

**PRIVATE INSURERS REPORT BANNER PROFITS FOR 2021**

In a recent report the Property and Casualty Insurance Compensation Corporation reported that Canada's private insurers' average return on equity (ROE) jumped to 17%, an increase of 57% from the previous year, and 126% from the average for 2019.<sup>1</sup>

The "Solvency Analysis" report noted that calendar 2021 was the third most profitable year for Canada's P&C insurance industry since 1975. Did a reduction in auto claims due to the extended pandemic result in the higher profits?

**Higher Premiums and Lower Claims Drove Higher Profits**

Higher net premiums earned and a drop in net claims incurred were the main reasons for the growth in the net income. The following summarized the per cent change in financial results for the last four years.

**AVERAGE PERCENTAGE CHANGE 2018 to 2021**

	2021	2020	2019	2018
Net Premiums Earned	9.1	7.4	10.2	8.5
Net Claims Incurred	-10.5	5.4	2.0	16.3
Operating Expenses	10.0	6.1	5.5	4.7
Net Investment Income	-32.4	9.1	77.5	-22.7
Net Income	76.1	53.5	23.0	-19.0
Equity (after dividend)	12.0	6.1	4.6	-0.8
ROE	17.0	10.8	7.5	6.4
MCT Ratio (actual)	265.6	255.5	237.0	243.2

Source: [https://www.pacicc.ca/wp-content/uploads/2022/04/Solvency\\_Matters\\_17\\_April-2-comp.pdf](https://www.pacicc.ca/wp-content/uploads/2022/04/Solvency_Matters_17_April-2-comp.pdf) and [https://www.pacicc.ca/wp-content/uploads/2021/04/Solvency\\_Matters\\_13\\_April-EN\\_v2.pdf](https://www.pacicc.ca/wp-content/uploads/2021/04/Solvency_Matters_13_April-EN_v2.pdf) p. 9.

The significant decline in the net claims incurred in 2021 is remarkable. Together with a 9.1% increase in net premiums earned, offset by a decline in investment income, the drop in claims costs explains the 76.1% increase in net income.

The auto and commercial lines of business led the way in profitability, where the loss ratio (claims paid divided by premiums) declined by 15% for the former, and 26% for the

<sup>1</sup> [https://www.pacicc.ca/wp-content/uploads/2022/04/Solvency\\_Matters\\_17\\_April-2-comp.pdf](https://www.pacicc.ca/wp-content/uploads/2022/04/Solvency_Matters_17_April-2-comp.pdf) p. 9.

latter.<sup>2</sup> The decline in the loss ratio for the auto and commercial business lines suggests that something extraordinary occurred in 2021 which resulted in the jump in P&C insurer profits.

### **Lingering Pandemic Effects?**

It appears likely that the lingering effects of the COVID-19 pandemic explains the drop in claims. Many private investor-owned auto insurers provided one-time rebates in 2020 to return windfall profits to policyholders.<sup>3</sup> The public insurers in Manitoba, Saskatchewan, and British Columbia (eventually) did the same.<sup>4</sup>

For 2021, despite claims costs remaining below the pre-pandemic levels the private insurers did not provide additional rebates. The Manitoba Public Insurance did provide an additional rebate, and reduced its 2022 rate because it had achieved its target MCT. The Saskatchewan Auto Fund has also benefitted from lower than expected claims costs and in has excess capital.<sup>5</sup>

Based on ICBC's exceptionally strong 2020/21 year-end forecast, in March 2022 the BC government announced a rebate totalling approximately \$400 million for private and commercial policyholders.

### **Private Insurers Retained the Profits**

Clearly, 2021 was a highly profitable year for the Canadian property and casualty insurers. While many private insurers were quick to announce rebates in 2020, rebates were not provided by the private insurers in 2021. It would appear that the exceptional profits were used to fund shareholder dividends, or to add to already high capital reserves.

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The writer is a retired senior BC government public servant whose paper describing the BC government's manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He was an intervener in the BC Utilities Commission's recent reviews of ICBC's and BC Hydro's rate requests.

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<sup>2</sup> The Auto loss ratio was 58.4% compared to 68.8% in 2020; the Commercial ratio was 45.4% compared to 61.6% for 2020.

<sup>3</sup>[https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_icbc\\_covid\\_19\\_rebates\\_8\\_april\\_2020/pdf/commentary\\_icbc\\_covid\\_19\\_rebates\\_8\\_april\\_2020.pdf](https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_covid_19_rebates_8_april_2020/pdf/commentary_icbc_covid_19_rebates_8_april_2020.pdf)

<sup>4</sup>

[https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_sgi\\_rebate\\_27\\_february\\_2021/pdf/commentary\\_sgi\\_rebate\\_27\\_february\\_2021.pdf](https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_sgi_rebate_27_february_2021/pdf/commentary_sgi_rebate_27_february_2021.pdf)

<sup>5</sup>

[https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_covid\\_rebates\\_saf\\_and\\_mpi\\_25\\_october\\_2021/pdf/commentary\\_covid\\_rebates\\_saf\\_and\\_mpi\\_25\\_october\\_2021.pdf](https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_covid_rebates_saf_and_mpi_25_october_2021/pdf/commentary_covid_rebates_saf_and_mpi_25_october_2021.pdf)