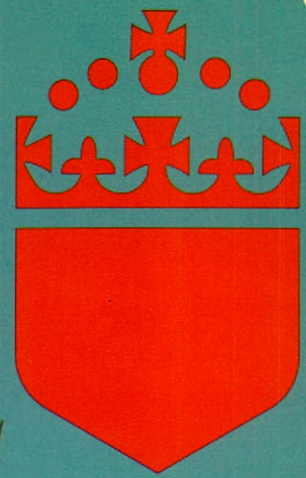


Royal Insurance Canada

Report of Operations 1979



Roins Holding Limited
comprising
Royal Insurance Company of Canada
The Western Assurance Company
Quebec Assurance Company

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About our Cover...

Two of the bilingual hostesses who staffed Royal Insurance's annual exhibit at the 1979 Canadian National Exhibition offer balloons to young visitors. The company promoted fire safety at its popular Fire Hall in the CNE's Centennial Square complex.

About Royal Insurance...

Royal Insurance is one of the largest insurers in the world, operating in over 80 countries and territories through an international network of 700 offices. More than 20,000 people are employed by Royal Insurance, and its insurance policies are produced in 16 different languages.

Here in Canada, Royal Insurance Company of Canada's origins go back to 1833. Operating as the British America Assurance Company it then began to write insurance in the town of York, now better known as the giant metropolis of Toronto. The first Prime Minister of Canada, Sir John A. MacDonal, was one of the fledgling company's early Patrons.

The group of insurers which today are known as Royal Insurance Canada comprise Royal Insurance Company of Canada, The Western Assurance Company and Quebec Assurance Company – all owned by Roins Holding Ltd. Head Office is at 10 Wellington Street East in Toronto.

Some Quick Facts about Royal Insurance Canada

- Royal Insurance Company of Canada is the largest insurer in Canada of homes, cars and businesses.
- Royal was the first Canadian insurer to offer a "plain language" insurance policy, written in terms which consumers find easy to understand. The company now has a broad range of these policies.
- Royal has 20 main Branch Offices across Canada. In addition, it maintains 36 district and service offices in major centres across Canada.
- Royal sells through 2,800 independent insurance agents and brokers across Canada.
- Royal has a staff of 3,720 who look after more than 500,000 clients and over 1,240,000 individual policies.

- Royal is the only Canadian insurer to offer policyholders access to an "ombudsman" or independent arbitrator service (Royal - AIDE) if they have a claim which cannot be resolved.
- Royal has a pilot Drive-in-Claims Centre in Toronto which offers one-stop loss & claims service.
- Royal maintains a Consumer Information Service in all Branch Offices and at Head Office. In 1979 this service recorded over 109,000 telephone calls and visits from consumers.



Royal was the first Canadian insurer to offer a "plain language" insurance policy, written in terms which consumers find easy to understand. The company now has a wide range of these policies for home and commercial use.

The President's Remarks

The disappointing results produced by the company last year are a reflection of the very difficult conditions in which the insurance industry found itself.

A number of intense pressures came to bear on insurers during 1979. The lingering influence of the federal government's Anti-Inflation Board regulations distorted pricing by requiring many companies to hold down necessary rate increases; Canada's weak dollar encouraged several foreign insurers to enter the market aggressively with "loss leader" pricing; inflation at near the double digit mark steadily pushed up the cost of settling losses; and finally, the frequency of claims showed a disturbing increase.



JEAN ROBITAILLE

The net effect produced a property-casualty market that could almost be described as chaotic, and there is little doubt that the effects of this market will spill over into 1980.

Faced with these volatile market conditions the Royal took decisive steps. The company decided not to actively compete for obviously under-priced classes of insurance. This resulted in slower than expected premium growth, and a minor erosion of Royal's share of the market. Business written and retained in Canada rose to \$481.8 million, compared with the \$469.8 million in 1978.

Investment income stayed strong, and rose from 1978's \$43.2 million to \$50.3 million.

The company however, comfortably maintained its lead as Canada's largest insurer of homes, cars and businesses, with approximately 10% of the total Canadian market.

During the year, the company's new Policy Service System began to take over many of the manual operation tasks; Barrie Branch came on line, and other branches are coming on line in rapid succession.

We welcomed two new members to our Board - Messrs. Gordon C. Gray, F.C.A. Chairman and Chief Executive Officer of A. E. LePage Ltd., and Arthur H. Mingay, Chairman and Chief Executive Officer of The Canada Trust Company. We also acknowledge the outstanding contribution made by A. Jean de Grandpre, Q.C. who retired from our Board after 8 years of serving the company.

JEAN ROBITAILLE
President and Chief Executive Officer

DIRECTORS

(as at December 31, 1979)

ROYAL INSURANCE COMPANY OF CANADA

The Western Assurance Company
Roins Holding Limited

Chairman of the Board:
DONALD M. PRINGLE, Q.C.
Toronto, Ontario

JACQUES DE BILLY, Q.C.
Quebec, P.Q.

ROY A. ELMS, F.C.I.I.
Toronto, Ontario

JOCK K. FINLAYSON
Montreal, P.Q.

GORDON C. GRAY, F.C.A.
Toronto, Ontario

RUSSELL E. HARRISON
Toronto, Ontario

G. ARNOLD HART, M.B.E.
Montreal, P.Q.

ALAN A. HORSFORD, B.A. (Hons.), F.C.I.I.
London, England

ALEXANDRE A. LABREQUE, Q.C.
Quebec, P.Q.

ARTHUR H. MINGAY
Toronto, Ont.

J. DEAN MUNCASTER
Toronto, Ontario

DEREK OLAND
Dartmouth, N.S.

JEAN ROBITAILLE, B.A., F.I.I.C.
Toronto, Ontario

RONALD D. SOUTHERN
Calgary, Alberta

ADAM H. ZIMMERMAN, F.C.A.
Toronto, Ontario

(ROINS HOLDING LIMITED ONLY)

KENNETH M. BEVINS, C.B.E., T.D.
London, England

J. N. H. HAY
London, England

DANIEL MEINERTZHAGEN
London, England

Secretary: K. S. MILLER, B.A. (Hons.), A.I.I.C.

QUEBEC ASSURANCE COMPANY

Chairman of the Board:
ALEXANDRE A. LABREQUE, Q.C.
Quebec, P.Q.

SEBASTIEN ALLARD, A.I.I.C.
Montreal, P.Q.

MARCEL J. BUNDOCK
Drummondville, P.Q.

BERNARD G. COTE, B.Comm., M.B.A.
Montreal, P.Q.

JACQUES DE BILLY, Q.C.
Quebec, P.Q.

HENRI DESLAURIERS, I.C.
Sillery, P.Q.

GABRIEL GILBERT
Sillery, P.Q.

ALAN A. HORSFORD, B.A. (Hons.), F.C.I.I.
London, England

JEAN-LOUIS LACHANCE
Quebec, P.Q.

JEAN ROBITAILLE, B.A., F.I.I.C.
Toronto, Ontario

JACQUES TASCHEREAU, LL.L.
Quebec, P.Q.

JEANNINE GUILLEVIN-WOOD
Montreal, P.Q.

Secretary: K. S. MILLER, B.A. (Hons.), A.I.I.C.

Financial Highlights of 1979

(Expressed in millions of \$)

OPERATIONS	1979	1978
Net written premiums	<u>\$481.8</u>	<u>\$469.8</u>
Net premiums earned	486.7	463.9
Losses, claims and related costs	364.1	308.1
General expenses (including commission and taxes other than income taxes)	<u>161.1</u>	<u>162.3</u>
Underwriting loss	(38.5)	(6.5)
Investment income (after expenses)	50.3	43.2
Realized gain (loss) on disposal of investments	<u>5.5</u>	<u>(1.3)</u>
Net profit before taxes	17.3	35.4
Income taxes	<u>(1.4)</u>	<u>13.6</u>
Net income for the year	<u>\$ 18.7</u>	<u>\$ 21.8</u>
ASSETS AND LIABILITIES		
ASSETS:		
Cash	<u>\$ 5.4</u>	<u>\$ 1.4</u>
Investments		
Bonds	418.2	453.2
Preferred stocks	37.9	23.3
Common stocks	108.4	67.6
Mortgage loans on real estate	32.5	31.6
Real Estate	<u>10.6</u>	<u>4.0</u>
	<u>607.6</u>	<u>579.7</u>
Agents' balances	62.4	69.2
Fixed assets	14.8	14.0
Deferred premium acquisition costs	43.3	44.3
All other assets	<u>26.9</u>	<u>22.2</u>
	<u>\$760.4</u>	<u>\$730.8</u>
LIABILITIES:		
Losses under adjustment	352.5	321.0
Unearned premiums and other policy reserves	209.2	214.1
All other liabilities	23.5	35.1
Deferred income taxes	23.1	24.2
SHAREHOLDERS' EQUITY:		
Capital and retained earnings	<u>152.1</u>	<u>136.4</u>
	<u>\$760.4</u>	<u>\$730.8</u>

Note: (1) Investments are carried at book value. Market values at December 31, 1979 exceeded book in the aggregate by \$50.3m (1978 - \$29.6m).

(2) Operations and balance sheet for both years are presented in accordance with generally accepted accounting principles.

(3) The Canadian and British Insurance Companies Act requires an appropriation of retained earnings in respect of assets not admitted, investment valuation reserve and other statutory requirements. These appropriations aggregated \$24.0m (1978 - \$18.3m).

1979: The Year in Review

The past year will undoubtedly be remembered firstly, as one of intense competition for business in a generally soft insurance market, and secondly as a confirmation that the Canadian property-casualty insurance business seems to have swung inexorably from a 4 or 5-year cycle between underwriting profits and underwriting losses, to a 3-year cycle.

As we enter the new decade of the 1980's this is a matter of real concern, but from a study of 1970's experience the pattern which has emerged is quite obvious. In 1970 and 1971 the industry had small underwriting profits; then the years 1972 through 1975 produced sizeable losses. The years from 1976 through to 1978 were profitable, but 1979 has seen a swift return to unprofitable insurance operations and there is every indication that 1980 will continue this cycle of unprofitability.

Of even more concern however, is the fact that during the 1970's decade, the five years of underwriting profit produced an overall industry total of only \$124.7 million, while the five years of underwriting losses amount to almost \$700 million.

It has not been a satisfactory year for the Royal. While 1979 started out predictably with an adverse first quarter, the second quarter showed a sharp surge in both the frequency and severity of losses in the home and automobile insurance classes.

The Royal had an underwriting loss of \$38.5 million for 1979, compared to a loss of \$6.5 million the year before. However, the strong performance of the company's investments, which rose 16.5% to \$50.3 million in 1979, resulted in a net profit, before taxes, for the year of \$17.3 million.

In automobile insurance, the sharp deterioration was unlike any of the previous three years when the curve of frequency showed a downturn. What began to emerge early in 1979 therefore, was the more usual toll of a highly mobile society which appears to have become acclimatized to reduced speed limits, mandatory seat belt legislation and higher gasoline prices, and moreover, is reacting to a somewhat less stringent surveillance effort on the part of those government agencies responsible.

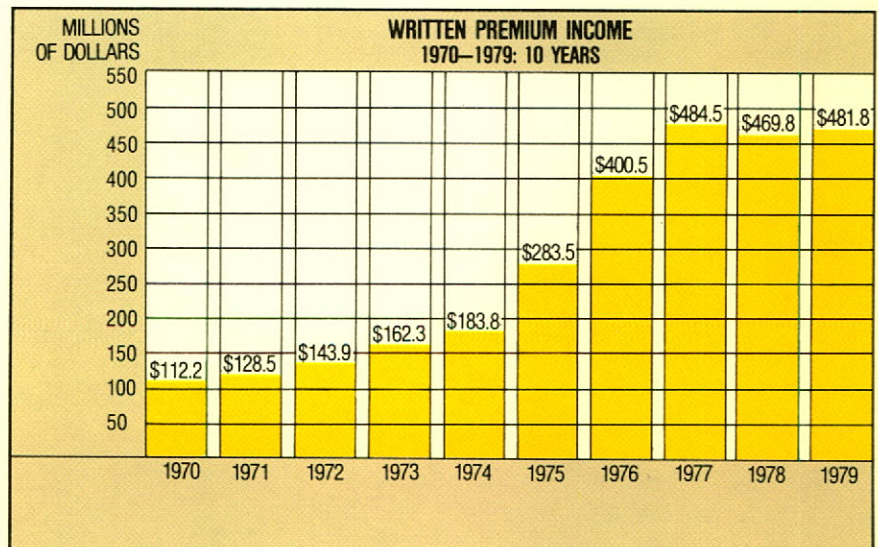
The year's traditionally good third quarter showed some signs of improvement, but the fourth quarter brought a swift return to increased accident frequency and sharply higher costs of settlement. A corrective upward rate revision which averaged between 10% and 12% countrywide was made in mid-year. However, indications are that the rapid increase in automobile parts prices, labour rates and medical costs – when combined with the escalation in loss frequency and severity – will erode much of this increased revenue.

Competition for business in the province of Ontario, where the Royal derives almost 50% of its total premium writings, was strenuous throughout 1979, with

considerable evidence of "loss leader" market penetration by foreign-based insurers attracted to the Canadian property-casualty insurance market by high interest rates and the low Canadian dollar. The company committed itself to a policy of not writing business at obviously uneconomic levels, and when combined with the aggressive price competition it had the effect of holding down growth in this market to 3%.

In the province of Quebec, problems in the automobile insurance class were further compounded by the uneven split of revenue generated.

While the 35% of revenue apportioned by the government agency to meet its obligations in the bodily injury coverages has proved to be substantially more than was needed to meet losses during 1979, the 65% portion of the total premium dollar allocated to private insurers to meet losses under the property damage section of policies, proved to be quite inadequate in meeting the sharply increased rate and size of claims. In addition, the intense marketing pressure caused by companies' efforts to replace business lost to the government-controlled automobile insurance agency resulted in a year-long wave of competitive price-cutting.



1979: The Year in Review

Good progress was again made in the provinces of Manitoba and Saskatchewan. The company continued to improve the level of service in both provinces. Our Saskatoon district office was re-located in expanded premises to accommodate the anticipated growth market which is developing in the province of Saskatchewan.

In Alberta, the Edmonton branch posted a 29.3% increase in premium writings; Calgary branch premium income rose 10.9%. Throughout the province the Royal's share of market further improved, particularly in the commercial classes of business.

In British Columbia, the company reluctantly withdrew from the optional coverages market in personal automobile insurance. This decision was taken after prolonged study of this market in which we competed directly with the government-controlled Corporation.

The company faced difficult conditions in the property market, both personal and commercial, throughout 1979. Continuing severe price competition saw Royal end the year with slightly fewer insureds - overall a drop of some 4% - but a substantially higher frequency-of-loss ratio. This is probably attributable to the erosion of the value of deductibles as Canada's annual rate of inflation climbed during 1979 to almost 10%, plus a disturbing rise in lawlessness and vandalism, particularly in urban areas. The company suffered an almost 100% increase in losses over \$25,000 during the past year. Both the personal and commercial markets are being impacted severely by the rising incidence of arson, which rose over 400% from 1975-1978, and caused an estimated industry loss of \$125 million in the latter year. Figures for 1979 are expected to be even higher, and underline the fact that almost 30% of all fire losses involve arson.

Throughout 1979 the commercial classes of business attracted very strong competition from all traditional markets. The market in Canada also attracted additional capacity from world-wide markets. Excluding commercial automobile, the business remains marginally profitable, although the incidence of arson-related or suspected losses is a matter of deep and growing concern. Both the Boiler and Machinery and Marine and Aviation departments posted strong growth rates of 6% and 28% respectively, and each produced underwriting profits in the face of continuing strong competition.

Phasing in of the company's advanced data processing system was successfully begun during the summer. This Policy Service System is built around our new IBM 3032 series computer to which all branches will eventually be linked via video screen terminals and high-speed printers. The new system will enable Royal to eliminate many manual insurance operations such as policy rating and the printing of policies and renewals, as well as giving instant access to policy information and statistical information. Our Barrie Branch was the first to come on line, and our other branches across Canada are following in rapid succession.

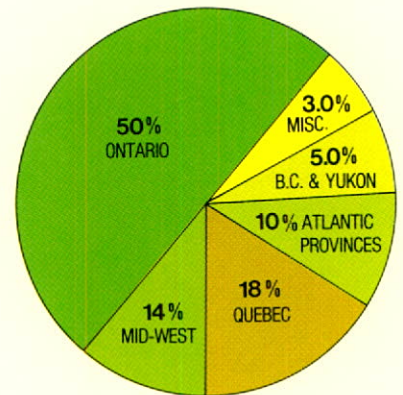
During 1979, official opening ceremonies took place at the company's new branch office premises in Vancouver and Quebec City; at new district office premises in Victoria, Sherbrooke, Kitchener and Kingston, and at new service office premises in Newcastle, N.B., Kentville, N.S., Dryden, North Bay and Timmins, Ontario.

Our 24-hour bilingual "Hotline" telephone service handled over 3,000 after-hours insurance emergencies from all parts of Canada.

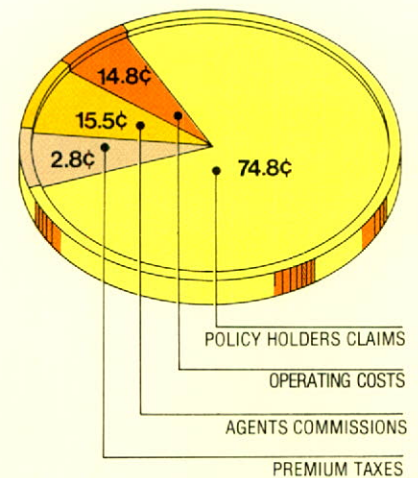
The company added to its expanded line of "plain language" insurance policies with the introduction of a new version of the Boiler and Machinery policy, written in the same everyday language which distinguishes the Royal "Homeshield", "Tenantshield" and "Storeshield" policies.

We face the future with confidence in the abilities of our management and staff to carry through the difficult tasks that are ahead in fulfilling our objective of delivery of our service in a fashion clearly in the first rank, in terms of imagination, quality and efficiency.

WHERE ROYAL'S BUSINESS COMES FROM IN CANADA



DISTRIBUTION OF OUR INCOME DOLLAR*



* NOTE: In 1979, for each dollar of earned premiums, losses and expenses totalled \$1.08.

The Senior Executive



ROY A. ELMS, F.C.I.I.
Executive Vice-President
Corporate Affairs



WILLIAM CAMPBELL, A.R.T.C.
Executive Vice-President
Insurance Operations



SEBASTIEN ALLARD, A.I.I.C.
Senior Vice-President
Branch Operations – Quebec



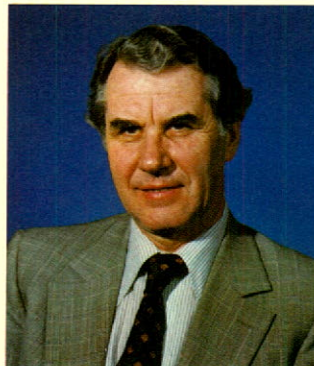
H. FRANK ATKINSON, F.I.I.C.
Senior Vice-President
Finance



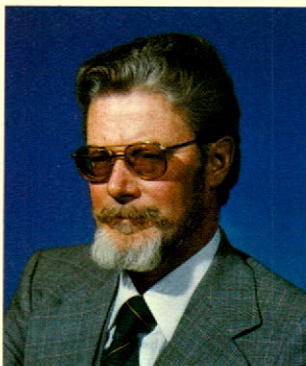
VERNON G. LAMBERTSON
Senior Vice-President
Administration



KENNETH S. MILLER, B.A. (HONS.) A.I.I.C.
Senior Vice-President &
Corporate Secretary



PETER M. SHEPHERD, A.I.I.C.
Senior Vice-President
Branch Operations
& Public Affairs

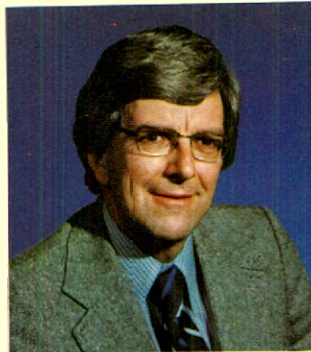


KENNETH C. WALDUCK, F.I.I.C.
Senior Vice-President
Underwriting, Marketing,
Actuarial & Loss & Claims

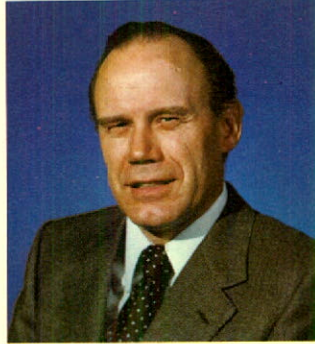
Vice-Presidents



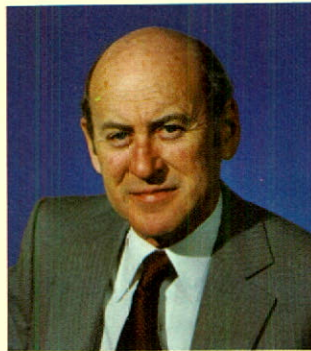
LEON K. ALBRECHT
Management Services



MICHAEL C. BARNARD, F.C.I.I., M.Ed.
Personnel



DONALD W. BLANDFORD, A.I.I.C.
Branch Operations
Metro Toronto & Hamilton Region



WARREN R. CRAWFORD
Industry Affairs



BRIAN HOWARD, F.I.I.C.
Commercial Lines Underwriting



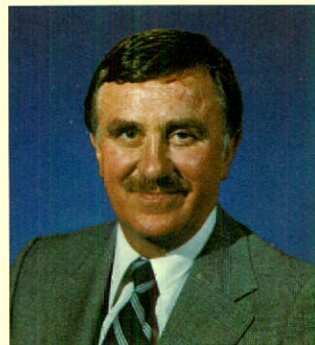
JOHN E. McNEIL, F.I.I.C.
Branch Operations, Western Canada



ROGER W. RADFORD, F.I.I.C.
Branch Operations, Ontario
(except Toronto) & Atlantic Provinces



EDWARD C. SHOOP, F.C.A.S.
Personal Lines & Actuary



ALAN R. WESTBROOK, B.Comm.
Investments

Underwriting (by Region)

ATLANTIC PROVINCES

Premiums written, both in the Personal and Commercial areas, dropped slightly due to continued competition. A profit of just under \$1m in the Commercial account was more than offset by a loss of \$2.2m in the Personal area.

QUEBEC

The severe competition, created by the previous year's government takeover of the Automobile bodily injury coverages, continued throughout 1979.

The underwriting loss in the Automobile account was the main factor in the overall unsatisfactory results.

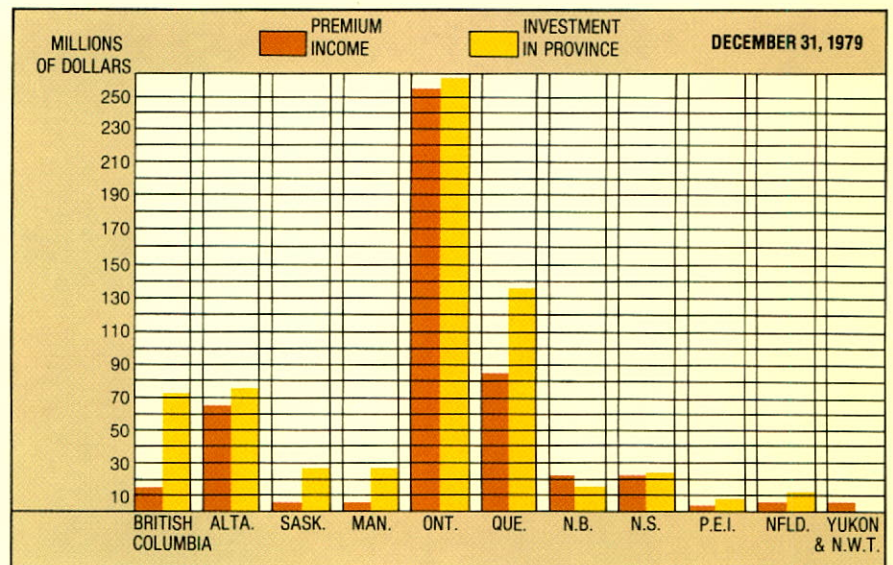
ONTARIO

The very competitive market which developed early last year continued in 1979. Premiums written in the Province increased by just over 2% and overall Provincial writings now account for about 50% of our Canadian premium income. The Toronto area was affected by a severe April windstorm which caused losses of \$3 million. A tornado which struck the Woodstock area in August affected our Property account with a loss of around \$1 m. While there was an improvement in the operating ratio for the Casualty class, the Property and Automobile classes experienced an unsatisfactory result.

MID-WEST

This region covers the Provinces of Manitoba, Saskatchewan and Alberta. A very good premium growth of just over 16% was achieved and there was a small overall underwriting loss.

INVESTMENTS - BY PROVINCE 1979



MANITOBA AND SASKATCHEWAN

The Industry was subjected to a severe tornado in Saskatchewan in August. Although we were involved in a number of occurrences arising out of this tornado our losses were lighter than might have been expected.

ALBERTA

Premium income rose 18.5% from the Edmonton and Calgary branches, with excellent growth in the Commercial accounts, and in the Automobile class.

BRITISH COLUMBIA

The Industry and our own efforts in convincing the Provincial Government to allow fair and responsible competition between the Government Insurance Office and free enterprise insurance met with little success.

Competition for business continued to be severe, and this region produced unsatisfactory results. Although the operating ratio for private passenger automobile cover improved over the last year, one of the main factors in the disappointing results was the adverse experience in this class.

UNALLOCATED BY TERRITORY

This account, as a whole, represented just under 3% of overall premiums written. Almost all the premium involved our share of the involuntary Automobile business and there was a reduction of just over 4% in such premium. The loss of about \$1 m was attributable to this portion of the account, which represents our participation in the industry-wide facility for insuring motorists not accommodated by the regular market.

Regional Results

1979

	Net Written Premiums \$m	Earned Loss %	Earned Expense %	Operating Ratio %	Result \$m
Atlantic Provinces	47.3	71.0	31.8	102.8	- 1.4
Quebec	84.9	81.4	34.7	116.1	-14.4
Ontario	241.7	75.7	31.9	107.6	-18.4
Mid-West Canada	69.6	66.3	33.8	100.1	- .1
British Columbia & Yukon	24.7	70.9	42.2	113.1	- 3.2
Unallocated by Territory	13.6	77.5	29.7	107.2	- 1.0
Total	481.8	74.8	33.1	107.9	-38.5

1978

	Net Written Premiums \$m	Earned Loss %	Earned Expense %	Operating Ratio %	Result \$m
Atlantic Provinces	48.7	56.8	34.5	91.3	4.2
Quebec	87.8	65.4	35.1	100.5	- .5
Ontario	236.7	70.8	34.3	105.1	-11.7
Mid-West Canada	59.8	57.0	36.6	93.6	3.5
British Columbia & Yukon	22.3	62.1	45.7	107.8	- 1.6
Unallocated by Territory	14.5	76.4	25.9	102.3	- .4
Total	469.8	66.4	35.0	101.4	- 6.5

An interview with Jean Robitaille

Recently, Royal Insurance Canada President and Chief Executive Officer, Jean Robitaille, F.I.I.C., spent some time with well-known Canadian freelance business writer, Mike Macbeth. Ms. Macbeth is a Contributing Editor of "Canadian

Business" and has written many articles and features on a wide range of business subjects. She specializes in finance, commerce, and insurance.

Their talk ranged over many areas of insurance which are of interest to Canadian consumers.

MACBETH: Insurance companies stress theirs is a competitive business. Is it really as tough as all that?

ROBITAILLE: Yes, it really is. There are almost 300 federally and provincially licensed insurance companies doing business in Canada. Some of these belong to insurance groups, but even still, we have around 180 companies all competing with one another . . . offering a different rate, a little different insurance coverage, better service, and so on. That's a tough, competitive marketplace.

The Royal's the largest insurer in Canada, with 10 percent of the total market. Compare insurance to automobile manufacturers; how many different cars can you buy here in North America - twenty, twenty-five maybe? And the biggest manufacturer, General Motors, has about 50 percent of the whole market.

MACBETH: Yes, but isn't it a fact that most insurance is pretty much the same?

ROBITAILLE: If you boil it down to its basic element, I guess it is. Insurance is simply a legal agreement, a promise to pay if certain things happen. We know what the probability is for you to have an automobile accident; we base our price on that probability and the cost of repairing it . . . plus the probable cost of you injuring somebody - or getting hurt yourself and having to spend some time in hospital.

But that is where insurance policies - or contracts, because that's really what they are - start to get quite a bit different. A large company like the Royal may offer better service . . . we have branch offices, or district offices, or service offices right across Canada and we like to think that, because of this, someone who has a Royal Insurance policy can be sure they will be looked after quickly, efficiently, and sympathetically wherever they go. That is not accidental. It is our corporate philosophy world-wide to be accessible, to break down the wall between "big company" and the consumer,



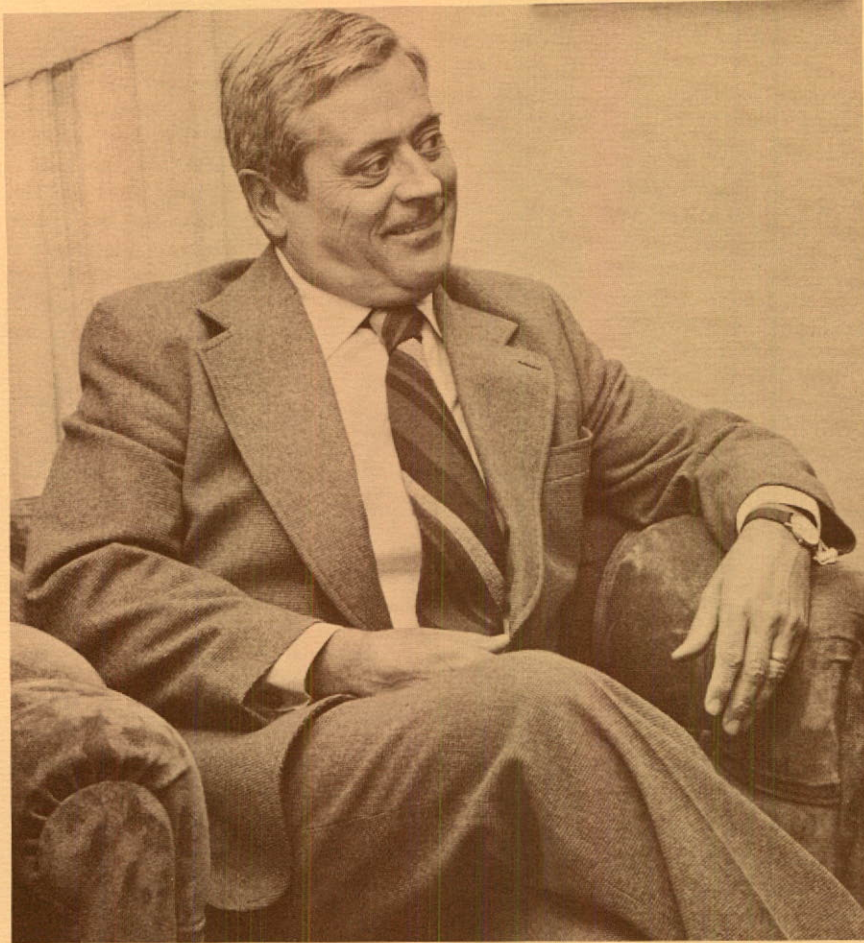
and to recognize regional nuances. Some of the smaller companies don't have all the overhead costs of the bigger insurers, so they can sell for a little less. They compete hard on price. And there are quite a few specialist companies which sell particular kinds of insurance: surety bonds to make sure that a commercial builder will complete his building properly, and on time, aviation insurance on private aircraft, boiler and machinery insurance on the huge new petro-chemical plants.

And beyond this, insurance is sold in quite different and competing ways. Companies like my own prefer to sell our insurance policies through independent insurance agents who live and work in the neighbourhood with their customers. But some other companies sell direct to the public through their own agents who are company employees, or over-the-counter in a department store.

MACBETH: Consumer advocates advise shopping around for the best price in insurance. Is that good advice? Can you really save?

ROBITAILLE: Yes, you can. Insurance really isn't that much different than any other good or service. You should look around. Most people, of course, depend on the advice of their insurance agent to keep them right, and I think this makes sense because there is more than just price involved. You have to consider the reputation of the company, perhaps you would like to know how long it has been in business, and you certainly want to know how good its service is.

A few months ago the Toronto Star did a feature on buying insurance, and I think they listed a spread of up to 40 or 45 percent in price. But getting the lowest price is no guarantee you are getting the best buy, because the service, expertise, efficiency and attitude



of the company with a higher price may pay off if you have a loss. As I said, insurance isn't that much different . . . you get what you pay for.

MACBETH: Speaking of price – why do young drivers pay so much for auto insurance? Isn't this a case of discriminating against youth?

ROBITAILLE: Let me answer your first question: young drivers, or new drivers have always paid more because they have more accidents, more serious accidents than older or more experienced drivers. This question really gets to the heart of the insurance business. You see, the first principle of our business is that the premiums of the many pay for the losses of the few . . . or to put it another way, those who buy insurance must put enough money into the pot to pay the claims of those who have a loss. If the group happens to have a lot of claims, and a lot of very serious claims which are expensive to put right – then the people in that group of drivers – in this case young drivers – have to put more money into the pot so that it will be there when the claims have to be paid.

Because our statistics show clearly

that certain groups consistently have a lot more claims, we have little choice but to ask them to contribute more. I don't call that discrimination . . . it's more like classifying people according to the risks they're exposed to.

MACBETH: But isn't the whole subject of classifying people for insurance under review just now? Opponents to the present system suggest each person is an individual and shouldn't necessarily have to pay more just because they're part of that particular group.

ROBITAILLE: There has been a lot of discussion recently about rate discrimination . . . about consumers paying more or less because of their age, or sex, or marital status. I think what most people don't realize is that our rate classification system was created to make sure that everyone paid his or her fair share according to the risk he or she represented, and this classification system has been constantly expanded, and refined and improved over the years.

You see, we've had almost 50 years to build up statistics. These statistics show patterns. These patterns reflect

factors like age, sex, marital status – and the territory of operation, driving record, type of vehicle, how it's used, the mileage driven, and so on. Someone who drives in the province of Saskatchewan where there are 7.5 vehicles per mile of road would expect to pay a bit less than a driver in Ontario, where there are 35.4 vehicles per mile of road – and course, they *do* pay less, because traffic density causes accidents. Just drive in downtown Toronto or Montreal to prove that! But you know, even the critics of our classification system agree that our statistics are valid and the correlation is clear. To give you an example, young drivers aged 16, 17 and 18 with less than a year's driving experience have 31.93 accidents per 100 cars, and the average cost of the damage caused is \$1,797.00. By the time they get over 25 years of age, that horrendous accident rate falls to 6.02 and the average cost of the damage is \$1,332.00.

MACBETH: Isn't discrimination – or rate selection – by age, sex or marital status on the way out in automobile insurance, though?

ROBITAILLE: Well, this is a complicated subject. I'd have to say yes and no, and let me tell you why. As I have said, statistics show clearly that as a group, young people do have more accidents, and married people have fewer. Young women tend to have fewer accidents than young men.

MACBETH: Are there hard statistics to back up your statement?

ROBITAILLE: Oh yes, very much so. For example, here in Ontario, government figures show that the frequency of loss per 100 cars for young men in that 16 to 18 age bracket is 19.45 – but for females of the same age it's only 7.21 . . . that's a significant difference. I'd say.

But I guess the point at issue is: not *all* young people act, or drive the same way, neither do all women, or married people, and so on. So we have to try and find a better way of letting each single individual set his or her own rate. And of course, the other factor is simply that in today's world, society seems to be insistent on treating everyone the same . . . it's just not socially acceptable to use such criteria as age, sex or marital status in the measurement of a person's risk potential. So, I'd have to say "yes", these criteria may not be applied as they used to be. But I'd also have to say "no" because

we can't just ignore the facts . . . and the facts, or statistics show that these factors do affect the number of insurance claims, and the severity of losses. What we're trying to do now is devise a new system. One popular plan which seems to work quite well in Europe is called the "bonus-malus" system. All drivers start out at a common premium rate and get credits or demerits according to the number of accidents each has in the year. This is different from our present merit rating system where all drivers in a group start off at a certain base rate and move up to a preferred five-year accident-free rate.

I think we may well see a North American version of this European approach quite soon because it does answer the most common criticism of our present merit rating system, which usually goes like this: why should a young male driver who is claims-free pay a higher premium than both a female of the same age, or a 45-year old married man who keeps his preferred rate even though he has an accident every five years?

If our political leaders feel that they are responding to overwhelming public opinion in telling us that discrimination must be eliminated despite the statistical evidence and the equity in pricing which has evolved over time, to the extent that they are willing to legislate our industry into a different system, then we will respond. Indeed, we are cooperating to the fullest extent possible through the use of our own human and financial resources to cost the different systems I alluded to just now.

MACBETH: Will this bring prices down?

ROBITAILLE: It's possible that many young people will pay less, but of course that means that some others may have to pay more. Changing the rules won't change the result: we'll still have the same number of accidents, and they'll cost just as much to put right. The only difference will be that each individual will control what he or she pays.

MACBETH: What about home insurance rates? They appear to be on the way up. What's the reason for this?

ROBITAILLE: Well, they've been a bargain for the past couple of years because so many insurance companies compete for the business the cost is kept down. And the Anti-Inflation



Board held prices down for a couple of years. Now inflation seems to be taking off again, and that means the cost of repairing a home, or re-building it, or replacing damaged furniture, is more expensive. What I would recommend everyone do though, is to check with their agent to make sure they have adequate insurance to cover their house and its contents. Some of the newer policies have an automatic inflation factor built in to guard against homeowners finding themselves under-insured when they have a loss.

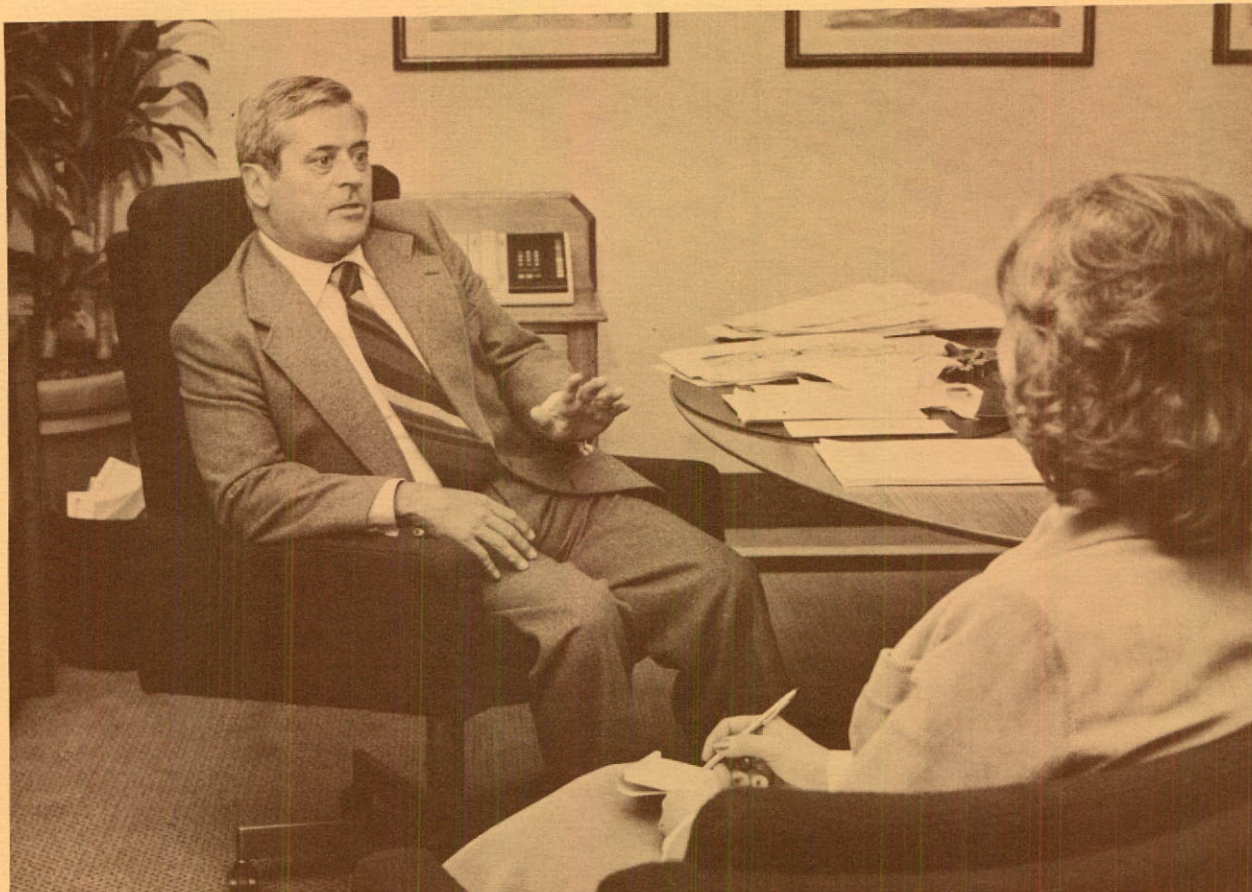
MACBETH: We're now into the 1980's. Are there new developments occurring in insurance?

ROBITAILLE: Yes. In fact, some of them are happening right now. For instance, most of the big companies are using computers and terminals and high-speed computer printers to do a lot of the tasks that used to be done by hand – and much more quickly. Our own new computer set-up in the Royal is called "PSS" – for Policy Service System and it now connects several of our branches directly to our head office computer. The high speed printer connected to this system can spit out a fully

printed policy in 14 seconds. In the near future, it's possible that insurance agents will have computer terminals in their offices: they'll be able to hit a button and flash your policy on the screen, make a change, and hand over a newly-printed policy on the spot. But not only will this be faster, and more efficient – it may help keep insurance costs down.

MACBETH: People don't seem to have the same positive feelings about insurance companies as they do about, say, banks or trust companies. Do you plan to attempt to change this in the 1980's?

ROBITAILLE: We'll certainly be trying to. And you know, we've made a lot of progress here at the Royal in winning the confidence of the consumer. Back about six years ago we were very concerned about the credibility gap that seemed to have developed between insurance companies and Canadian consumers. So in June of 1974 we set up an outlet to help bridge this gap in our communications with the public . . . we called it our "Consumer Information Service" and its aim was to provide fast, accurate



information about insurance to anyone who phoned in. Well, in the first eleven months we got over 13,000 inquiries . . . people did want advice, did want to know how to find another insurance agent, or wanted help with their claim. We set up another CIS unit in Montreal, then kept on adding until all of our 20 branches now have Consumer Information Services. Last year they had 107,624 calls and 3,696 personal visits . . . and I'm happy to say only 3.2 percent of these contacts were complaints.

But then we moved on and tackled that big communication problem, the insurance policy itself. It took us over a year, and it cost us \$75,000, but we finally brought out Canada's first "plain language" insurance policy for home insurance. We now have several "plain language" policies; they're as easy to read and understand as your daily

newspaper, and our policyholders seem to like them very much.

We also decided to do something about the feeling many people have when they deal with an insurance company – the feeling the cards are stacked against them if they don't agree with the company's loss payment. We created our Royal-AIDE Plan, which gives our policyholders access to an "ombudsman" or an independent arbitrator in any case where they feel they have a legitimate complaint which can't be solved in the usual way. The policyholder selects the arbitrator, he's given the facts, and comes to a decision. We go along with whatever decision the arbitrator makes – and we pay the full shot.

MACBETH: How many of your policyholders used Royal-AIDE?

ROBITAILLE: I'm happy to say – very few. We've had less than a couple of dozen cases, and when you consider that we have better than 500,000 policyholders, I think that's a pretty good record.

And I just want to add a word about our 24-hour "Hotline" telephone service, which we launched a year and a half ago. We felt this answered that age-old consumer complaint, "I couldn't get any help because I smashed my car on a Sunday afternoon." We have bilingual operators on duty right around the clock, seven days a week. They're there to help any of our policyholders who have an insurance emergency. We've had a lot of good comments from consumers about this.

Underwriting (by Major Lines)

COMMERCIAL LINES UNDERWRITING

The Commercial Property Account, which produced a marginal profit, was adversely affected during the year by arson-related occurrences which have become of growing concern to the Industry as a whole. Despite the highly competitive conditions, Branches continued to emphasize Insurance-to-Value and the full use of our capacity on acceptable business.

Intense competition in the Automobile area continued throughout the year and was a factor in the disappointing results. A greater than normal number of serious third party claims arose in the latter part of the year. The continuing inflationary spiral combined with greater frequency, particularly in the Physical Damage area, also contributed to the adverse experience.

Although premiums in the General Liability class dropped by about 4.5% to \$38.4m, we were encouraged by an improvement in the operating ratio from 117.0% in 1978 to 101.1% this year. Despite extremely competitive conditions, we maintained our policy of not writing business at rates which we regarded as uneconomic and inadequate.

Several large Fidelity losses accounted for the underwriting loss of about \$.3m in the "Other Casualty" class.

Boiler and Machinery premiums increased by about 6% and a very satisfactory profit of \$.5m was achieved. This was the third consecutive year that good growth and underwriting profits were realized.

The Marine account continued to show very pleasing and profitable progress, with a premium increase of about 28%. During the three year period ending December 1979, an excellent premium growth of about 79% has been achieved in this class despite extremely competitive conditions, and our position in the market has advanced both in status and market share.



Royal's modern Drive-in Claims Centre in Toronto offers fast, one-stop service on all kinds of insurance claims and has proved popular with consumers.

PERSONAL LINES UNDERWRITING

For the Personal Property portion of this account – homeowners, tenants and personal articles insurance – written premiums increased by \$1.5 million or 2.1% over 1978. Outgo exceeded income by \$10.2 million, and is thus a deterioration during the period of \$6.7 million or 8.5% in the operating ratio. This unsatisfactory outcome has occurred despite upward rate level revisions in the course of the year, and is largely attributable to severe competitive pressures, combined with increased loss severity and frequency.

We are committed to writing this class of business and obtaining a favourable outcome. Appropriate underwriting action intended to counter the adverse impact upon our Personal Property portfolio due to this unfavourable competitive position, is planned throughout

the course of 1980. We believe these actions will enable us to achieve a more attractive position in the marketplace.

For the Personal Automobile portfolio, written premiums increased from \$170.2 million to \$184.6 million, a change of 8.4%. Incurred losses and expenses during the year were \$204.3 million, resulting in an underwriting loss of \$17.9 million for the year. This compares with an underwriting loss of \$5.2 million for the prior year. These disappointing results are due to the unfavourable claim frequency and severity conditions, especially in the Province of Quebec, where the frequency of claims increased dramatically under the new automobile insurance environment.

Competitive conditions are very severe throughout the entire country, thus making satisfactory rate relief very difficult to obtain in the marketplace.

Major Lines of Insurance

1979

		Net Written Premiums \$m	Operating Ratio %	Result \$m
Personal	Property	75.9	113.4	-10.2
	Automobile	184.6	109.6	-17.9
	Total	260.5	110.7	-28.1
Commercial	Property	67.1	99.7	.2
	Automobile	91.3	111.2	-10.4
	Liability	38.4	101.1	- .4
	Other Casualty	10.3	102.7	- .3
	Boiler & Machinery	9.4	94.1	.5
	Marine & Aviation	4.8	99.7	
	Total	221.3	104.6	-10.4
GRAND TOTAL		481.8	107.9	-38.5

1978

		Net Written Premiums \$m	Operating Ratio %	Result \$m
Personal	Property	74.4	104.9	- 3.5
	Automobile	170.2	103.1	- 5.2
	Total	244.6	103.7	- 8.7
Commercial	Property	70.2	92.1	5.6
	Automobile	91.4	95.6	4.1
	Liability	40.2	117.0	- 6.8
	Other Casualty	10.7	107.8	- .8
	Boiler & Machinery	8.9	98.3	.1
	Marine & Aviation	3.8	100.1	
	Total	225.2	99.0	2.2
GRAND TOTAL		469.8	101.4	- 6.5

Expense Ratio

There was a decrease in the expense ratio in 1979 to 33.1% from 35.0% in 1978. This reflects a reduced provision for agency bonus commission in view of the unprofitable underwriting result and a lower level of pension expense. Containment of expenses is especially difficult in the light of current inflationary pressures and a growth in premium volume substantially below the rate of inflation. We have strengthened cost control procedures for ongoing close monitoring of expenses to ensure they are kept within budgeted levels.

We continue to incur substantial project costs in connection with the planned expansion of teleprocessing; objectives have been substantially met to date and with the successful pilot introduction of our system for handling residential business, installation across Canada is scheduled for 1980. Automobile facilities (Commercial and Private Passenger) will follow closely behind with completion country-wide by the end of 1981. As this computer development work of the past few years is increasingly engaged in practical applications, we expect to achieve further opportunities for expense reduction through increased efficiency as well as enhancing our service capabilities to both our agents and policyholders.



Above: Every year, the citizens of Winnipeg celebrate their rich cultural heritage by staging a week-long "Folklorama". Royal Insurance supports the festival by providing scholarships to the winner of the "Folklorama Princess", both runners-up and "Miss Congeniality".
At top: Winnipeg Branch Manager W. A. Lake presents award to 1979 winner.



Executive Vice-President Roy A. Elms presents a junior scholarship to Calgary rider Todd Harris at the 1979 Spruce Meadows Masters international horse show. Royal Insurance sponsors two junior scholarships each year to encourage young Canadian riders.

SURPLUS POSITION

Total Surplus increased \$15.7m during the year to \$152.1m and, in addition, improved as a proportion of written premiums to 31.6% from 29.0%.

Statutory Reserves required under the Canadian and British Insurance companies Act disallow certain fixed assets, other assets not admitted and balances due from unregistered reinsurers and these totalled \$24.0m as at December 31, 1979.

Insurance Act solvency requirements further provide an added margin of protection to the insured public. On this basis the surplus at year end of \$84.2m or 17.5% of written premiums compared with \$74.7m or 15.9% of written premiums reported at year end 1978.

OUTLOOK

It is to be expected that the slow rate of economic growth forecast for 1980 will affect all insurers. This will be particularly noticeable in Ontario and Quebec, where real economic growth may be less than 1%. However, we are confident of achieving real premium growth in 1980 with a continued higher-than-average growth in Western Canada.

All signs point to a continuation of the present soft insurance market, which has now been in effect for almost two years. Strong competitive pressure on price levels is expected throughout the year ahead – perhaps even extending deep into 1981. Pricing adjustments will continue to be made to our marketing programs to enable our independent agency force to add to their volume of profitable business placed with the Royal.

The company's considerable investment in systems development will begin to pay dividends in 1980 and increasingly in the years ahead.

Investment Department

INVESTMENTS

1979 was a year of extreme volatility in all markets. Although the commodity and Canadian stock markets rose dramatically to new levels, intense speculative participation which characterized much of the rise created a feeling of uneasiness on the part of many investors. In contrast, the fixed income markets reacting to historically high interest rates and accelerating inflation dropped precipitously to new low price levels throughout the year. With continuing large O.P.E.C. oil price increases and unsettled economic and political conditions, both nationally and internationally, uncertainty prevailed not only in Canada but in most world markets.

Against this backdrop, investment activities were also impacted by the significant deterioration in the underwriting results, and specifically by the cash flow available for investment from operations. Nonetheless, in 1979 pretax investment income increased to \$50.3 million, from \$43.2 million in 1978. Considerable emphasis was placed on maintaining a high degree of portfolio liquidity and marketability as well as a very short term for fixed income holdings.

During 1979, the market value of the total portfolio increased by \$48.6 million to \$657.9 million, reflecting a buoyant stock market, the shortness of the term of the bond portfolio and a large holding of short-term money market securities, which protected the portfolio from the significant deterioration in the bond market.

The weighted average term of the bond portfolio at year-end 1979 remained very short.

Issuance of new public straight preferred shares during the year was reduced as more and more corporations chose to market common or convertible preferred issues, taking advantage of the strength in equities. A sizeable addition to common stocks, particularly metals and utilities, was made during the year. As well, advantage was taken of market strength to take some profits and improve the overall quality of the common stock portfolio. A significant number of takeovers occurred in 1979 which produced further capital gains. The aggregate market value of common stocks held at year-end equalled 26.0% of invested assets, compared to 17.2% in 1978.

Investment policy in 1979 focussed again on the need for preservation of capital combined with satisfactory rate of return. 1980 is expected to reflect continued volatility in investment markets, but the possibility exists for some decline in interest rates.

Summary of Investment Portfolio

Market values
(Expressed in millions of \$)

	1979	1978
BONDS AND SHORT TERM SECURITIES		
Government of Canada and Guarantees	\$149.4	\$157.2
Provincial and Guarantees	31.1	44.4
Municipalities and Schools	22.7	28.2
Corporations	80.4	125.0
Short term	121.8	87.0
TOTAL	405.4	441.8
STOCKS, MORTGAGES AND REAL ESTATE		
Preferred Stocks	35.0	23.5
Common Stocks	171.3	105.0
Mortgage loans on real estate	32.3	31.8
Real estate	13.9	7.2
TOTAL	252.5	167.5
TOTAL INVESTMENTS AT MARKET VALUES	\$657.9	\$609.3

Organization and Staff



In 1979 Royal Insurance's countrywide Consumer Information Service - which is available at Head Office and in all 20 Branch Offices - handled over 109,000 telephone calls and personal visits.

Our accomplishments depend above all on the first-class people who provide our service, and the knowledge and ability of our staff to work together as an organization is paramount in determining our success. It is through the dedicated efforts, judgement and skill of our staff that our progress has been possible, and it is only through their continuing endeavours that we will achieve the excellence we maintain as the premier general insurer in Canada. Our organization involves some 3,720 people interacting with one another and their effectiveness depends in large measure on our providing a responsive working environment. We have made good progress in this respect.

The Job Re-Evaluation Project, commenced in September, 1978, was completed as planned, and further changes in our Salary Administration Program involving a phased approach to a uniform salary review date were introduced in January, 1980. The last major component of our comprehensive Benefit Program was achieved with the introduction of a company-sponsored dental plan on January 1, 1979. A feasibility study on the introduction of a Group Retirement Savings Plan as a supplement to the Pension Plan, commenced in November, 1979.

A major activity was the implementation of the Human Resources Information System in October, 1979, providing us with more accurate and timely statistical information on our staff. With the help of consultants, we also conducted an Attitude Survey; all staff were asked to complete questionnaires and a large number were interviewed. According to the consultant's report, received in October, the staff were generally satisfied in most areas, although a number of recommendations were recorded and are currently being reviewed by a Management/Staff Committee.

There was a continuing emphasis on training and 37 technical and 51 supervisory or other non-technical courses were held. Twenty audio-visual training packages were completed and made available to support on-the-job training. A one-day Awareness Workshop was developed and 15 workshops for Management and Supervisory staff were

conducted in support of our Affirmative Action Program. A comprehensive training program for the new Policy Service System was also completed and used successfully in the first Branch offices which went on to the new system.

The National Organization of Royal Employees (NORE) further developed and expanded its activities and met

regularly with Management. It continues to mature in its role as a communications vehicle between the employees and the company.



As part of the company's sponsorship of cultural activities, Royal Insurance finances performances by the Toronto Symphony Orchestra, the Quebec Symphony Orchestra, the National Ballet of Canada and the Guelph Spring Festival of Music.

Company Offices Across Canada



The company's new Service Office in Victoria

ALBERTA

Branch Offices

CALGARY
1401 The Norcen Tower
715 - 5th Avenue S.W. T2P 2X6

EDMONTON
1600 - 10235 - 101st St.
Oxford Tower T5J 2G1

Service Offices

GRANDE PRAIRIE
#103, 10124 - 101st Ave.
T8V 0Y2

LETHBRIDGE
100 Deveta Pl.
410 - 9th St. South
T1J 2L2

MEDICINE HAT
Gershaw Terrace
Ste. 104 - 266 4th St. S.W.
T1A 4E5

RED DEER
5000 Gaetz Ave., Ste. 501
T4N 6C2

BRITISH COLUMBIA

Branch Office

VANCOUVER
Suite 1200, Oceanic Plaza
1066 W. Hastings St.
P.O. Box 12530 V6E 3Y7

District Office

VICTORIA
844 Courtney Street
P.O. Box 280 V8W 2N2

Service Offices

KAMLOOPS
546 St. Paul Street
P.O. Box 83 V2C 5K3

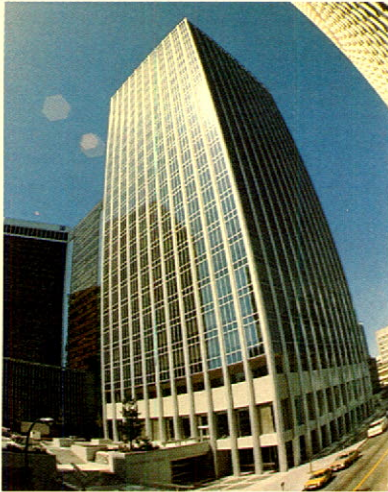
PRINCE GEORGE
320 Vancouver St. V2L 2N9
P.O. Box 1630 V2L 4V2

MANITOBA

Branch Office

WINNIPEG
386 Broadway Avenue
7th floor R3C 3V7

Vancouver Branch Office building



NEW BRUNSWICK

Branch Office

SAINT JOHN
1 Brunswick Square
P.O. Box 1700 E2L 4K6

Service Offices

FREDERICTON
Kings Place
P.O. Box 1285 E3B 5C8

MONCTON
300 St. George Street
Box 1073 E1C 8P2

NEWCASTLE
155 Pleasant St.
E1V 1Y3

NEWFOUNDLAND

Service Office

ST. JOHN'S
66 Kenmount Road
P.O. Box 8244 A1B 3N4

NOVA SCOTIA

Branch Office

HALIFAX
Scotia Square
P.O. Box 2050
B3J 3B6

Service Offices

KENTVILLE
Salon A, Cornwallis Inn
P.O. Box 580 B4N 3X7

SYDNEY
320 Esplanade St.
P.O. Box 1253 B1P 6J9

ONTARIO

Branch Offices

BARRIE
80 Bell Farm Road
P.O. Box 343 L4M 4T5

HAMILTON
Ste. 500, 110 King St. W.
P.O. Box 2008 L8N 3R8

LONDON
City Centre, 275 Dundas St.
P.O. Box 2640, Term. A N6A 4G9

OTTAWA
Suite 600, Royal Bank Centre
90 Sparks Street K1P 5B4

SUDBURY
128 Larch Street
P.O. Box 300, Stat. B P3E 4P2

TORONTO COMMERCIAL
One, First Canadian Place
Suites 1300 & 1400 M5X 1B7

TORONTO EAST
2 Lansing Square, Suite 800
Willowdale M2J 4P8

TORONTO NORTH
Yonge Eglinton Centre
2300 Yonge St. M4P 2W9

TORONTO WEST
304 The East Mall
Islington M9B 6C9

District Offices

KINGSTON
920 Princess Street
P.O. Box 1358 K7L 5C6

KITCHENER
Commerce House
50 Queen St. N. N2H 6P4

OSHAWA
292 King St. W. L1J 2J9

ST. CATHARINES
1 St. Paul St. 2nd floor,
P.O. Box 1117 L2R 7A3

THUNDER BAY
28 Cumberland St. N.
P.O. Box 3370 P7B 5J8

WINDSOR
875 Ouellette Ave.
P.O. Box 1239 N9A 6P8

Service Offices

BELLEVILLE
199 Front St. K8N 5H5
P.O. Box 1536 K8N 5J2

BROCKVILLE
779 Chelsea Court K6B 6J8

CHATHAM

121 Oshawa Drive
P.O. Box 1386 N7M 5W8

CORNWALL
113A Second St. E.
P.O. Box 1194 K6H 5V3

DRYDEN
122 King St. P8N 1C2

GUELPH
89 Wyndham St. N. N1H 4E9

NORTH BAY
593 Main St. E.
P.O. Box 1138 P1B 8K4

PETERBOROUGH
232 King St.
P.O. Box 1750 K9J 7X6

SARNIA
194 George St.
P.O. Box 2438 N7T 7S6

SAULT STE. MARIE
123 March St. P6A 2Z5



Entrance to Montreal Metro Branch

STRATFORD
925 Ontario St.
P.O. Box 398 N5A 6T3

TIMMINS
3 Pine Street South
P4N 2J9

PRINCE EDWARD ISLAND

Service Office

CHARLOTTETOWN
143 Kent Street C1A 1N3

(continued)

QUEBEC

Executive Office Montreal
Suite 2224, P.O. Box 309
Tour de la Bourse
H4Z 1H5

Branch Offices

CHICOUTIMI

901 Boulevard Talbot
C.P. 580 G7H 5C9

MONTREAL METRO

Suite 201, Tour de la Bourse
P.O. Box 309 H4Z 1H5

MONTREAL REGION

Suite 1100, Tour de la Bourse
P.O. Box 295 H4Z 1K5

QUEBEC

2535 Boul. Laurier, Ste-Foy
P.O. Box 10200 G1V 4M9

RIMOUSKI

165 des Gouverneurs
P.O. Box 110 G5L 7B7

District Offices

SHERBROOKE

Pl. Jacques Cartier
1650 King St. W. J1J 2C3

TROIS RIVIERES

1350 rue Royale
P.O. Box 1510 G9A 5L6

Service Offices

HULL

665 Boul. St. Joseph
J8Y 4B3

SEPT ILES

700 boul. Laure, Suite 05
G4R 1Y1

VAL D'OR

1004 - 3e Avenue
C.P. 816 J9P 4P8

SASKATCHEWAN

District Office

SASKATOON

606 Spadina Cres. E.
P.O. Box 3050 S7K 3S9



Manager R. J. Millar in Saskatoon
District Office



HEAD OFFICE: 10 Wellington Street East, Toronto, Ontario, M5E 1L5 Telephone (416) 366-7511