance business for more than 30 years. He joined the Canadian Underwriters' Association as a Special Risk Inspector in 1956, then progressed to Supervising Inspector in the Quebec Branch and Manager of the Mid-West Branch before transferring to Head Office in Toronto in 1974. Prior to his recent appointment as Vice-President, Mr. Ayres served as Manager of the Head Office Property Insurance Department. Mr. Ayres is responsible for developing a nationwide rating schedule for fire insurance, and he played a major role in the development of IAO's RAPIDSCAN computerized underwriting information system.

## HERBERT J. PHILLIPS, FCAS, FCIA

*Senior Vice-President and Chief Actuary*



A graduate of Boston College, Herbert J. Phillips began his insurance career in 1952. Over the years, he progressed in responsibility to the position of Vice-President and Senior Actuary of a major worldwide insurer in 1968. Mr. Phillips joined the Insurers' Advisory Organization in 1976 as Chief Actuary and was responsible for building the actuarial department. He was appointed Vice-President in 1977. Mr. Phillips has been instrumental in developing improved statistical plans and has made a major contribution to the refinement of rate-making methodology in Canada.

## L. F. R. 'ROY' GRANT, FCCA, ATII

*Vice-President and Controller*



A business and accounting graduate of South West London College (Great Britain), Roy Grant joined IAO after serving five years in general management and finance positions in the West Indies, and nine years as a senior auditor with a national firm of chartered accountants in Canada. Since 1977, Mr. Grant has served as Controller of IAO, and during that time, he has been responsible for installing improved accounting systems and controls, new budgeting procedures and a new management information system.

## WILLIAM G. SEATON, AIIC

*Vice-President, Regional Operations*



William Seaton began his business career with IAO's predecessor, the Canadian Underwriters' Association in September, 1950. Since then, he has held successively more responsible positions including Property Department Superintendent and Ontario Regional Manager. Mr. Seaton was appointed Director, Regional Operations with responsibility for all IAO branches across Canada in 1979. He assisted with the design of the RAPIDSCAN computerized underwriting information system and is responsible for its implementation in IAO's regional offices.

## A. JOSEPH McCABE, BA, MA (Ed)

*Vice-President, Human Resources*



A. Joseph McCabe, IAO's new Vice-President, Human Resources holds a Bachelor of Arts (Psychology) degree from the University of Windsor and a Master of Arts (Education) in Adult Counselling and Guidance from Niagara University. He also holds certificates in Personnel & Industrial Relations and Human Resources Development. Mr. McCabe joined IAO in November, 1975 and is responsible for developing, recommending and implementing the organization's human resource policies and practices. Recent projects have included a computerized personal statement of employee benefits.

## JAMES W. McCALLISTER, FIC

*Vice-President, Automobile & Casualty Insurance*



Following graduation from De La Salle College (Oaklands) in 1951, Jim McCallister joined the Norwich Union Insurance Group in the Automobile Department where he rose to the position of Automobile & Casualty Manager for Canada. Since joining IAO in 1976 as Manager, Automobile and Casualty Department, Mr. McCallister has been responsible for the development and promulgation of innovative advisory rating programs and procedures for all classes of automobile and casualty business.

## DALE B. WOOD, BSc, P.ENG.

*Vice-President, Loss Control Engineering Department*



Dale B. Wood graduated from the University of Saskatchewan with a Bachelor of Science Degree in Mechanical Engineering in 1947. He joined the Canadian Underwriters' Association in 1960 as Manager of the Oil and Petrochemical Department responsible for inspection, rating and insurance underwriting reports for oil and petrochemical properties across Canada. In February 1978, Mr. Wood became Manager of IAO's Loss Control Engineering Department with major responsibilities including the development of fire prevention and protection practices, and engineering standards for inspection personnel across Canada. He serves on the committees of many standards-writing organizations and also manages the Nuclear Insurance Association of Canada.



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evident that a sudden reversal had taken place. The frequency of loss had shot upward, the previous underwriting profit was erased and the industry posted a statutory loss of \$16 million.

As IAO's 100th anniversary year drew to a close it was apparent that it was a year in which another substantial underwriting loss would be suffered. In spite of the underwriting results of the early 1980s there was renewed hope within IAO. The organization had weathered a particularly difficult period and was facing the future with more confidence. The demand for underwriting information was increasing and service was being delivered on a more cost effective basis than ever before because of a significant improvement in productivity. The organization had responded to the so-called 'information age' by developing a highly effective computerized information distribution system which enabled members to draw information

from IAO's database through computer terminals. This new system, known as RAPIDSCAN (Remote Access to Property Insurance Data across Canada), was the first of its kind in the world and was the object of a great deal of pride.

RAPIDSCAN provided immediate 'on-line' access to a fire rate data base, underwriting reports and risk improvement information. This electronic method of disseminating rating and underwriting information represented a great step forward, "making the microfiche appear as obsolete as the rate cards it replaced." Users found the new computerized version much faster than the earlier systems in providing instant access to all of IAO's current fire rating information, available in printed hard copy or displayed on a CRT screen.

Advantages of the new system included reduction in filing space required in both IAO and mem-

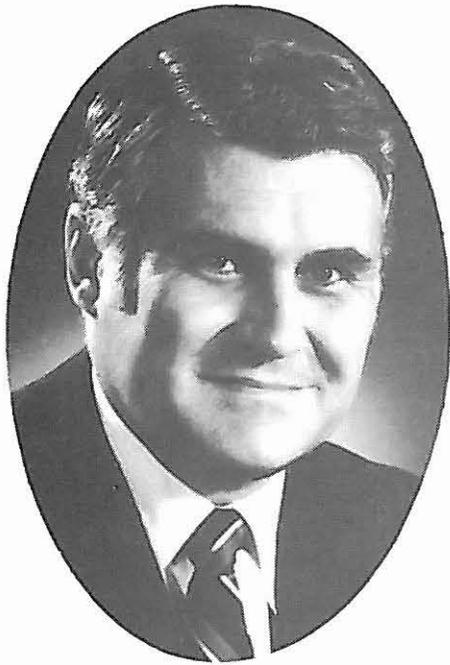
bers' offices, elimination of the cost of printing underwriting reports in the conventional manner and a reduction in the number of microfiche sets required by members. This innovation improved underwriting productivity and performance by providing better information faster.

The early 80s also signalled an era of renewed emphasis on cost controls. To ensure that IAO continued to provide services that were relevant to members' needs and to ensure that the organization remained cost effective, the members appointed a Task Force on Membership Services to conduct a study and make appropriate recommendations to the Board of Directors.

The report of the Task Force, which was placed before the Board at its March 1981 meeting, concluded that IAO's services were meeting the demands of members and were cost effective but recommended that greater flexibility be allowed in the way



*Neil Nason instructing at IAO's School of Loss Control Technology. Students range from agents and brokers through company personnel to risk managers and others interested in the technical aspects of loss control. (Aug. 1983)*



**L.J. Rawlinson, IAO Chairman, 1983-84**

services were available to members. It also recommended that new services be investigated and that the assessment system of recovering the costs of services for class rated risks be changed to one consisting of a combination of flat charges plus an assessment rate. This was done in recognition of the fact that the assessment system was unfair to the large companies who were

bearing the largest portion of the costs even though they were the very companies whose in-house facilities enabled them to rely less heavily on the services provided by IAO.

The report also recommended that a partial system of user fees be introduced for commercial property inspection and rating services. The basic principle espoused was that the cost of gathering information and placing it into the data base would be borne by all members in proportion to their premiums written. The cost of retrieving the information would be on a user fee basis.

Another important recommendation of the Task Force was that assessment relief should be granted on certain classes of property, inland marine, liability and specialty lines of business on which IAO offered no services.

Finally, it was recommended that negotiations be entered into with the Insurance Bureau of Canada for the purpose of bringing about a rationalization of the services of the two organizations so as to avoid duplication of services, establish a closer working relationship and reduce operating costs.

The report was approved at a subsequent general meeting of members.

The future outlook was well summarized in an article which appeared in the August 1983 edition of Canadian Insurance:

"The stormier the seas, the more the ship needs a good compass course and IAO is doing everything it can to influence insurers to take action. It has an important role to play in providing underwriters with the information they need to make intelligent decisions on risk acceptance, risk measurement and risk improvement. The soft market weakens the impact of their advice but knowing that eventually "something has got to give" they continue to develop high quality technical resources."

In the words of its president: "The survival of an organization like IAO depends upon its ability to respond to the needs of its members. For at least the foreseeable future, this means leadership through excellence...excellence in the development of insurance technology, leadership in the use of office and inspection technology, total concentration on cost-effectiveness and just plain good management."

The second century will provide proof of the foundation laid down — often in the midst of turbulence — during the first.



**MEETING OF CENTENNIAL BOARD OF DIRECTORS, 1983**

Back row, left to right: J.B. Murch (Phoenix); H.B. Greer (Commercial Union); R.J. McCormick (Chateau); L.G. Latham (General Accident)  
Front row: Norman Curtis (Guardian); Jean Robitaille (Royal); L.J. Rawlinson (Travelers) and G.A. Chellew (Crum & Forster)

Missing from photo are J. Baillargeon (Laurentian), W.W. Ward (The Continental), J.W. Evans (Sun Alliance), J.L. Kirschbaum (Fireman's Fund), C. LeBlanc (Desjardins Group) and J.N. McCarthy (Halifax).