A History of Insurance in Canada
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Introduction

The Canadian spirit of robust independence and capacity to accommodate their neighbors was critical to the young country’s survival at the time of Confederation in 1867. The world’s second largest country by total area, Canada shares the longest border in the world with the US to the south and had the on-going economic interests of the British and French to navigate. It also had to integrate the waves of immigrants, new to Canada, who have gone on to contribute to its diversity and cultural richness.
Since the time of the first fire and marine offerings in the early 19th century, the property and casualty industry has reflected the strong interest of international operators in Canada. Given the vast scale of the country and the low density of population in many regions, the business has maintained a regional quality where the state has also played a role in providing insurance services, particularly in automobile, supporting low-cost and largely effective coverage.

In strong contrast, the life insurance industry has been dominated by a group of domestic players who grew to be among the most innovative and entrepreneurial insurers anywhere. In the first wave of globalization from the 1880s onwards, these life insurers found ways of offering their services beyond the British colonial model, insuring indigenous populations and seeking out opportunities in China, Latin America, and the Middle East, as well as the US and UK. The capital inflows from this international expansion were encouraged by Canadian regulators, who understood the benefits of a domestic life industry investing a good proportion of its investment capital in the young country.

First, the breakdown of international networks after the First World War and then the ravages of the Great Depression meant the Canadian life insurers slowly consolidated and withdrew from these far-flung global interests. The complexity of international politics and the growing domestic market made it more attractive for insurers to concentrate their interests at home or in the US or Commonwealth. But the domestic players kept their high market share and managed to avoid being targets of acquisitive foreign players by becoming mutuals, owned by their policyholders.

It was in this post-war environment that Swiss Re deepened its Canadian relationships by creating the first reinsurance operator there. It had had on-going reinsurance treaties with many Canadian insurers for generations, but this new office meant that it could fully integrate into the fabric of the Canadian market and continue to follow the fortune of its clients.

As the second wave of globalization led to an international consolidation of the financial services industry in the mid 1980s, the Canadian life industry again found its place on the international stage and now has a number of players with the scale and appetite to compete on a global basis. Having learnt from their mistakes in the crash of 2001, the Canadian insurers have emerged from the recent and on-going financial crisis in comparative good health.
Before Confederation
Until Confederation in 1867, foreign firms dominated the provision of life and fire insurance in the territories. The London market mainly serviced early marine insurance, needed to underpin inter-continental trade, giving a source of advantage for British and European merchants.

The Phoenix Company of London first opened agencies in Montreal (1804) and in Halifax (1805), offering fire insurance, and in 1809, the first insurance company on Canadian soil was established at Halifax, reflecting the significance of the city for British plans in North America. The Nova Scotia Fire Association, a mutual insurance was transformed into a joint stock company ten years later and renamed Halifax Fire.

As the nineteenth century progressed, settlers arrived from Europe with friendly society policies covering fire, widow and burial benefits, demonstrating how communities could better face the uncertainties and catastrophes of pioneer life. Fuelled by the growth in urban centers, in particular Montreal, at this time the pre-eminent city and Toronto, these largely pay-as-you-go-style savings groups evolved into mutual and stock insurance companies. They were increasingly run by professional staff, which drew on the latest actuarial information from Europe and promoted improved building codes and fire regulations to reduce unnecessary losses.

Preceding pages:
8th Avenue, Calgary, with insurance broker office.

Left:
Rossin House, Toronto, the morning after the fire, 1862.
Bringing structure to the market with regulation
It was the first government of Canada that brought regulation to the insurance market in 1868 with the Dominion Insurance Act. In the interests of both protecting policyholders from under-funded foreign insurers and to support the development of a local industry, it insisted insurers were licensed, deposited funds with the Ministry of Finance, double for foreigners, and submitted annual statements. All companies had to hold sufficient assets in Canada to cover their Canadian obligations – a provision to avoid capital outflows and allay policyholder fears, but one very restrictive for foreign insurers. With these clear provisions, Canada promoted a stable and concentrated insurance industry with local control and an interest in international expansion that was to serve its life industry well. Whilst further legislation was brought in to regulate investments and stipulate capital reserve requirements in 1899, this basic approach to regulation remained the same until the global financial de-regulation of the 1980s.

Innovation and entrepreneurship
As British life insurers left the market in the wake of the 1868 regulation, a new phenomenon developed in the form of domestic companies capable of both dominating their own market and expanding overseas. In Toronto, Confederation Life (1871) and Manufacturers Life (1887) were founded; in Ontario, Mutual Life (1868); and in Montreal, the leading trade and financial city until the Second World War, the Sun Life Assurance Company of Canada (1871). A feature of the Canadian life insurers was their ability to offer policies that would intuitively appeal to their customers. As early as 1880, Sun Life issued an unconditional policy, dispensing with all the complex clauses, excluding certain travel to parts of the country or professions. Instead, the policy stated that the client could reside anywhere in the world and undertake any occupation for no extra premium, with the policy being “indisputable” after two years. These qualities of entrepreneurship were not confined to Canada, as the leading life insurers expanded overseas it was said that the “sun never sets on the British Empire and Canadian insurance salesman.”
THE ROYAL INSURANCE BUILDING, MONTREAL.—Mr. JOHN W. HOPKINS, ARCHITECT.
Canadian Lock Disaster.
With the population continuing to expand through immigration and the economy bouncing back from a post-war recession, Canadian insurers also benefited from the improved living standards and investment opportunities of the 1920s. It did little to prepare them for the decade that was to follow.

**Canadian life insurers abroad**

The expansion overseas of Canadian life insurers began early. A series of companies sent representatives abroad to the Far and Middle East, Latin America as well as the US and Europe from the late 1870s. Sun Life was the first, establishing agents in the British West Indies as early as 1879 and quickly organizing agencies in Bombay, India, in the Ottoman Empire, Japan and Java. By 1930, 80% of Sun Life’s revenues were earned abroad.

Seizing these opportunities overseas was not straightforward. Unlike many European insurers, the Canadian players serviced the local population as well as the expatriate community, risking tensions about perceived differential treatment. Additionally, whilst Canadians benefited from the security of being treated as British subjects, they also suffered from the growing resentment of colonial rule, including the temporary boycott of British business during the second half of the 1920s. Collecting and accounting for premiums was also challenging, given the number of different currencies in circulation. In 1933 for instance, over half of Sun Life’s almost 10,000 policies in force in China were written in silver-based Mexican dollars, followed by pounds sterling and U.S. dollars.

The second important market was China, which by 1941 had come to be dominated by four Canadian life insurance companies: Sun Life, Manufacturers Life, Confederation Life and Crown Life. Sun Life acquired China Mutual, established by a Canadian expatriate in 1898, propelling it to a leadership position with policies totaling $40 million by the mid-1920s. Manufacturers Life opted for organic growth, setting up a total of eight branches in the country. Its success can be seen from the fact that its sales target for Shanghai at the time was similar to the one for Toronto.

The 1920s marked a high point for the Canadian insurance business in China, followed by a gradual decline, even before it fell into the hands of the Japanese. They recovered their greatly diminished assets after World War Two, but at least in the case of Sun Life and Manufacturers Life, decided to close their Chinese branches and transfer the limited remaining business to Hong Kong in 1946.

**Surviving the Great Depression**

With falling prices for wheat and timber, struggling capital markets and low domestic demand, the Canadian economy felt the full financial impact of the Great Crash of 1929. With unemployment at 30% in 1933 and industrial production down 40% from the heights of 1929, the Canadian economy faced a prolonged period of downturn. Immigration, another key to economic growth, dropped from 169,000 in 1929 to 12,000 in 1935 and the insurance industry, which had serviced new demand in areas such as motor, fire and life stalled. For many insurers, it was to prove a difficult decade as after the losses on volatile stock investments had depleted capital reserves, the ensuing recession reduced new growth in premiums, needed to rebuild their capital positions.

As the boom-period of the 1920s came to a swift and sudden end, Sun Life was hit particularly hard having invested heavily in corporate securities in the US, attracted by high returns from what were perceived as relatively low risk and stable stocks, such as utilities. By 1930, common stocks accounted for over 50% of its total assets, compared to an average of 2% for all other Canadian life insurers. The company prided itself on holding these stocks on their books at very low values, which would require a tremendous drop in prices to cause concern, exactly the situation in the last week of October 1929 when the Wall Street market crashed. With the support of regulators in Canada and the US, Sun Life was permitted to establish “official values” for these stocks to be recorded in their accounts, a practice that continued until 1936 when the market value returned to a satisfactory level. With no interest in such an insurance company failing, the Prime Minister publicly supported Sun Life and its policies through the worst period in the early 1930s. The Superintendent of Insurance also pushed through the adoption of a limit on common stocks to 15% of the total assets for Canadian life insurance companies in 1932.

During the interwar period, two foreign markets came to be dominant for the major Canadian life insurers. From the mid-1920s onwards, they expanded rapidly in the US and by 1937, Sun Life was present in 31 states, which together accounted for almost 40% of its total insurance in force.
Top:
Cadastral map of Ottawa, used to monitor insured risks.

Above:
The Niagara Falls area was hit by a severe ice storm in 1938 which destroyed the Upper Steel Arch Bridge, also known as Honeymoon Bridge or Fallsview Bridge.
As the 19th century progressed, some early settler towns evolved into the major Canadian urban centers of today. The settlers brought with them a combination of independence, entrepreneurship and experience of insurance from their home countries. Halifax saw the establishment of the first insurance company on Canadian soil in 1809, the Nova Scotia Fire Association, a mutual, which was transformed into a joint stock company ten years later and renamed Halifax Fire. Nevertheless, the comprehensive risk management processes needed to protect such concentrated areas of population from fire took many decades to evolve. As the new wood-built towns rapidly expanded, the risk of fire loomed large, especially as planning restrictions were not formalized and access for fire trucks was poor. The Great Fire of Toronto (1849) was started by an unknown cause in some wooden outbuildings of Post’s Tavern and destroyed most of the block bounded by King, Church, Adelaide and Jarvis streets, including a predecessor of the St. James Cathedral. Most of the fire fighters were volunteers, as the Toronto Fire department was not founded until 1875, although as early as 1842, the Metropolitan Water Company had provided fire hydrants and water barrels. Other major fires occurred in Montreal in 1852, St. John in 1877 and Hull in 1900.

In a bid to offer affordable insurance against fire, early insurance companies were important stakeholders in combating the risk and cost of major fires. Indeed, the Western Assurance Company in 1851 stipulated that a director should attend each fire and exert influence on the fire brigade to save insured property. In 1870, when the first statistical data became available, there were a total of twenty registered fire insurance companies in the country, five of them Canadian, twelve British and three from other countries. There was an awareness that high penetration of insurance cover needed a resilient social infrastructure, one capable of preventing the start and spread of fire and leading to a rapid resumption of activity after a fire was caused. In 1904, a second great fire destroyed a large section of downtown Toronto. The fire destroyed 104 buildings with a loss of over $10m. It led to the introduction of new safety laws and a further expansion of the Toronto fire services.
The Klondike Gold Rush

A symbol of both the attractions and the challenges of the vast Canadian territories is the Klondike Gold Rush, when between 1896 and 1899, up to 100,000 prospectors surged towards the Yukon in north-west Canada. They were driven on by newspaper reports of rich gold deposits along the Klondike River in 1896 and by the poor state of the American economy. Thousands sought their luck, by sea, river and over perilous mountain passes, with hot summer temperatures and long winters that dropped to −50°C. The Canadian authorities introduced a ruling that anyone entering the Yukon Territory had to carry a year’s supply of food, up to 500 kilos and either carry equipment or risk paying extortionate prices for it when they arrived at the new settlement of Dawson City. The North-West Mounted Police or Mounties, maintained the borders, charged custom duties and ensured Dawson City remained a lawful town.

The complexity and harshness of traversing the terrain either from the Alaskan or Canadian sides meant that only 30,000 to 40,000 people reached Dawson City and only half of these became prospectors. Built of wood in a matter of months and lit by stoves, Dawson City experienced a series of major fires between 1897 and 1899, which added to the difficulties of the lack of sewerage and running water. Despite the new railway opening from Skagway to the Yukon River in 1900, the difficulty of making a living in Dawson City and the discovery of gold at the mouth of the Yukon at Nome brought a swift end to the stampede for gold. Although mining continued, the spectacular and wild region returned to its natural and peaceful slumber.

Below:
Klondike, Yukon, 1896.
In 1869, there was only one Canadian life insurance company with thirteen British and nine from the U.S., together accounting for almost 80% of the market. Attempts were made to start Canadian life operations in the 1830s, but Canada Life only started in 1849 through the initiative of Hugh C. Baker, who was the manager of the Bank of Montreal in Hamilton, Ontario. He married in 1845 and applied for life insurance to a British company. Due to his asthma, the company insisted he travel to New York for a medical and, after completing a round-trip of roughly 1500 kilometers, he was indeed granted a policy, but had to pay a higher than normal premium due to the “climatic hazard of living in Canada”. Upon his return, he convinced a number of fellow Hamilton residents of their “duty” to organize the local provision of life insurance. They established Canada Life, which obtained its charter in 1849. That same year, Baker also co-founded Ontario Marine and Fire.

To start, Canada Life drew heavily on Great Britain for its initial know-how, adopting the Carlisle mortality tables of 1815, using the policy of the National Loan Fund Life Assurance Society of London as a temporary template for its own policies, and appointing the secretary of the Scottish Amicable Assurance Society of Glasgow, Alexander Gillespie Ramsay, as its new general manager in 1859. Although life insurance was still little understood, Canada Life benefitted from the suspicious attitude of foreign insurance agents about providing cover to the general population. Policies outstanding grew from 473 in 1850 to 4270 in 1870. By 1869, Canada Life was the single largest life insurance company in Canada with a market share of 15%.
Mutuality: The attraction of collective ownership

A feature of the early Canadian life insurance industry was that, with the exception of Mutual Life, its major domestic companies were all stock companies owned by shareholders and not by policyholders, as is the case with a mutual insurer. This had the advantage of easier access to additional capital through the markets and may have added to the entrepreneurial qualities of players such as Sun Life and Manufacturers Life. However, by the 1950s, it also left the top five companies, who held over 70% of the market in 1945, open to takeover, particularly from aggressive American investors and companies.

Sun Life fought off speculative attacks from 1950 to 1956, supported by the Canadian government and a loyal group of shareholders, especially the Bank of Montreal. A series of smaller players, however, were less successful and succumbed to the internationalization of the insurance markets, including Continental Life that was acquired by Zurich Life. Lobbied by the domestic industry, the government modified the Canadian and British Insurance Companies Act at the end of 1957. The modified act required a majority of board members to be Canadian citizens, ordinarily resident in Canada, authorized the board to prohibit the transfer of shares out of the country, and, most importantly, allowed companies to purchase their own shares “at a fair and reasonable price”.

At a time when growing capital requirements could be matched by growth in policyholders and premiums through new insurance lines, Sun Life quickly adopted this option – a process finally completed on 20 December 1962, when it officially became a mutual company. Faced with the “strong possibility that a controlling interest of Company shares could fall into unsympathetic or undesirable hands”, an overwhelming majority of the share and policyholders of Manufacturers Life voted in favor of the company purchasing all its shares in 1958. In 1959, Canada Life also mutualized. Others did not mutualize, but nevertheless remained in Canadian hands.

Below:
Sun Life was the first Canadian company to establish agents across the globe. Life policy issued in India in the 1930s.

Opposite:
Sun Life Insurance, advertising as El Sol de Canada, in Curacao, Calle del Comercio, 1910.
Swiss Re History

The evolution of a global risk expert

Swiss Re’s rise to become the global expert in taking and managing risks mirrors the dramatic social, economic and political development of the last 150 years. Swiss Re was established in 1863 to meet demand for an independent reinsurer that would spread risk in a rapidly changing world. The following 150 years, a period of unprecedented change driven by a revolution in science and technology, have seen Swiss Re become a leading international provider of reinsurance capital and risk expertise.

Rising from the ashes
Rapid industrialization and urbanization throughout the 1800s were creating concentrations of risk, requiring insurers to diversify their exposures. A clear role was emerging for independent reinsurers that could shoulder and spread insurers’ risks, develop expertise and provide capital when it was critically needed.

The world’s first dedicated and independent reinsurer, Cologne Re, was established in the aftermath of the Hamburg fire of 1842. Swiss Re was to be the first such company outside of Germany. Swiss Re’s beginnings are often associated with the devastating fire that destroyed the thriving Swiss town of Glarus in May 1861. The fire, which hit some local insurers with claims five times their reserves, highlighted the threat of major catastrophes to the Swiss insurance industry and demonstrated the need for reinsurance to provide protection for events with a low frequency, but a yet unknown severity. Immediately after the fire, the insurance industry discussed setting up a cantonal reinsurance pool but the plans never materialized.

Instead, the St. Gallen-based insurer Helvetia set up a new fire insurance company and shortly after its director Moritz Ignaz Grossmann proposed that a Swiss Reinsurer should be founded in Zurich. The main reason for doing so, Grossmann wrote, was to keep reinsurance premiums in Switzerland rather than reinsuring with French and English insurers.

The Swiss Reinsurance Company first opened its doors in Zurich on 19 December, 1863, with CHF 6 million of share capital raised from a diverse group of investors, including two Swiss banks.

Below:
Swiss Re’s offices in 1983.
Fundamentals of success

Swiss Re’s early leaders established the sound principles of reinsurance that have been followed by successive generations of Swiss Re managers ever since. From the very start, Swiss Re was to be an international reinsurance company that spread its risks geographically, built strong client relationships and developed access to a diverse capital base.

The early years were difficult for Swiss Re – reinsurance was a new concept that lacked the sophisticated risk management tools of more recent times. The primary insurance market was far from transparent. As a consequence, client relationships had to be rooted in trust and “utmost good faith” rather than knowledge and facts.

In these first challenging years, Grossmann turned to Giuseppe Besso, a member of the famous Besso family associated with the Italian insurer Assicurazioni Generali. Besso accelerated Swiss Re’s international diversification and continued to build the company as a financially robust and independent reinsurer.

Clockwise from top left:
- Giuseppe (Josef) Besso (1839–1901), brother of Marco Besso from Trieste, director of Generali insurance. Giuseppe Besso was general manager of Swiss Re from 1865 to 1879.
- Charles Simon (1862–1942), general manager of Swiss Re from 1900 to 1919 and later chairman of the board of directors.
- Erwin Hürlimann (1880–1942), the first Swiss general manager of Swiss Re from 1919 to 1930. Later chairman of the board and honorary chairman.
- Moritz Ignaz Grossmann (1830–1910), director of Helvetia Insurance and founder of Swiss Re.
Diversified from the start
Right from the start, Swiss Re had an international outlook, with only two of its 18 early contracts written with Swiss insurers.

By the turn of the 20th century, Swiss Re was already reinsuring risks in Europe, the US, Latin America, Russia and Asia. It was also beginning to establish a global network, opening an overseas office and looking to underwrite directly in key international markets.

The reinsurer also looked to spread risk across an increasing number of lines of business, writing its first contracts in marine reinsurance in 1864, in life reinsurance in 1865, in accident and health reinsurance in 1881, and in motor reinsurance in 1901.

The form of reinsurance contracts also evolved – in 1890 Swiss Re underwrote its first excess of loss contract, a type of reinsurance that pays claims above an agreed level of losses, rather than a proportion of all an insurer’s losses.

This change in approach would enable reinsurers to focus on the less frequent catastrophic risks. In a sense, the modern age of reinsurance had begun.

Catastrophe losses
The first few decades of the 20th century were marked by growth in both international exposures and single large risks – demonstrated by the Spanish Flu epidemic in 1918, which led to a CHF 1 million loss for Swiss Re, and by the sinking of the Titanic in 1912, also reinsured by Swiss Re.
However, it was the catastrophic 1906 San Francisco Earthquake that was to be the insurance and reinsurance industry’s wake-up call. The earthquake and subsequent fire that swept through San Francisco was a market-changing event. The extent of the damage made insurers rethink the potential size of losses, as well as the importance of seeking well-capitalized counterparties.

Within three years of the quake, San Francisco had been largely rebuilt thanks to payments made by the insurance and reinsurance industry. The majority of claims were paid by foreign companies, demonstrating just how globalized the industry had already become.

For Swiss Re, the earthquake generated the biggest single loss as a percentage of net premiums in the company’s history, but reinforced Swiss Re’s reputation as a financially secure and reliable counterparty in the US and the UK, where the reinsurer honored its contracts to cedants.

Global market access
Above all else, the San Francisco earthquake highlighted the need for further geographical and product diversification, leading Swiss Re to make a number of acquisitions.

Acquisitions were to feature early on in Swiss Re’s history, and continue well into modern times. In addition to helping spread risk internationally, acquisitions give access to new business, particularly where strong relationships between local insurers and reinsurers make it difficult to grow.

Early acquisitions saw Swiss Re gain footholds in the all-important UK and German markets through stakes in Mercantile and General Insurance Company (M&G) in 1915 and Bayerische Rückversicherung of Munich in 1924.

Financial crisis
The 1929 stock market crash in the US and subsequent Great Depression showed insurers and reinsurers for the first time that they were exposed to significant risks on the asset side of the balance sheet.

The crash led to write-downs of assets at Swiss Re amounting to almost CHF 26 million, although the company was saved by its accumulation of special reserves – some CHF 30 million were taken from these reserves in 1931 to cover record losses. However, Swiss Re learnt valuable lessons, and the crisis marked the birth of a more prudent asset liability management at Swiss Re, an important risk management tool that continues to be used by insurers today.

Redrawing the map
While German and Russian reinsurers were expelled from international business around the time of the two world wars, Swiss Re was able to capture a market-leading position in the US. However, the radically different world that would emerge after the Second World War constrained reinsurers’ ability to spread risk.

A number of markets were now off-limits – with those in Central and Eastern Europe slipping behind the Iron Curtain. Others, such as Brazil and India, became state-owned. At the same time, other markets were enjoying a boom in consumer spending, leading to higher concentrations of risk in markets like the US and Europe.

Swiss Re continued to seek geographical and product diversification, developing a leading presence in new markets, including Canada, Australia, South Africa and then Asia.

Post-war boom
The technology boom and growing concentration of risk in mature markets after the Second World War led to growing demand for risk management, and for greater expertise from insurers and their reinsurers. In response, Swiss Re looked to share its risk expertise through training and communication, a key part of the reinsurer’s business culture and brand ever since.

It opened the Swiss Insurance Training Centre (SITC) in 1960 to provide technical training, particularly to insurers in emerging markets. Swiss Re’s sigma unit began publishing its trademark economic research in 1968, and the unit continues to generate some of the most valued data and analysis available on the insurance market.

Focus on core business
In response to the growth in risk management and the trend towards greater self-retention in the 1980s, Swiss Re began expanding its range of services, acquiring insurance service companies, as well as increasing its participation in the primary insurance market.

However, although dependent upon each other, Swiss Re discovered that the actual management of a primary and a reinsurance company had little in common.

In 1994, a new management team refocused the company’s operations back on reinsurance, reinvesting the proceeds from the sale of its primary insurance businesses in achieving its strategic goal of becoming the world’s largest reinsurer. Growing catastrophe exposures and an increasingly complex and globalized risk landscape were beginning to drive demand for large, highly rated managers of capital and risk.
Swiss Re sought to grow its life reinsurance business, headquartered in London, and develop its insurance-linked securities offering. It also developed its direct corporate insurance unit and further globalization its non-life reinsurance operations.

In the 1970s, Swiss Re had been one of the first reinsurers to recognize the importance of emerging markets. Later, it began opening offices in key markets, seeking to build strong relationships and expertise through a local presence – Swiss Re obtained licenses in Korea in 2002, China in 2003 and Japan and Taiwan in 2004.

During the 1990s, Swiss Re took on much of its current corporate form – it adopted a single brand operating from one global capital base, providing the highest levels of financial strength, expertise and tools to clients whilst remaining attractive to a wide range of capital providers.

**New risk frontiers**

Following Hurricane Andrew in 1992, which was the largest insurance industry loss at that time, Swiss Re began working with Swiss bank Credit Suisse to develop alternative financial and risk transfer solutions.

Developments in actuarial modeling and a growing interest in hedging risk in the 1980s led Swiss Re to explore developments in capital markets and bring new financial products to existing and new clients. The growth in Swiss Re’s financial products business helped forge lasting relationships between reinsurers and capital markets that had not really existed before.

A new era was beginning, and capital markets had been opened up as a source of additional and complementary capacity. Innovative products were also being developed, including some of the first insurance-linked securities and public-private partnerships.
Top:  
Mythenquai 60 in Zurich, Swiss Re’s first purpose-built offices, opened in 1913.

Above:  
Swiss Re’s new office building at Mythenquai 50 in Zurich, planned for 2017.
Market consolidation and expansion
With strategy firmly fixed on its core reinsurance operations, Swiss Re strengthened its position by buying competitors in a number of markets during the 1990s and 2000s.

The company made a series of acquisitions in the life reinsurance market between 1995 and 2001, mostly in the US but also reacquiring M&G. These acquisitions formed the basis of Swiss Re Life & Health, the company’s global life reinsurance business centered in London, which includes AdminRe®, an operation specializing in the acquisition and administration of run-off business.

Swiss Re’s largest acquisition was the USD 7.6 billion deal in 2006 for GE Insurance Solutions, the fifth largest reinsurer at that time. The transaction reinforced the reinsurer’s leading position in the US reinsurance market, but also in other markets such as the UK or Germany.

Challenging times
The opening decade of the 21st century was challenging for global insurers and reinsurers, including Swiss Re.

The terrorist attack on the World Trade Center in 2001 not only cost three thousand lives and billions of dollars in property damage, it also changed insurers’ thinking about the possible size of losses and the interconnectivity and accumulation of seemingly unrelated risks.

Swiss Re in London underwrote half of the USD 3.5 billion coverage for the WTC, and insurance claims from the attack contributed to Swiss Re’s first net loss since 1868. It took five years before a New York jury ruled in favor of Swiss Re and other insurers in the largest insurance litigation process ever, confirming the attack was one event and not two, as the owner of the WTC had claimed.

The first decade of the 21st century put into question the insurability of some large risks. Hurricane Katrina, which produced the highest damages of any natural disaster in history, cost Swiss Re USD 1.2 billion. Although it demonstrated the ability of the industry to absorb devastating losses, within six years the toll of the 2005 hurricane season was equalled by a string of natural catastrophe events in the Pacific region. It started with floods in Australia, which were followed by a sequence of earthquakes first in New Zealand and later in Japan, followed by a tsunami, and the year finished with yet another flood in Thailand.

The financial crisis of 2008 was also tough on Swiss Re. The company made a loss of CHF 864 million in 2008, mainly the result of investment losses and the performance of two credit default swaps.

By de-risking its asset portfolio and concentrating on its core reinsurance business, the company emerged from the crisis as a leading participant in the reinsurance market.

Preparing for the future
In 2011, Swiss Re implemented a new legal structure to support its strategic priorities and refine its business model. It created three separate business units, namely Swiss Re’s existing reinsurance business, along with two new entities for Corporate Solutions and Admin Re®.

The company also continues to invest in the future. In 2003, Swiss Re opened its award-winning St Mary Axe building, affectionately known as the Gherkin, while work began on a new building at Swiss Re’s headquarters in Zurich in 2012.

By staying true to the fundamentals of reinsurance championed by Swiss Re’s early leaders – the importance of diversification and long-lasting client relationships – Swiss Re has weathered many storms in its 150-year history, continuing to provide its clients with a secure partner in risk.

The history of the company shows the pivotal role reinsurance has played in the management of risk. And with Swiss Re at the forefront, it remains well-positioned to carry on doing so.
Above:  
30 St Mary Axe, London, was opened in 2004.
Renewed focus on the domestic market

The shift in global forces after the Second World War, including the rise of communism and de-colonization, reduced the thirst of Canadian life insurers for operating in far-flung corners of the globe. Those companies that maintained international interests, especially Sun Life, tended to favor operating in the US and Commonwealth countries. Canadian insurers also faced threats at home from other international insurers, especially those from the US, keen to expand their portfolios in the Canadian market. In a bid to keep controlling interests within Canada, new legislation was passed in 1957 allowing stock companies such as Sun Life, Canada Life and Manufacturers Life to purchase their own stock and become mutuals, owned by their policyholders. In this new form, these and other players who remained stock companies, such as Great-West-Life, were able to enjoy the post-war boom that saw an increase in the range of insurance products on sale and the increased capacity of consumers to afford protection.

In the field of property and casualty, automobile insurance in particular grew to outstrip fire insurance as the largest sector, although regions such as British Columbia offered car insurance as part of a public sector service. As markets boomed, there were also significant technology and organizational changes for insurers. Improved communications and electronic computing allowed more decentralized offices to flourish, serving the different regions of this vast country. Actuaries also formalized the role of their existing clubs and associations with the creation of the Canadian Institute of Actuaries by Act of parliament in 1965.

Left:
From a 1945 brochure on Veterans Insurance.
In retrospect, this period of post-war market growth with relatively low levels of competition left the industry exposed to the harsher economic climes of the 1970s and the increasing de-regulation, consolidation and global competition of the 1980s. By the mid-1980s, electronic trading was revolutionizing the potential for markets to connect internationally and the logic of global financial institutions able to access capital across new de-regulated financial markets began to hold sway. The major life companies that had gone mutual now needed renewed access to the stock markets to fund their part in this consolidation process in Canada, as well as in other major financial hubs.

De-regulation and consolidation
The Canadian government changed its regulatory stance in the mid-1980s for the first time since the nineteenth century. It created a single regulatory agency for “all federally chartered, licensed or registered banks, insurance companies, trust and loan companies, cooperative credit associations and fraternal benefit societies” in 1987 leading, for example, to the potential for the mergers of banks and investment dealers or the provision of insurance services by banks.

As de-regulation fuelled competition, several Canadian life insurance companies struggled and became insolvent. The most important among these failures was Confederation Life, which had operations in Canada, the United States and the United Kingdom, with 260,000 individual policyholders and another 1.5 million people covered under group insurance plans. Although there was no loss to policyholders, this failure re-confirmed the importance of strong, competitive companies in the market and the government supported a phase of takeovers leading to three major players in the market. By 2008, the big three of Great-West Life, Manulife, and Sun Life held 75% of the domestic market, with Great-West Life accounting for 31, followed by Manulife at 23 and Sun Life at 21%
Whilst the Canadian life insurance industry had focused more strongly on its growing domestic market since World War II, it maintained a capacity to understand the international trends and opportunities within the global industry. There was, however, a barrier to joining the wave of mergers and acquisitions occurring and that was the complexity of raising new capital as a mutual owned by the policy-holders. Growing stock markets again lured the leading life insurers to become stock companies at the turn of the Millennium, facilitated by changes in legislation that also protected them from takeover by the liberalized Canadian banking industry.

Great-West Life, which had never been a mutual company, also moved quite aggressively into the U.S. with the acquisition of Anthem Health and Life Insurance in 1998 and of Allmerica Financial Corporation’s group life and health insurance business in 1999. In 2007, it bought the troubled mutual fund manager Putnam Investments for $3.9 billion. Sun Life increased its presence in the U.S., building upon the platform of Massachusetts Financial Services, an investment management company it had acquired in 1982. It has also been expanding to both China and India. In 2004, Manulife bought John Hancock, the venerable Boston-based insurer, which had been founded in 1862 as a mutual company and demutualized in 2000, for $15 billion – the largest ever cross-border acquisition by a Canadian company. Consequently, the United States came to represent over one third of its overall revenues, followed with over 20% by Asia.

Today, the Canadian insurance industry can look back on a proud history. It has been a major source of capital and risk expertise for the thriving Canadian economy and played its full part in forging the unique Canadian spirit, combining solidarity with entrepreneurial drive and a global outlook. As the industry looks forward there are also good grounds for optimism. Emerging from the recent financial crisis in relatively good health, Canadian insurers are set to prove again that they are both equal to the challenges their communities face and able to innovative and make a full contribution to Canada’s future prosperity.
Between January 4 and 10, 1998, Eastern Canada suffered the worst recorded losses from a storm on Canadian soil. Up to 100 cm of freezing rain fell on major conurbations, disrupting power and transport. Local areas declared a state of emergency and over 15,000 troops were deployed. By January 18, 25 Canadians were dead.

The 1998 ice storm showed the scale of factors that can affect Canadian weather. In an El Nino year, the warm moist air of the southern jet stream was driven northward from the Texas Panhandle, as it collided with a high-pressure cell that had stalled over Bermuda. At the same time further north, a large stationary mass of Arctic high pressure over the Hudson Bay forced a cold shallow air mass into the Ottawa/St. Lawrence Valley, creating the conditions for a very special ice storm. As the rain fell from the warm air mass above, the droplets passed through the thinner band of freezing air and were “super-cooled”. However, rather than becoming frozen and turning to ice pellets, these super-cooled droplets fell as rain, turning to fine sheets of ice as they came into contact with freezing surfaces, building layers of ice on trees, power lines and pylons. Both the length and the breadth of the storm were unusual. 80 hours of freezing rain and drizzle occurred, nearly double the normal annual average and it was 20 times the average length of storm. It reached vast swathes of Ontario and Quebec and caused havoc in major urban centers such as Montreal.

Disruption to the economy was put at over a $1 billion, as were the costs of the storm. Critically 120,000 kilometers of transmission and distribution lines were pulled down by the weight of ice and by falling trees. At the height of the storm, 10% of Canadians were without electricity and in some areas the power grid needed to be re-built from the ground up.

Such an event presented an enormous challenge to the Canadian insurance and reinsurance industry. Processing the number of claims swiftly and accurately, dealing with multiple lines from property, business interruption, personal injury and payments from liability suits all stretched the industry to the limit and emphasized the role of reinsurance in limiting losses in the face of such peak risks with their multi-line and accumulating losses. Risk prevention measures, such as improving the construction of electricity pylons were also implemented to increase the resilience of infrastructure in the face of the next testing storm.
Swiss Re – global reinsurers as an integrated part of the Canadian insurance landscape

Since the 19th century, the Canadian property and casualty market has broadly placed its confidence in the capacity of international reinsurers to diversify risk and support the wise allocation of capital. Indeed in 2009, three such companies, Munich Re, Swiss Re and Reinsurance Group of America accounted for 85% of the market.

Although Swiss Re was active in the neighboring market of the United States, it managed its important Canadian relationships from Zurich, entering into its first treaty with a Canadian insurer, Dominion of Canada General Insurance Company of Toronto, as early as 1911. The high levels of mutual trust and preference for long-term relationships that marked the early reinsurance markets shaped Swiss Re’s involvement in the Canadian market through the second quarter of the century. However, the use of reinsurance to manage peak risks and optimize the use of capital in the Canadian market meant that by 1938, Swiss Re alone already had 1712 outstanding contracts spread across 546 companies. Canada’s healthy connections to the British and European reinsurance markets were almost totally interrupted in 1940 with the onset of war, but the Swiss Re Group provided services to the market via its New York office. This break in trade re-confirmed the logic of Swiss Re offering a Canadian team to handle Canadian risks for Canadian cedents and in 1951, shortly after the resumption of world trade, Swiss Re responded by establishing the first Canadian specialist reinsurer. By Special Act of Parliament, the Canadian Reinsurance Company was incorporated in March 1953 with a head office in Toronto, joined by a Montreal office in 1963. It transacted all types of reinsurance other than life, with capital of $2 million, later extended to $4 million. Further integration of Swiss Re into the Canadian domestic market happened in 1960 when a partner operation in the field of life reinsurance was opened. Early results for the new company were poor. Canada was suffering from high inflation, which increased loss valuations, whilst premium growth struggled due to over-competition. During this time, Swiss Re continued to follow the fortunes of its clients who had experienced catastrophic underwriting results, especially in the property field, in 1957 and 1963.
What began as an entrepreneurial operation under the management of Robert F. Clark, with a staff of two, grew over the following decades into a significant player in the Canadian insurance landscape and an important voice in Swiss Re’s global operations, with both premiums and capital measured in the hundreds of millions Canadian dollars. Shortly after a name change to Swiss Re Canada in 1995, Swiss Re acquired Mercantile and General Re globally and the operations of both companies in Canada were merged with a renewed focus on client service. The growth of the operation was reflected in 1998 by a re-location from the Yorkville offices to new premises in the heart of the financial district of Toronto.
Agriculture

Canada is one of the world’s agricultural powerhouses, from fishing, grains, oil-seeds and timber to the summer produce of the Okanagan valley in the east. With a varied climate, the country’s agricultural production was closely linked to regional settlement patterns and the demand shown by British and European markets. The Prairies, often associated with the three central provinces of Alberta, Saskatchewan and Manitoba, have since the late 19th century been the breadbasket of Canada and a major exporter of wheat, as well as livestock. Supported by the development of the railways, the amount of land under field crop in the Prairies jumped from 1.5 million to over 16 million hectares between 1901 and 1931. Partly driven by a boom in prices at the time of World War One and excess capital from British investors, this expansion included planting wheat in semiarid land such as the Palliser Triangle, which was subject to drought and high rates of crop failure. Elsewhere, smaller, under-capitalized farmers consistently struggled as mechanization became vital to survival. Various cooperatives and compulsory pools were founded to market the grain and stabilize prices on behalf of the farmers in the 1920s and 30s, but these often struggled in difficult economic conditions or came under the influence of grain merchants or other players further along the food supply chain. Today, the Canadian agricultural industry is in healthy competition with the vast plains of the US and Ukraine and has diversified into other grains and oilseeds, including for bio-fuels. They are also benefitting from the forecasts of continued high prices.

Forms of insurance have long played a role in providing financial protection to Canadian farmers faced with the devastating impact of natural disasters and adverse weather. Crop insurance was formally introduced in 1939 by the Canadian Government in the form of the Prairie Farm Assistance Act and replaced by the CI Act in 1959. With the growth in food security concerns and the increasing integration of agriculture into the overall food supply chain, agricultural insurance has gained renewed focus. Attention has shifted to the potential of insurance products to reduce the exposure farmers have to fluctuations in commodity prices between planting and harvest and generally collaborate with the farmer to stabilize their overall income through farm revenue insurance over multi-year cycles.

Below:
Threshing wheat, Portage Plains, Manitoba, ca. 1903.

Opposite:
Farmer planting corn, ca. 1907.
Today, insurance is an integral part of our lives. Building a house, marketing a product, driving a vehicle, all would be unthinkable without taking appropriate insurance cover.

By contrast, reinsurance remains virtually unknown by the general public, even though it plays a key role in taking on risk and enabling economic growth and progress.

Reinsurance is “insurance for insurers”. It carries out one of the fundamental principles of insurance, namely that risks need to be spread as widely as possible. The more broadly they are shared, the more cost-effective it becomes to cover them.

From the very beginning, the reinsurance business was international, helping its clients offset their risks across the globe. Similarly, its breadth of activity across lines of life and non-life business, let specialized insurers diversify their risks over a wider range. And through its long-standing client relationships, some dating back to the 19th century, a third dimension has opened up of distributing risk over extended periods of time.

Reinsurers accept risks of virtually every kind, from natural catastrophes to higher mortality and motor insurance to aviation liability. These risks are transferred to them by the primary insurers, who then need to keep less risk capital tied up and can write more business as a result.

As the premiums paid for reinsurance are invested via the financial markets, both primary insurers and reinsurers contribute significantly to the economy, which helps drive growth and benefits society in general.

Reinsurance naturally researches risks and the nature of risk more than any other part of the financial services industry. Knowledge accumulated over centuries today is harnessed in statistics and state-of-the-art models to better understand the risks of the 21st century. This effort directly benefits clients and society as a whole.

And reinsurers are also an active voice in the public discussion on risk. For addressing the big issues of our time and coping with natural perils or epidemics, insuring large-scale projects and consumer products, and, ultimately, insuring our everyday lives, reinsurance has become indispensable.