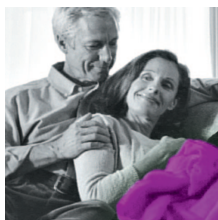


# Dollars & Sense

A perspective from your insurance broker



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Your Best Insurance Is An Insurance Broker



We expect that the 2004 financial results for the property and casualty (P&C) insurance companies will be one of the strongest in recent years. As insurance brokers who represent the consumer in all insurance transactions, we are concerned about consumer perceptions of these financial results. It is in this capacity that we want to clarify how insurance works and why a healthy, solvent and stable industry benefits the consumer. We hope that this brochure will provide you with an understanding of the economics of insurance.

### **Industry Overview**

The P&C insurance industry is an important contributor to the Canadian economy. With registered sales of over \$30 billion and assets of over \$80 billion, it provides jobs for about 100,000 people in Canada, including insurance brokers, and generates \$6 billion in taxes each year for all levels of government.

P&C insurance includes home, car and business insurance, but not life insurance. Automobile insurance is the largest single class of P&C insurance in Canada.

The P&C insurance industry has a wide variety of participants, including more than 200 companies that underwrite or “manufacture” the product; and brokers who distribute approximately 80% of that product.

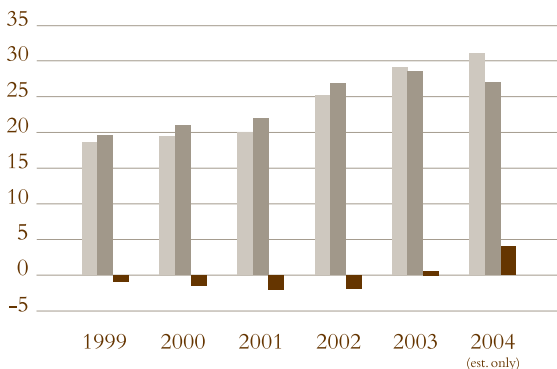
### **Why do insurance companies earn money?**

Insurance companies are businesses – income and expenses have to be balanced so that they stay solvent and stable. Insurance companies earn money in two ways:

1. Insurance premiums
2. Investment income

*Insurance premiums* constitute the insurer’s income from the sale of insurance policies. Several factors affect insurance premiums including: claims by policyholders, fraud, global catastrophes, insurance premiums to other insurance companies (reinsurance) and return on investment (see next paragraph). Depending on these factors, insurance companies have had to pass certain costs onto the consumer.

## Premiums and Expenses (in billions of dollars)



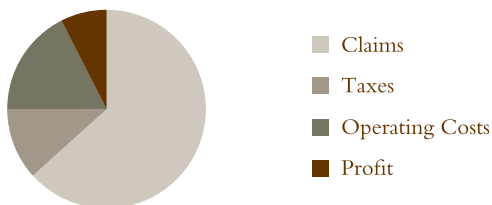
*Insurance in Canada is a \$30 billion industry. It provides jobs for 100,000 people and plays a major role in the social and economic fabric of Canada.*

- Net Premiums
- Total Expenses
- Profit/Loss

*Investment income* is the money earned on invested premiums (before they are paid out in claims). Regulators require insurance companies to maintain healthy reserves to settle all claims including any possible future payments.

In the 1990s, the cost of claims increased faster than premiums to the point where premiums were no longer sufficient to cover costs. High returns allowed insurance companies to use their investment income to offset the losses instead of raising premiums.

## How premiums are utilized



*Profitability in the insurance industry cannot be assessed properly in the short-term. A policy sold today could take years before the actual cost of a policy, in terms of claims, will be known.*

## **Regulation**

The insurance industry is closely monitored and regulated by both the federal and provincial governments to ensure that insurance companies can meet their financial obligations to policyholders. In addition, provincial governments have jurisdiction over market conduct and consumer issues such as rate-setting, sales practices and the conduct of insurance brokers.

## **Who benefits from a strong insurance industry?**

We all do. A strong insurance industry, like a strong economy, benefits us all. General insurance underpins much of the country's economy by assuming part of the financial risk inherent in running a business, driving a car or owning a home.

As insurance brokers, we are the consumer's advocate, not employed by the insurance companies. We operate our own enterprises, quite often a family business, in almost every community. Our primary duty is to our clients. We ensure that they receive the right insurance advice and coverage. To achieve this, we need strong, profitable and stable insurance companies.

Profit provides security against insolvency. Canadian consumers want to know that the insurance company that we recommend is going to be there for them financially, even if it takes some years before a claim is made. A profitable insurance industry benefits everyone.

## **What is the Insurance Brokers Association of Canada?**

The Insurance Brokers Association of Canada (IBAC) is a federation of 11 provincial and regional associations of property and casualty insurance brokers. Through its member associations, IBAC represents approximately 29,000 insurance brokers in virtually every community across the country.