CHAPTER X

A FRESH START

(1970-1980)

CUA headquarters were located prior to 1976 at 36 Toronto Street, in the heart of Toronto's historic commercial district.

The 1970s began much as the last decade ended, with an unstable insurance market, relatively small underwriting losses and the future of the Canadian Underwriters' Association anything but clear. Resignations from association ranks continued as some companies felt that conforming to prescribed premium rates, agents' commissions and policy forms put them at a disadvantage in the market place. In commenting on the precarious position of the CUA, a **Financial Post** article written early in the decade, stressed the importance of its survival to the industry:

> If more companies do leave, it's not only the CUA that will be the loser; the whole industry will suffer. In an industry so heavily dependent on statistics and averages, there will be immense disorder without a rate-making and risk inspection authority...There is little doubt the wild gyrations in the profits and losses of the past decade or so would look tame compared with what may be expected if the stabilizing influence of the CUA vanished...For the good of the insurance industry – which is to say for the good of an economy which depends on its services and protection – the CUA should permit the degree of flexibility required to keep its present members and, possibly, attract new ones. (**Financial Post**, July 4, 1970.)

Minor underwriting losses in the first years of the decade grew to over $140 million by 1973. This disastrous trend instigated decisive action – the CUA was dissolved the following year, replaced by the Insurers' Advisory Organization of Canada. This represented a major shift, from a rigid, rule-oriented association to an organization whose primary function was to provide advice and information. Companies were no longer required to adhere to pre-determined rates, commissions or forms. IAO's mandate was to provide members with benchmark rates, supporting statistical data, and other information. What the companies chose to do with this information was entirely up to them. Although this represented a radical change in the general insurance field, the transformation was not sufficient to stem losses in the unprofitable decade that lay ahead, by far the worst on record for general insurance companies.

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In its coverage of the CUA Annual Meeting in 1970, **Canadian Underwriter** reported that "with a dispatch that must be unequalled in its history, the Canadian Underwriters' Association sped through the business sessions of its Annual Meeting in one morning." Retiring President R.H. Stevens referred to the terrible losses of 1969 and admitted he could foresee no abrupt change in the trend, since premiums remained seriously inadequate, despite some upward adjustments. He added that the reluctance of industry officials to make long-term projections presented another difficulty. The old system of basing estimates of rates on past experience had outlived its usefulness:

> Our whole industry has traditionally looked over its shoulder at past performance, and used this information to establish premiums. This system worked reasonably well when times were stable and the pace of change was slow. The ingredient in our pricing which is absolutely necessary in these unsettling times is the exercise of judgement. Managers become almost redundant if judgement is unnecessary and decision is relegated to the manipulation of figures by computers.

Stevens then turned his attention to the recurring question of increased flexibility within the association. He reported that certain progressive steps had already been undertaken. If more changes were to be forthcoming, constructive ideas would have to be tabled and discussed by CUA members. Following the presidential address, there was a lengthy and informal discussion on this topic.

With increased government involvement, automobile insurance in 1970 was one of the liveliest sectors in the industry. Much discussion centered around the recent introduction of government automobile insurance in Manitoba by the New Democratic Party. Manitoba's decision to join Saskatchewan in establishing an insurance office caused much concern among CUA members. N.M. Manning, who served as president in 1971-72 commented:

It is true that the New Democratic Party automobile insurance plan in Manitoba has simplified the present rating system but the simplification results in the careful drivers paying more for their insurance and the careless driver paying less... Provided the government operation is not subsidized from public funds, private insurers are convinced that they can do the job as cheaply and give the service which some levels of the government have failed dismally to provide.
(Financial Post, June 12, 1971.)

A number of other important developments in the automobile field occurred about this time.

The CUA presented a brief during the Prince Edward Island Automobile Inquiry, another in the series of government-sponsored investigations. Alberta passed legislation requiring government approval for rate increases. The Ontario government established a committee to study automobile insurance and make recommendations on possible changes in law and practices, including potential no fault measures.

N.H. Manning, CUA President, 1972

M. W. Donald, CUA President, 1971

Donald McKay, CUA President, 1973

In 1970, controversy emerged over the diversity of opinion developing within the ranks of the CUA concerning the implications of handling three and five-year accident free drivers' insurance. President Merlin W. Donald, metaphorically described the inability of association members to reach a consensus: "The CUA mounted its horse and galloped off madly in all directions..." The experience was not without its positive side, as it demonstrated how much the industry relied on the leadership of the association for stability. Donald's comments about market expectations and the inability of the CUA to reach unanimous decisions underscored a major problem that had troubled the association for a number of years. Given the inability to establish a clear course in policy, perhaps increasing flexibility was the only route open to the CUA.

At the annual meeting in 1971, Donald emphasized the changes that had occurred in the association and speculated on its future:

We can probably agree that the Association is, in practice, quite a different body from the one that existed even ten years ago. We are not standing quite as still to be shot at, we are smaller in numbers, have the advantage of closer contact, feel the need to be creative in a competitive world and are very conscious that the INDIVIDUAL COMPANY MUST DEMONSTRATE ITS OWN RESPONSIBILITY in the market rather than depend upon any CUA symbol. Despite that point, or perhaps because of it, CUA promulgations still attract widespread credibility and influence ... in the final analysis I am glad to observe that members have recognized the CUA for what it is, a voluntary grouping of underwriters who know that their combined talents and experience will provide necessary public services and a foundation of expertise capable of minimizing possible chaos.

He summarized the position of the CUA at the outset of the decade:

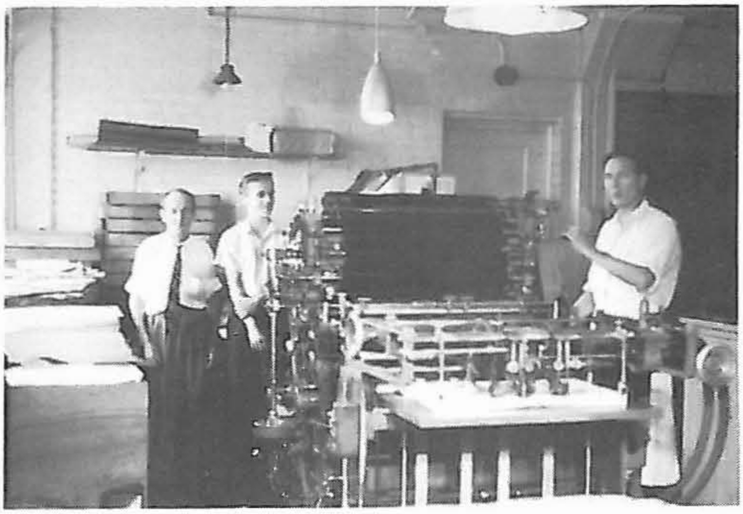
We want and need the services of the CUA which would have to be rebuilt if they were destroyed.

We have the talent to compete but want to avoid the type of widespread freedom which would undermine the structure and paralyze the official's work.

We must have the courage to change more where such action is warranted.

We can live closely together in some fields and cooperate effectively in others.

Such compromise does not demean the organization nor threaten its permanence. In short, there have been and must continue to be evolutionary developments reflecting current sophistication within our industry.)



Production of fire insurance plans was carried on by the CUA for sixty years up to 1974. Top view – draughtsmen creating plans. Centre view – Colouring is meticulously applied to plan sheets. Lower view – Offset work in the print shop.

Two major concerns that emerged in 1971 dominated discussion at the June 1972 CUA annual meeting. The first was the need to return the industry to a 'profit situation' within a stable market environment. The second was the growing need to improve communications in and outside the industry. President Norman Manning stated:

> ...nobody likes working for a losing team. Failure to make a profit leads to a shortage of market and it is this state of affairs which creates a poor public image more so than the price we place on our product.

Manning lamented that the association had achieved little during his term in office. The CUA barely managed to maintain its share of the market, falling from 26.53 percent in 1970 to 26.43 percent in 1971. He took some pleasure in reporting a 3.3 percent difference in the loss ratio between the CUA and the industry as a whole (64.18 percent and 67.48 percent respectively).

However, the downward pressure on rate levels caused a $53 million loss in 1969, $8 million in 1970 and $17 million in 1971. Manning promised his listeners that the "CUA will spare no effort, in spite of opposition from the government, from the Agents, from the ill-informed, to set rates at levels which are justified by credible statistics and which will maintain a stable market environment."

One of the main strategies in the CUA plan of action was to push for sweeping reforms in the automobile insurance system. In CUA briefs to the governments of both Quebec and Nova Scotia, its representatives recommended that in all automobile accidents, the right of legal action of one driver against the other for damage to vehicles be eliminated. Manning explained the importance of this change:

> The resultant savings in adjusting and legal expense would then be used in providing Collision coverage, as a mandatory part of the new standard automobile policy. A deductible of $100 or $200 would be maintained as a safe driving incentive, but in all cases the policyholder would receive part or the whole of this deductible from his own insurance company depending on his degree of fault.

In addressing himself to the question of communications, Manning reported that during the year, relations between the CUA and the news media had improved. He pointed out that communications and liaison between the CUA and the Canadian Federation of Insurance Agents' and Brokers' Associations had also improved. Manning then turned his attention to the question of internal communications. Since a majority of the member company head offices had moved to Toronto, some Quebec members complained they felt abandoned, with little opportunity for input into major changes implemented by various executive committees. This problem was reduced by a proposal to schedule more meetings in an effort to promote greater cooperation with those formulating association policy.

Another nagging communication problem was touched upon by John A. Todd (Manager's Advisory Committee of British Columbia). He complained that members of his committee had occasionally read of new positions adopted by the CUA before being officially notified of such changes. Todd recognized that the problem was one inherent in Canadian geography, with the decision-making centre in the East, remote from the local managers in British Columbia. He continued:

> The general feeling in British Columbia is one of looking back over the mountains and feeling that eastern people are eastern people. I believe strongly that we should have more involvement of local people in the decision-making process. In other words, in British Columbia, we should use our local people in reaching the decisions that will affect us, or at least be privy to the decisions, so they can, in turn, act upon them.

At the 1973 annual meeting held in Bracebridge, Ontario, the CUA celebrated its 90th anniversary. Incoming President J.M. McFadyen took the opportunity to pronounce "there is still plenty of life in the old girl yet." But the 'old girl' still had her share of problems in an industry which reported an underwriting loss of $46.5 million in 1972. Retiring President D.D. McKay expressed concern over the shrinkage in the association's share of the market in response to an agent backlash. He remarked:

> It seems clear to me that the Canadian Underwriters' Association cannot continue indefinitely with its share of the market being whittled away. The 1972 share has been stated as 26.25 percent of the total

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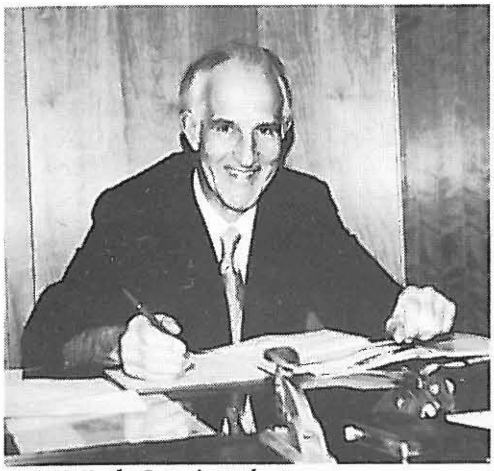


C.E. McKush, Superintendent, Property Department, 1972

C.P. Wright, Chief Engineer, and new members of the "Retired Club", C.E. Bingham, Property Department, E.J. Parke, Superintendent, Special Risks, H.G. Godard.

Doug Hurst, Superintendent, Special Risks, and Doris Palmer, Service Department, Oct. 1972

Vincent Dowling, Mailing Department, 1970

Group at the Manitoba Club, May 31, 1972: C.P. Wright, Lil McKush, Jean Budden, Doris Palmer, George Budden, Otto McKush, Vie Parker, J.C. McPherson, Muriel Bingham, Clint Bingham, Pat McPherson, Tom Hanson.

market...this was 26.43 percent in 1971 and 26.53 percent in the previous year...To add salt in the wound, the basic cost of doing business which is accruing to CUA members has now become out of proportion to their share of the business....

McKay also remarked on the negative public perception of the CUA regretting that, "CUA with its 26 percent share of the market gets 100 percent of the criticism of anything and everything in the general insurance industry." Misconceptions about the role of the CUA dated back to its foundation in 1883 and found expression through various inquiries into its operation.

On the positive side, loss ratios for association members ran almost three percent better than the rest of the companies. General Manager Tom Hanson reported that the CUA had inspected 38,667 mercantile, 5,002 manufacturing and 18,872 special risks in 1972. CUA also continued to provide inspection services for public fire protection facilities. 124 municipalities had been surveyed and recommendations made, a sizeable increase over the 40 municipalities inspected the previous year.

McKay informed members that some company representatives had suggested constitutional amendments allowing non-members to participate in the CUA without being subject to stricter rules and regulations. He believed member companies would benefit from an increased membership base and companies previously outside CUA would gain from the services and experience offered by the association. However, major constitutional changes were not made until the following year.

To add to the problems of an old association struggling for its existence, early in 1973 a newly-formed office workers' union decided to make CUA's Ontario Branch its first target for organizing insurance employees. A card-signing campaign in February and March culminated in an application to the Ontario Labour Relations Board for automatic union certification. This was denied. A date was, however, set for a vote of employees to be held in October 1973. The defeat of the union surprised many observ-

The future of CUA was uncertain, salaries were below the average of the industry, fringe benefits were almost non-existent and the working environment was antiquated.

W.G. Seaton, then Ontario Branch Manager, recalls that after the ballots were counted, union officials and the labour board representative supervising the vote were astonished at the outcome. "They had underestimated the extent of employee loyalty to the association and its management. At the time, there were those who gave much of the credit for the union's defeat to the lawyers (the members were possibly influenced by the size of legal fees). Certainly the legal advice was excellent, but in the final analysis it was the ballots cast by loyal and dedicated CUA employees which made the difference. They had faith in the ability of management and the member companies to solve the larger problems of the association and provide a secure future. These same people and their counterparts in other branches of the association formed the nucleus of staff for the new organization which was formed the following year, and they have continued to contribute much to its success."

By 1974, it had become obvious the industry – and the CUA – were in deep trouble. The association in its current form had simply outlived its usefulness, and the only way out was to radically amend its format to allow members to compete more effectively with non-tariff companies thereby restoring some measure of stability to the market. There wasn't a single dissenting vote in June, 1974 when CUA members agreed to dissolve their 91-year-old organization.

This historic event, which occurred during the annual meeting in Montebello, Quebec, marked the end of tariff insurance in Canada. Following formal approval from the federal government, a new and much enlarged body called the Insurers' Advisory Organization of Canada rose to replace the defunct Canadian Underwriters' Association.

But the transition from CUA to IAO didn't just 'happen' overnight. The process had been in the works for years.

J.M. McFadyen, last President of CUA, 1974

CUA Council 1972–73, Annual Meeting, Manoir St. Castin, Lac Beauport, Quebec, June 8–9, 1972.

Standing, left to right: *F.W. Pearson (Commercial Union); D. Damov (Travelers); A.H. Radden (Phoenix of London); R.H. Stevens (Norwich Union); E.A.W. Paterson (Sun Alliance & London); M.W. Donald (Hampson); F.W. Bailey (for D.B. Martin – Royal).*
Seated, left to right: *N.H. Manning, Past President (Guardian Royal Exchange); K.W. Evans, 2nd Vice President (Reliance of Philadelphia); D.D. McKay, President (Canadian Surety); J.M. McFadyen, 1st Vice President (Hartford); T. Hanson, General Manager (CUA).*

E.A. 'Pat' Paterson was a kingpin in the creation of IAO. Then President of Sun Alliance and a former president of CUA, he chaired a steering committee in 1973 that brought together three groups that in previous years had barely tolerated each other. This potentially volatile mix included CUA representatives, members of the previously mentioned Independent Insurance Conference and delegates from non-aligned companies (those that belonged neither to CUA or IIC.)

"It was a traumatic time, particularly for CUA members. We knew fundamental changes had to take place, but each company and each representative of each company had different views about what should happen. Finding a suitable route through the middle of the maze took a lot of talk - and a lot of give and take," recalls Paterson, who became founding chairman of IAO in 1974.

And, he adds, "The whole process of replacing CUA actually took much longer than the time our working committee spent on it. It was really a 'live' issue for about 10 years prior to the founding of IAO."

Walter Atkinson, former president and still (at the time of writing) chairman of the Fireman's Fund – and one of the Independent Insurance Conference's representatives on the working committee to establish IAO – recalls there were previous attempts by CUA members and non-members alike to find common ground. "A few years before the advent of IAO, several of the larger company members of the IIC held talks with a CUA committee to explore the possibility of 'Commercial Lines' membership in CUA, but nothing came of these conversations."

But, from the vantage point of Atkinson and many others, the writing was on the wall ... something had to give. "It was becoming obvious in the early seventies that the CUA was nearing the end of its time. Membership was diminishing and the cost was becoming prohibitive."

In reality, the seeds for a new organization had been sown decades earlier. As far back as anyone could remember, there was some dissatisfaction with CUA, especially with the tariff rates that had for so long constricted members' ability to compete with the independents. But the communications impasse between the non-tariff companies and CUA members had proven insurmountable.

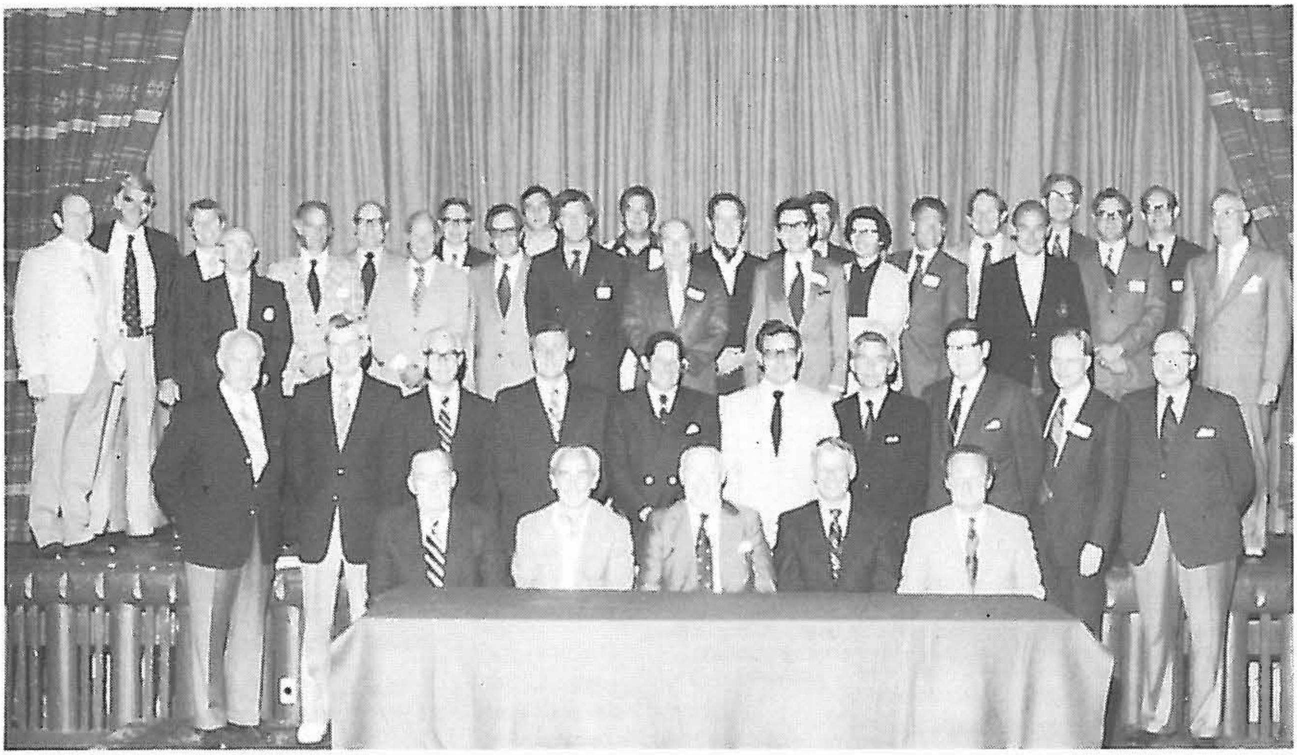
J.E. (Ed) Burns, chairman of the board of The General Accident Group, and a past chairman of both the Insurance Bureau of Canada and IAO, remembers the deep-seated antipathy between 'tariffs and non-tariffs' when he entered the property-casualty business in 1937. "It became quickly apparent there was a long-standing and serious feud between them," recalls Burns, who was also president of the IIC in the late 1950s. "It was more emotional than rational, and only the retirement of important management personalities could preface reasonable discussions to yield a new relationship...and a new association."

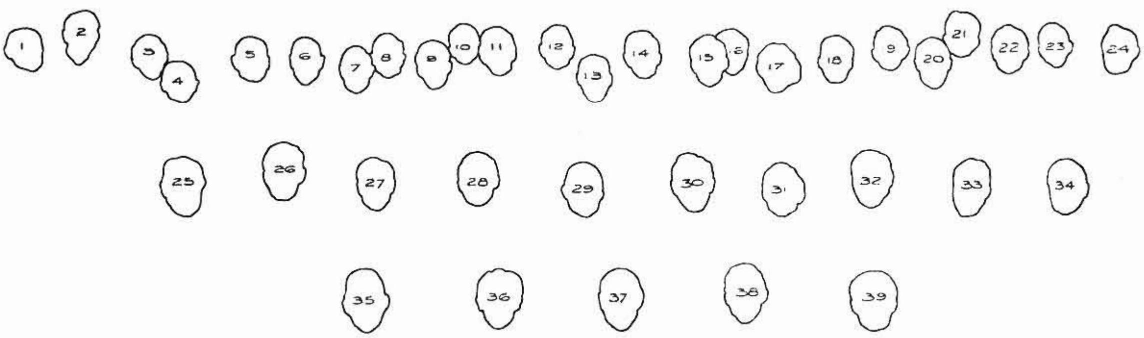
H. Douglas Coo, president of the CUA during its 75th anniversary year in 1958, and chairman of the Hartford Insurance Group until he retired in 1969, also remembers the time when "managers of CUA companies would cross to the other side of the street if they saw an IIC member coming".

Positions softened over the years, until necessity created the circumstances that forced the age-old factions to sit down and bargain first for IBC, and a decade later, for IAO.

Personalities might have continued to undermine the move toward IAO, but CUA decided in 1973 to engage the services of Booz, Allen and Hamilton, a New York-based management consulting firm specializing in insurance to prepare an operating guide for the new organization. This firm had been instrumental in establishing the Insurance Service Office (ISO), an advisory organization for American insurance companies. A report completed in June 1974 outlined what prospective members of IAO expected:

Christmas 1972 gathering in the CUA Board Room at 36 Toronto Street. Left to right, Maureen Wilson, Jim Clouston, Alan Boak, Marg Ronco, Tony Reynolds, Tom Hanson, Don Baird, Russ Drake, Marg Glover, Hans Kratz, Esther Daniels, Dinty Robinson.





***FINAL ANNUAL MEETING OF THE CUA**, Montebello, Quebec, 1974*

1. W.R. Crawford, Royal; 2. F.G. McGee, Public & Industrial Relations; 3. R.J. McCormick, Reliance of Philadelphia; 4. G.H. Plewman, Royal; 5. A. Chamberland, General Security; 6. S. Allard, Royal; 7. J.A. Parker, U.S. Fire (Crum & Forster); 8. R.W. Seekamp, U.S. Fire (Crum & Forster); 9. J.P. Savard, Commercial Union; 10. P.W.G. Hall, Guardian; 11. D.H. Bridgman, Commercial Union; 12. N. Curtis, Guardian; 13. J.L. Miller, Guardian; 14. G. MacKay, Travelers; 15. G.J. Lynch, Guardian; 16. J. Berg, Travelers; 17. I.D. Murray, Reliance of Philadelphia; 18. S.R. Drake, CUA; 19. G.J. Wedgewood, Barwood-Meehan & Company; 20. A.H. Radden, Phoenix of Canada; 21. H.C. Hartling, Hartford; 22. D.S. Martin, ULC; 23. F.D. Hildebrandt, Booz-Allen & Hamilton, Inc.; 24. J.F. Reynolds, Canadian Surety; 25. M.W. Donald, Maryland Casualty; 26. B.C. Gordon, U.S.F. & G.; 27. F.W. Bailey, Royal; 28. H.B. Greer, Commercial Union; 29. K.W. Evans, Ins. Corporation of Ireland; 30. J. Sylvain, Maryland Casualty; 31. J. Campbell, Norwich Union; 32. J.B. Murch, Phoenix of Canada; 33. T. Hanson, CUA; 34. T.F. Cartwright, Hartford; 35. E.A.W. Paterson, Sun Alliance; 36. D. Damov, Travelers; 37. J.M. McFadyen, Hartford; 38. J.D. Cassidy, Continental; 39. P.R. Dugdale, Guardian

History in the making: the vote being taken at the General Meeting in June, 1974 to dissolve CUA and create the Insurers' Advisory Organization.

The companies generally stressed the need for a stronger staff capability in the IAO than presently exists in the CUA...the CUA has lost a number of key staff members in recent years, reducing the overall technical capability. Loss of the actuary and engineering positions in the field have been particularly critical. The companies believe that the IAO staff capability must be significantly improved over present CUA staff.

According to its mandate, IAO was not simply the old association with a new name. It represented the creation of an entirely new organization that would be much different in character than its predecessor, while perpetuating many of the valuable functions that were part and parcel of CUA. IAO's main objective was to provide its members with information...with the tools necessary to compete successfully in the insurance market. This, in turn, would promote greater stability within the industry — at least, that was the original hope.

A message from

Mr. T. Hanson, the General Manager

And now — I.A.O.

The letters recently written to the staff by The President, Mr. McFadyen, have reported the progress being made in restructuring CUA into the larger Insurers' Advisory Organization (IAO). In the many discussions in which I have been involved leading to this development, I have been impressed by the genuine concern of the companies for the people of CUA: that all of us should have the incentives and rewards of participation in the changes that are underway.

The familiar initials CUA are apparently to go but I believe that IAO may well mean for its staff new

Interest — Adventure — Opportunity

and I look forward to each one continuing their own useful part so that IAO may be as important in the insurance community as is planned.

Tom Hanson

A message to IAO Staff from the General Manager, marking the organization's inception in 1974.

CUA President J.M. McFadyen said IAO "will have a broader base of operations and will continue to expand all present CUA functions of rating, inspection, statistics, wordings, fire and accident prevention, education and research". Most striking was the absence of rules governing rates, forms and commissions, one of the basic pillars of the old CUA.

The need to restore stability to the insurance market had become painfully apparent after the disastrous results of 1973 during which the industry suffered a record-setting loss of $141 million (the previous high had been $79 million in 1963). Discussing reasons for these unsatisfactory results, McFadyen commented:

> ...the results are a culmination of events that have been threatening for many years. Due to our inherent Industry problem, a relatively small market (about $3 billion) and an excessive number of Companies, Agents and Brokers, an irresponsible underbidding pattern has emerged, particularly in the Property classes. No one Company or Broker started this war, however a number continue to be guilty of this irresponsible behaviour in the market place...It appears that we are going to continue this forbidding and dangerous trend until the blood-letting removes those responsible.
> (Canadian Insurance, June 1974.)

Or, as one company manager attending the 1974 Annual Meeting summed it up: "What the new organization will do is to give me the opportunity to commit financial suicide, if I so decide, in the full knowledge of what I am doing".

High hopes surrounded the inception of IAO. Former members of CUA anticipated that, at last, a way had been found to equitably share the costs of providing important technical services to the industry.

Former members of the Independent Insurance Conference and totally unaffiliated companies hoped the services provided by the new organization would meet their needs for good underwriting information on the more complex risks that require the expertise of specialists.

With the possible exception of the brokerage fraternity, everyone looked to the new IAO for leadership and the impetus – through the sheer weight of its technical expertise – to move out of the financial doldrums into an era of greater stability and prosperity.

In the 91-year history of the CUA, it had proven repeatedly that rules and regulations could not control the competitive spirit. But the new organization, with twice the membership of CUA, brought hope that improvements in the quality of statistical data and modernization of ratemaking methodology would bring such a high measure of credibility to the

1ST ANNUAL MEETING,
IAO Loss Control Inspection & Engineering Department,
Toronto, September 29 – October 3, 1975.

Back row, left to right: ***Doug Stewart, Winnipeg; Tim Collinge, Calgary; Wayne Beuree, Halifax; Lionel Forde, Montreal; Stew Ayres, Head Office; Ted Scott, Head Office; Jack Higgins, Saint John; Don McBride, Saint John.***
Front row, left to right: ***Dan White, Toronto; Sam Hasbani, Montreal; Don Grant, Halifax; Eugene Marotta, Head Office; Don Ostler, Head Office; Gerry Shires, Vancouver; Bill Abbott, St. John's; Dave Montador, Vancouver; Isaac Lallouz, Toronto; Doug Saunders, Charlottetown; Doug Hurst, Winnipeg.***
Absent: Don Baird, Head Office; Frank Watson, IAO School (H.O.); Dale Wood, Toronto.

advisory rate-making process that competition based on price would be contained within reasonable bounds.

For the first time in more than half a decade there appeared to be a reasonable chance of returning to profitable underwriting results.

But faith in the new organization wasn't universal. Some insurers simply did not think it would work. Others doubted that the concept was sound, and still others weren't sure the members would sustain their commitment to the new concept when favourable underwriting results returned and competition once again became vigorous. There was also some hesitancy about the ability of the staff to respond to this new mandate in a radically different operating environment.

Hopes and fears aside, the transition moved forward. By moving from a regulatory to an advisory role, IAO rectified a fundamental flaw inherent in its predecessor. Because the CUA operated like a closed shop, unable to share information with those unwilling to submit themselves to the rules and regulations, there was continual speculation about the exact level of rates.

But the new organization was to be different than its predecessor in more ways than simply making the change from a 'tariff' setting body to an advisory organization. As indicated in the Booz, Allen and Hamilton Report, members had expressed a desire to reduce their involvement in the day-to-day running of both the technical and management functions of the organization and to strengthen staff capability in these areas.

Steps were also to be taken to modernize operations and improve efficiency and effectiveness. The recommended and approved organization structure and staffing plan included the appointment of the first full-time president who was to function as chief executive officer, and each of the head office departments was to be headed by skilled professionals and specialists. The new president, Edward F. "Ted" Belton, was recruited from outside CUA ranks, a choice indicative of the desire to set the organization on a new course.

The new management of the organization also had a strong mandate to improve both administrative and operating efficiency so that services could be provided at a more reasonable cost than had previously been the case.

Since the IAO steering committee boasted more representatives from companies outside CUA than within, membership was obviously not going to be restricted to former 'tariff' companies. In fact, members of the Independent Insurance Conference voted early in 1974 to wind up their organization, and they were now free to join IAO.

By the time the June, 1974 annual meeting arrived, the steering committee had received commitments from 28 groups or companies indicating their intention to join IAO. These groups represented a premium income of $855 million in 1973, roughly one-third of the total fire and casualty market.

Since there was a brief period between the formal closure of the Canadian Underwriters' Association and the official formation of the Insurers' Advisory Organization of Canada, CUA members elected officers to serve on an interim basis. When IAO was proclaimed, they resigned and a new election was held.

The early months of IAO were marked by caution on the part of its membership. Even though the Booz, Allen and Hamilton report called for the decreased involvement of members in the day-to-day running of the organization, they kept a finger very close to the pulse. The new Board of Directors met monthly for a period of time in a special effort to keep in touch with members' needs and opinions.

After several of these open sessions, it became obvious the new IAO management team was taking hold effectively, and demand for services was increasing rapidly, aided by a tightening market.

A strong indication of the Board's growing confidence was its decision to meet only quarterly, and leave interim policy decisions to the Executive Committee.

For its part, IAO assumed the staff of CUA and continued to provide municipal inspections and other safety-related services, including specific risk inspection and rating on a solely advisory basis. Its mandate also called for the creation of an actuarial department to provide badly-needed improvements to statistical plans and ratemaking methods. Shortcomings in these functions were thought to have made a major contribution to the underwriting losses of recent years.

From an economic standpoint, the Insurers' Advisory Organization was launched during an extremely difficult time in the history of general insurance in Canada, when conditions were similar to those that gave rise to the old CFUA 91 years earlier. Insurers were suffering through a prolonged unprofitable cycle, and 1974 was shaping up as another bad year. Willingness to address the difficulties with a new industry organization was not, unfortunately, sufficient to reverse severe economic trends in the industry.

Despite wholehearted support for IAO, the economic roof nearly caved in during its first year of operation. The underwriting loss of 1974-75 amounted to $283 million and triggered a market crunch that sent the industry into a near panic. Poor underwriting results coupled with a decline in investment income led to the first negative cash flow in the industry in recent history.

The reaction was quick and extreme: twelve companies closed; others cut back liabilities by slashing the size of their portfolios; underwriters got tough, and rates went up far and fast. Agents and brokers found it difficult to place many risks. Some agents were cancelled by every company in their office.

Following the disastrous results of 1974-75, market conditions began to improve. Substantial premium increases in 1975 and 1976 produced an unaccustomed underwriting profit of about $72 million. This recovery was short-lived and by 1979, the industry again showed huge deficits as the year ended with an underwriting loss of over $185 million.

In June 1975, the Insurers' Advisory Organization celebrated its first birthday, with President Belton reporting: "It was a year of many challenges, much excitement and heavy workload." He complimented the staff at all levels for their willingness to persevere with the necessary work and frequent deadlines. 'Pat' Paterson, retiring chairman of IAO, reported the organization had made major strides in establishing its credibility and vitality.

The transition from CUA to IAO progressed smoothly. While the former body had 23 general members and 20 branch members, the latter began with 46 members. During its first year, six new members joined and seven resigned, leaving a net membership of 45. Of the seven resigning members, six had withdrawn from the country and the seventh took its leave as a cost-saving measure. Out of the 45 groups belonging to IAO, 34 of the 45 members were full members, seven were commercial division only, and four personal division only.

The top priority during IAO's first year was to implement several recommendations contained in the Booz, Allen and Hamilton Report. This meant developing the organization structure, staffing and financial plans, and mobilizing resources needed to perform as a professional insurance inspection and rating organization.

IAO SCHOOL OF LOSS CONTROL TECHNOLOGY 'NEWS': On the week of 20th September, 1976 a most distinguished group attended the first "Liability & Crime" course given at the School of Loss Control Technology, in Scarborough, Ontario.

Left to Right:
S. Campbell
D.B. Grant
J. McCallister
W. Beuree
D.H. Saunders
K. Gilker
J. Morin
W.G. Seaton
J. Parson
R. Webber
N. Nason
J. Ivison
D. White
T. Slattery
E. Anderson
R. Tanaka
D. Hurst
J. McDonald
D.R. Montador
G.M. Walsh
T.G. Reynolds
R.V. Speares

In their report, the consultants pointed out that interviews with insurers expressing interest in joining IAO had pinpointed two basic needs:

(1) A stronger staff capability for actuarial work, ratemaking research, field engineering and inspection, and public relations.
(2) Payment for IAO services on the basis of actual use by members.

Belton reported all recommendations had been carried out according to the timetable established, with the exception of the difficult problem of recruiting an actuary with ratemaking experience. He added, "In the course of getting IAO off the ground and through its first year of operation, the need for many refinements, adjustments and improvements had become obvious."

Inspection activity increased dramatically in IAO's first year, as a result of rising membership and more thorough underwriting by members determined to recover from a lengthy and debilitating economic cycle. The total number of inspections soared to 66,300 from 51,036 the previous year. Although this represented an increase of 29.9 percent, the actual manhour workload increased about 50 percent, because of the more complex nature of the risks being inspected.

As recommended in the Booz, Allen and Hamilton Report, steps were taken to strengthen the engineering function of IAO. This was necessary to achieve the depth in technical expertise required to conduct its loss control engineering and inspection activities properly. In keeping with the approved organization plan, a head office Loss Control Engineering Department was established.

IAO made progress in improving links with other organizations engaged in fire protection and standards-setting work. To this end, staff members participated on committees of the National Fire Protection Association, the National Research Council, Underwriters' Laboratories of Canada, Canadian Standards Association, the Standards Council of Canada, the International Standards Organization and other bodies concerned with the development of building construction codes, fire prevention codes and fire protection systems and equipment.

Like any other fledgling organization, IAO experienced its share of successes and failures. This was particularly true in the area of public and government relations. Ted Belton describes one of the early weaknesses:

In the rush to promulgate badly-needed property rate adjustments in the latter months of 1974, insufficient time was allowed to give advance notice of impending changes to Superintendents of Insurance and Agency Associations. As a result, IAO was justly criticized. However, the situation was remedied with the introduction of the automobile rate revisions of both January and July and special care will be taken to ensure adequate advance notice is given in future.

IAO also had difficulty educating the public about the full implications of its advisory role. Like the CUA, IAO had not developed an effective way of presenting information on recommended rate increases that was not misleading. The organization decided to stop releasing rate levels, as it did not speak for members as far as pricing was concerned. It did, however, have an important role to play in promoting public awareness of the underlying causes behind rate adjustments.

E.A.W. Paterson, IAO Chairman , 1974–75

On the 'success' side of the ledger, IAO had a number of opportunities to gain recognition for its contribution to public safety and fire prevention. The most important of these opportunities came at the Sudbury Conference on Fire and Accident Risk. In 1975, the organization sent a delegation to a public meeting in Sudbury where members pointed out the weaknesses in municipal fire protection and helped convince that community that they themselves had to make the necessary changes in order to reap the benefits of lower insurance rates. Ted Belton was pleased to report that IAO participation was highly valuable and well received:

The results were excellent. Insurers were commended for their positive contribution to the enquiry. The chairman of the regional government assured the insurance industry that the community would improve its fire record. News media coverage was constructive and editorial support for improved fire protection was strong. (Canadian Underwriter, August 1975.)

J.D. Cassidy, IAO Chairman , 1975–76

The Sudbury meeting was only one instance where the IAO was called on to demonstrate its expertise. Belton provides other examples from this period:

> ...a recent rash of very serious fires in St. John's Newfoundland, provided us with an opportunity to remind the provincial authorities responsible for firefighting that little action had been taken with respect to the measures we had recommended for correction of deficiencies in the city's fire defences. Happily, our discussions at both the political and administrative level have borne fruit.
>
> The fire commissioner and fire chief have met with IAO officials and have developed a program to improve the firefighting facilities...In the province of New Brunswick, one of the hot-spots of fire wastage, we have been working hard to create public awareness that fire defences are deficient. Our manager is guest speaker at a forthcoming meeting of municipal officials and will get across the message that the community determines the cost of insurance. The fire marshall's office has asked IAO officials to sit on an advisory committee that is being set up to deal with the problems of fire loss.
>
> (Canadian Underwriter, August 1975.)

Ted Belton described IAO's first year of operation as one of "accomplishment, challenge, hard work and some disappointments" and although underwriting results during the first year of the new organization's history were disastrous, things did get better.

The year 1976 was a period of growth and development. Demand for services increased, producing a heavy workload for all departments. In keeping with its mandate, the organization's staff was increased and its technical expertise strengthened. Although a new organizational structure was adopted at the inception of IAO, it was June 1976 before the last of the head office managerial positions was filled, with the hiring of Vice President and Chief Actuary, Herbert J. Phillips. The search for a chief actuary had proven to be a long, difficult task but the Phillips' appointment was a turning point for IAO, according to Ted Belton. "It represented the first time since the 1960s that our industry had the proper capacity to do rate-making."

On July 1, 1975 IAO's staff had numbered 431: 22 were employed at head office, 25 in printing and 384 in regional and branch offices. By June 30, 1976, the staff increased to 478 with 25 in head office, 22 in printing and 431 in regional and branch offices. Of the 47 employees added, 35 were trainee inspectors required to handle the ever-increasing volume of inspections requested by members.

Considerable progress was made in the long-range program of upgrading the quality of the premises occupied by various IAO offices. Late in 1975, Head Office, Ontario Regional Office and the Printing Department moved to new quarters in the Toronto Professional Tower, and the Atlantic Regional office moved into a modern downtown Halifax building. Early in 1976, the Edmonton, Alberta and London, Ontario Service Offices also moved to new quarters. Much to the relief of the staff of the Quebec Regional office, which had been housed in the old Coristine Building since 1908, arrangements were made to move to new premises in La Tour la Cite in November 1976. The acquisition of new buildings resulted in a significant improvement in working conditions and in the professional image IAO sought to project.

The organization's Fire Prevention Training School was renamed IAO School of Loss Control Technology to help strengthen the image of the institution as the foremost training facility of its kind in Canada, and to reflect the fact that courses other than fire prevention technology would be offered. In an effort to satisfy demand for highly-trained loss control technicians, the facilities of the school were improved, refurbished and expanded.

In 1976, the Insurers' Advisory Organization expanded its influence to the last remaining hold-out in the country, Nova Scotia. On June 30, 1976, the Nova Scotia Board of Insurance Underwriters was dissolved and all its assets and operations transferred to IAO, effective July 1st. With the addition of Nova Scotia, IAO acquired the oldest tariff organization in the country. This board, formed in Halifax on January 5, 1857 by representatives of six insurance companies, had long since celebrated its 100th anniversary. IAO had finally become a truly national organization.

While IAO sought to increase technical expertise in loss control engineering and actuarial sciences, it did so with an eye toward reducing the cost of providing these services, and a steady decline in overall assessment rates was achieved between 1974 and 1977. During this period, the assessable premium base increased by almost $1 billion.

Progress in rate-making and developing new industry statistical plans also moved ahead rapidly in the late 1970s. Additional data was extracted from existing statistical plans and improvements were made to both the automobile and habitational risks plans.

Despite the efforts of IAO, the industry remained in a 'soft market', characterized by supply exceeding demand in the latter half of the decade. Ted Belton identified one of the major problems confronting the industry as the 'feast or famine syndrome', a phenomenon that could rapidly turn modest underwriting profits into unsound, unprofitable pricing practices. There remained, however, too many extraneous factors to reach a firm conclusion about the effect of the 'soft market' Although the underlying causes of unsound rating practices were numerous, and the ultimate responsibility lay with the underwriters, IAO officials did not shirk their responsibilities. They continued their quest to develop better rating tools to help solve the industry's inherent difficulties.

One major problem confronting the Insurers' Advisory Organization and the entire industry at this time was the threat of government intervention. The large fluctuations in insurance rates were alarming to a public not aware of the full implications of such erratic premium shifts. With consumer confidence shaken, some provincial governments threatened to intervene to regulate rates. While politically popular, the industry knew that this was not the answer, for any government attempt to 'manage the marketplace' would have been harmful to an already unstable industry.

W.R. Atkinson, IAO Chairman , 1976–78

Difficulties also emerged in automobile underwriting in the second half of the decade. The 1970s witnessed the growing popularity of compact cars that were more likely to be damaged, and incurred more deaths and injuries to passengers. With the rapid shift to small-car purchasing, it became increasingly difficult to utilize past statistics. Ted Belton cautioned that "ratemakers must make sufficient provision for these factors when they use yesterday's statistics to develop today's premiums to pay tomorrow's claims".

A second issue that emerged revolved around the attack on the automobile insurance classification system. IAO officials noted although the problem was primarily restricted to the United States, there were signs it might move to Canada. The attack on the classification system arose from the so-called "unisex" issue. Proponents of this philosophy sought to remove the practice of devising rates based on factors such as age, sex and marital status. This was obviously inconsistent with one of the basic principles of insurance, that is, a man owning a dynamite factory must pay a higher premium than someone insuring a private dwelling, even if he insists he is being discriminated against!

IAO officials spent much time considering the problem. While admitting imperfections in the current rating system, and showing willingness to identify and correct inaccuracies, the organiza-

MANAGERS' ANNUAL CONFERENCE, 1978

At the Managers' Annual Conference held at the Hotel Toronto Tuesday, October 3rd through Thursday, October 5th, these gentlemen met once again along with various staff members from Head Office. After 2½ days of discussing and exploring various administrative and operational concerns, an opportunity to relax and renew acquaintances was provided by a dinner held at the National Club on Wednesday night. However, rumour has it that the real entertainment on these occasions was provided by none other than Roy Pugh, who played a tape recording of his introduction of Mr. Belton earlier this year to his Blue Goose conference in Halifax – an effort that was greatly appreciated by his fellow Managers.

1st Row, left to right: ***A.C. Briscoe, D.L. Ostler, E.F. Belton, W.G. Seaton***
2nd Row: ***D.J. Horne, B.C. Fuller, G.C. Foy, T.G. Reynolds.***
3rd Row: ***J.A. Higgins, L.F.R. Grant, D.H. Saunders, R.D. Pugh***
Back Row: ***H.J. Phillips, S.H. Ayres, J.W. McCallister, A.J. McCabe, D.B. Wood, S.W. Abbott***
Missing: ***J.C. McPherson, J.M. Clouston.***

tion decided it was unwise and grossly unfair to replace a rating system based on statistics of proven validity with a system based on the simple notion that premiums should be reduced for certain groups of policy holders. The cost-based classification system was a fundamental part of the process of distributing claim costs equitably and making insurance available to the vast majority of motorists. Any attempt to deviate from the system would result in a serious shortage of markets.

By 1978, IAO had made satisfactory progress on a technical level and had become a "sturdy segment of the Canadian general insurance scene". Membership had grown to 54 groups and companies with an assessable premium base of $2.4 billion, or 50 percent of the total market.

The year also had disappointments for IAO members. The combined effects of a soft economy, a strong investment market, over-capitalization and the residual effects of the Anti-Inflation Board, created a madcap marketplace in which underwriters were unable to take full advantage of the improved rating, inspection and engineering tools at their disposal.

Ted Belton provided a rationale for underlying insurance industry problems. Solutions to these problems, while still a long way from being completely formulated, were significant factors in stabilizing the market:

Our industry is undergoing its own version of Future Shock. External factors are rapid changes in the social, economic, scientific, political and technological environment; the principal internal factor is the "liberation" of the market. In a little more than half a decade, insurers have shifted from marketing and underwriting strategies based on relative uniformity to a situation characterized by innovation, independence and an intense desire to "do your own thing"...

The highly individualized marketing programmes being developed in today's free-wheeling market demand a degree of accuracy, precision and responsiveness in ratemaking that would have been considered unnecessary if not impossible, in the days of the "tariff"... With the wisdom conferred by 20/20 hindsight, it can be said that the industry was ill-prepared for the transition. To be blunt, we were caught with our technology down. As we have discovered to our chagrin both our statistical data and our actuarial capability fell far short of what was required to respond to rapidly changing conditions. Although IAO has substantially improved the situation, the underlying problems are a long way from being solved.

The year also marked the first period since IAO's formation that demand for inspection services declined, falling from 76,113 in 1977 to 69,427 in 1978. W.G. Seaton, Manager of IAO's Ontario Region, attributed the decline to the low rate of growth in the Canadian economy, resulting in less investment in new plants and facilities. Secondly, underwriters scrambling for available business were less concerned about rate accuracy and underwriting information, and therefore less likely to make use of IAO services before accepting a risk. Finally, IAO staff had at last caught up with the backlog from members whose business had not been inspected previously.

In the latter half of the 1970s, IAO was able to develop better services through an increasing reliance on computer technology. One of its first computer applications was developed in 1976 in the sprinkler inspection department. It had never been an easy task to determine whether a sprinkler system would function properly when required, or if the water source was adequate to control a fire until firefighters arrived. The task of checking sprinkler systems had become more complicated as over two-thirds of the new hydraulic systems were being designed on computers. Checking such plans manually was painstaking and inefficient.

IAO engaged the services of an engineer with computer expertise to design a computer program capable of analyzing sprinkler systems available for office and plant installation in Canada. This development represented an important step in the improvement of IAO's loss prevention and control services, in that it saved countless hours of tedious trial-and-error calculations and produced accurate results. By the end of July 1977, 132 systems were checked, of which 30 (22.7 percent) were rejected. In 1978, 528 were checked and only 78 (15 percent) rejected.

Toward the end of the decade, another computer application was developed and launched. Historically, IAO's offices had surveyed properties and distributed advisory insurance rates on hundreds of thousands of individual Canadian risks to member companies on three by five inch cards. The manual filing of these cards was a tedious process subject to occasional errors. By 1977, IAO had a file of 250,000 cards (40,000 of which were for Toronto) and were issuing over 300 new or revised cards per week for the Metro Toronto area alone. By the end of the decade the card system became unmanageable.

In 1979, computerization simplified and streamlined this process dramatically. The data from the cards was fed into the computer on a daily basis, and once a month, it was updated to produce information that was as current as possible. This data was then transferred to microfiche and distributed to IAO members. Ontario, the first region to be transferred to the new system, had its 100,000 cards replaced by 50 pieces of microfiche film. This system allowed members access to the most recent information on advisory fire rates and represented a dramatic improvement over the previous manual card system.

A major concern of IAO late in the 70s was 'leakage' of information to non-members. A proposal to amend membership guidelines was forwarded in 1979 in an effort to make it more difficult to gain access to IAO services without paying for them.

In addition to possible changes in membership guidelines, the conversion to electronic storage and distribution held out the promise of greater security. The computerization of rate, inspection and engineering information minimized the use of 'hard copy', making it more difficult for unauthorized persons to gain access to IAO information. The effectiveness of security measures still relied on the determination of members to prevent information leakage from their own offices.

By the end of 1979, IAO had developed into a strong, technically-competent and efficient organization. Five years earlier, the combination of several years of underwriting losses and a weak securities market had produced an extremely tight property and casualty insurance market, and in this climate, insurers emphasized careful underwriting and price adequacy. Members expected complete risk information, good loss control and precise risk measurement methods from IAO. The organization, in turn, gave top priority to the formation of strong actuarial and engineering departments, upward revision of advisory rate levels and the acquisition and training

J.E. Burns, IAO Chairman, 1978–79

of staff needed to respond to a rapidly escalating demand for inspection and rating services.

But now the market had turned soft, supply exceeded demand, price competition intensified and less emphasis was placed on thorough underwriting. With no growth in the economy to support premium growth, the erosion of price levels and deteriorating underwriting results, the emphasis shifted to expense control, while maintaining quality of service. In response to this shift, IAO stepped up its efforts to operate efficiently, to increase productivity, and to keep operating expenses under tight control, keeping assessment rates at reasonable levels. The growth in expenses was confined to 6.2 percent in 1978 and 5.7 percent in 1979, despite higher rates of inflation. This was accomplished without weakening the organization or impairing its ability to meet either its current obligations or the challenges of the future.

During the decade, IAO suffered its share of disappointments as the quality of inspections, engineering and rating information did little to alleviate unfavourable underwriting results. Intense competition caused by a marked drop in the demand for insurance, a general slow-down in the Canadian economy and rapid inflation combined to produce a hectic and often confusing insurance market.

Nonetheless, IAO continued to increase its technical expertise in the knowledge that the unprofitable cycle would eventually come to an end. At that point, the conventional wisdom believed, the high quality of IAO's services would become an important factor in restoring profitability to insurance underwriting.

F.A. Saville, IAO Chairman, 1979–80

Top Management Briefing Session held at The Guild Inn, Scarborough, Ontario, April 1979.

Back row, left to right: ***Bernie D'Amour, Roy Grant, Bill Abbott, Don Grant, Al Briscoe, Tony Reynolds, Jim McCallister, George Foy, Stew Ayres, Wayne Beuree, Tim Collinge, Jack Higgins, Al Bassett, Dave Montador, Paul Hartt, Jim McPherson, George MacDonald, Keith Gilker, Ted Belton and Joe McCabe.***
Front row: ***Dave Horne, Sam Hasbani, Roy Pugh, Bev Fuller, Bill Seaton, Jack Fraser, Irene Skinner, Maurice Abel, Bob Tanaka and Don Ostler.***

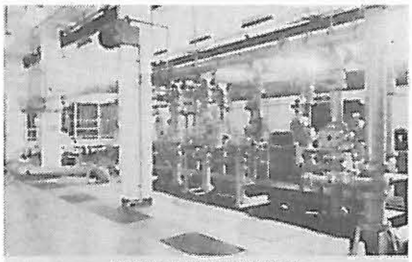
UNDERWRITERS' LABORATORIES OF CANADA


TESTING SPRINKLERS

ULC is a non-profit organization incorporated in 1920 by letters patent issued by the Canadian government. It maintains and operates laboratories and a certification service for the examination, testing and classification of devices, constructions, materials and systems to determine their relation to life, fire and property hazards. Underwriters' Laboratories of Canada also develops and publishes standards, classifications and specifications for products having a bearing on fire, accident, or property hazards and is accredited by the Standards Council of Canada as a Standards Writing Organization under the National Standards System of Canada.

The Listings of Underwriters' Laboratories of Canada are recognized generally across Canada by various federal, provincial, and municipal authorities, and insurance inspection agencies.

Although there is a similarity in names, Underwriters' Laboratories of Canada is a completely separate Canadian entity without any financial, legal or other connection with Underwriters Laboratories Inc. in the United States. The two do, however, maintain some technical liaison on matters of mutual interest.


HYDRAULIC LABORATORY

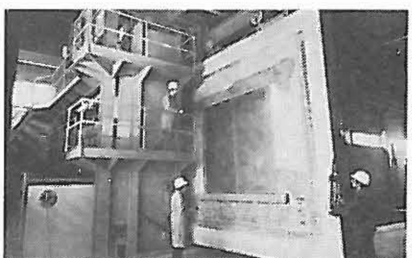
ULC's headquarters are located at Scarborough in Metropolitan Toronto. Laboratory facilities include a building for full scale classification tests on fire extinguishers and fire detection equipment; a 25 ft. tunnel furnace for establishing the surface burning characteristics of building materials; a tower room for tests on factory-built chimneys, factory-built fireplaces and gas vents; an electrical laboratory, a chemical laboratory; a fully equipped fire service hydraulic laboratory used for both tests and demonstrations; and a building equipped with a heavy duty crane, which contains facilities for full scale tests on wall assemblies, fire doors, frames, hardware, fire dampers, floor and roof and ceiling assemblies, columns and record protection equipment. Most of the staff is located at the headquarters in Scarborough, Ontario and in addition ULC is represented in about 20 locations across Canada as well as in the United States, Britain, Europe and Japan.


TUNNEL FURNACE FOR ESTABLISHING FIRE HAZARD CLASSIFICATION

ULC listings are shown in the List of Equipment and Materials which is published in two volumes. Volume I, subtitled "General", contains listings of all products falling under the general categories of accident hazard, automotive, burglary, electrical, fire protection equipment, and equipment for the handling and utilization of fuel oils and gases. Volume II, subtitled "Building Construction", covers all listings of building materials and thus provides a convenient reference to architects, engineers, and others who are principally interested in these classes of products and, in addition, serves as a complementary document to Supplement No. 2 to the National Building Code of Canada.

ASSOCIATION WITH THE IAO

The Insurers' Advisory Organization contributes to ULC by participation on Standards Committees, has membership on the ULC Fire Council, and generally supports ULC in the course of its field activity. In turn the IAO uses the standards and listings extensively in carrying out its role in the fire prevention field. To quote; "Underwriters' Laboratories of Canada exists to be of service to inspection authorities by supplying authoritative information on products. Its Listings are intended to provide data with respect to the degree of hazard present, if any, or the ability of a product to perform its required protective function. Review of such data enables the inspection authority to "approve" a Listed product for the specific purpose under consideration." Hence in general, the IAO endorses and recommends the use of ULC listed products and encourages builders, architects, engineers and designers to use such products wherever possible in order to make our country, our cities and towns as safe as possible to live in.


TESTING FIRE DOORS TO ESTABLISH FIRE RESISTIVE RATINGS

Underwriters' Laboratories of Canada is a completely self-supporting organization, revenue for its operations being derived from engineering, listing and labelling fees billed to manufacturers and others who submit products for examination, test and listing, and from the sale of Lists and Standards.

Also located in the same facilities as ULC is the IAO School of Loss Control Technology with courses open to the public as well as insurance industry personnel.