

The Farm Mutual RePort



July 2021

Message from the Board Chair



At this point in our collective history — when most of us know far more about being “double-vaccinated” than we ever wanted to — it is my pleasure to provide my second report to you as the Chair of the Board of your reinsurance partner. The Board continues to participate in the development of the company’s strategic

priorities and refine our governance processes.

In late June, the Board and senior management engaged in the second phase of their virtual strategic planning sessions. While the Board confirmed that our core focus will be to continue to provide superior reinsurance products and services to our members, there was consensus that stagnation in domestic premium growth represents a risk to Farm Mutual Re. The Board and senior management agreed that we should build upon our decades of experience in the broker distribution segment of our business and devote the resources necessary to profitably enhance and potentially expand that revenue stream should the appropriate opportunities present themselves. We also discussed the amalgamation trend among our members and whether Farm Mutual Re can provide any resources or support to our members in this regard. While no conclusions were reached, the topic will continue to be the subject of further discussion in the future.

A number of our Ontario members currently participating in a shared automobile rate filing arrangement are engaged in discussions to restructure that arrangement to

ensure appropriate resources are available for the preparation of timely and effective future filings. The Board is committed to ensuring that Farm Mutual Re provides the level of support that members require.

We are excited to welcome Patrice Rouse to the senior management team and look forward to taking advantage of Patrice’s vast experience as a corporate secretary. Since the Board is restructuring its committees, Patrice will be able to guide us in developing various committee mandates and advise us on best practices in discharging the Board’s varied and extensive responsibilities.

Many of you are aware that the company is committed to embracing EDI (Equity, Diversity, Inclusion) in all aspects of its operations and the make-up of the Board of Directors is no exception. While this journey may be in its infancy, some of the literature suggests that implementing a robust EDI policy is difficult without setting numerical targets. Although the Board is not prepared to make any recommendations to the members at this time, we will monitor the evolution of this initiative to determine if specific tactics are required to meet one or more EDI targets.

In closing, while there is a degree of optimism percolating through most pandemic-related discussions, I encourage you to take care of yourself and, if you can, to take care of someone else too.

Paul Vandenbosch

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Message from the CEO



Here we are, midpoint of the year, and it continues to fly by. It's probably a good thing, as most of us are trying to put a lot of what happened this year behind us. The province of Ontario is starting to reopen as the country's overall vaccination rate has been phenomenal. On June 27th over 26,000 people received

a jab at the Scotiabank Arena alone. What a spectacular feat accomplished by all of those frontline workers, who continue to shine.

At the Annual Meeting of Members, I provided you with a summary of our 2021 priorities and now would like to update you on their status.

- **Development on our new reinsurance platform** is progressing well. We have established a very good working relationship with our vendor, Eurobase. The delivery will be in two phases, with Phase one concluding at the end of October 2021, so that our team can start benefiting from this investment for the renewal season. Our second phase will be completed in 2022.
- As I reported earlier this year, we have **made excellent progress on our Path to Profitability**. Over the next few weeks, you will receive more details on your 2022 reinsurance premiums. We have tried to keep changes to our approach to a minimum, so that your premiums really reflect your company's experience and exposure.

We will provide you with an overview of targets and timelines at the P&M meeting.

- We have spent a couple of Board meetings **reconfirming our strategy to grow our broker segment profitability**. While our tactics have not been defined yet, the Board and our management team have agreed that focusing our growth on mutual business that is similar in nature to that of our members is the way to pursue this profitable growth. We will share more as we develop our tactical plan.
- Lastly, our focus on **elevating our game when it comes to Equity, Diversity and Inclusion** is more important now than it has ever been. The horrible events that members of our communities have experienced over the last few months have brought to the forefront the importance of understanding one another and caring for each other. We have a lot to learn. We have surveyed our employees on this topic, and we will build a road map based on those learnings. We invite everyone who wants to join us on this journey to reach out to Jennifer Allan, our Chief People Officer at jallan@farmmutualre.com.

We have accomplished a lot to move these priorities forward, and while we are proud of our progress, we know there is much left to do.

Let me wrap up by reiterating that I welcome the opportunity to talk to your teams and boards to help bring alignment between organizations and ensure that issues and questions are not left unanswered.

JP Gagnon

We wish everyone a safe and healthy summer.

We look forward to our post-pandemic life and hope that we will see you in person in the near future.

Financial Information

Underwriting Experience

We continue to see improvements in our underwriting experience compared to the prior comparable period. All major product lines are at or near the break-even point, other than member property per risk, which is showing elevated new current year claims activity to the end of May.

Key Financial Measures

The table below provides key financial measures as at and for the period ended May 31, 2021.

(In thousands of Canadian dollars unless otherwise stated)	2021 May 31	2020 May 31
Net premiums earned	89,142	78,296
Investment income	12,249	5,479
Underwriting loss	(6,916)	(22,427)
Net income (loss)	3,996	(11,497)
Combined ratio	108%	129%
Minimum capital test (MCT) ratio	426%	450%

Net Income

The underwriting loss is offset by investment income of \$12.2 million as well as foreign exchange and taxes of \$1.3 million resulting in a net income for the period of \$4.0 million.

Welcome to our New General Counsel/Corporate Secretary



We are delighted to announce that Patrice Rouse joined Farm Mutual Re on July 5th as our General Counsel and Corporate Secretary.

In this role, Patrice will have responsibility for the Legal, Corporate Secretary, Compliance, and Privacy functions, and related policies

and programs. She will join the executive team and report to Jean-Pierre Gagnon, President & CEO with a dotted line to the Board of Directors.

Patrice was most recently the Deputy General Counsel of CIBC First Caribbean, headquartered in Barbados. Prior to that, she worked for insurance/insurance brokerage companies and large integrated Canadian

financial institutions in Ontario, and a law firm on Wall Street in New York.

Patrice has over fifteen years of progressive leadership experience and has legal expertise as a regulatory, governance, litigation and transactional attorney in the insurance, banking, securities, and capital markets industries.

Patrice graduated cum laude from Howard University School of Law in Washington, DC and holds an Honours Bachelor of Arts from the University of Toronto. Her bar admissions include the Law Society of Ontario and the New York State Bar.

Patrice is a strong advocate for inclusion, has always been committed to community service, and throughout her professional career has devoted her time to pro bono practice and volunteer work dedicated to these values.

Please extend a warm Mutual welcome to Patrice!

2022 Reinsurance Update

The 2022 member reinsurance rates reviewed by the Farm Mutual Re Board, will be distributed later this summer. Increases are needed for 2022 due to program performance, exposure increases and outward pricing pressure. As promised in 2020, the rating methodologies will remain as they were in 2021 with only the catastrophe program rating continuing to move to a more individualized rate method by 2023.

One change we are implementing is the decoupling of the Property Per Risk and Catastrophe retentions. In prior years, the catastrophe retention had to be three times the property per risk retention with buy down options made available. For 2022, members will be able to select these retentions independently. That said, the catastrophe retentions from the members inure to the benefit of Farm Mutual Re’s outward ceded catastrophe contracts. We must maintain relative consistency, so we encourage members to maintain or slightly increase their catastrophe retentions in 2022 as they have in prior years to help manage outward reinsurance costs.

From a contract perspective we anticipate few material adjustments. In the property contracts, we expect inserting the LMA 5410 (a sample is available on the Farm Mutual Re member website under Reinsurance). This added wording will mirror the exclusion added to our outward contract in 2021. The exclusion makes the data exclusion more robust and adds clarity to exclude all computer system damages not resulting from a list of specific perils. This endorsement addresses potential “silent cyber” that may inadvertently occur in

underlying wordings. Farm Mutual Re, OMIA and an independent reinsurer have reviewed OMIA wordings and feel the overall exposure remains very low. As a reminder, please continue to promote the affirmative cyber coverage provided to you through our collective flow-through arrangement with HSB/BI&I for clients with this exposure.

For the liability contract, we expect requiring the addition of a communicable disease exclusion similar to the following:

“Loss directly arising from a pandemic, as determined by the World Health Organization, or U.S. Department of Health and Human Services or U.S. Centers for Disease Control and Prevention, or the Canadian Government or agency including but not limited to COVID-19 or any mutation thereof.”

The exact wording is still to be determined, as it will be the same as our outward reinsurance protections. Communicable disease is currently excluded from OMIA versions of the residential and farm liability wordings. OMIA has developed a Communicable Disease Exclusion Endorsement (ELI-1557-1220) for commercial risks. As discussed in the fall 2020, it is recommended that any commercial risk with a public gathering exposure uses a communicable disease exclusion.

The Reinsurance team will be available throughout the summer and into the fall to discuss the expected changes. Please reach out to our team to answer any questions or concerns.

Farm Mutual Re Board of Directors

Director	Position on Farm Mutual Re Board	Nominating Committee	Member Company Affiliation
Paul Vandenbosch	Chair	C	Middlesex Mutual, Director
Valerie Fehr	1 st Vice Chair	G	My Mutual, CEO
Ed Forbes	2 nd Vice Chair	D	Dufferin Mutual, CEO
Ross Gowan	Past Chair	Board	Nova Mutual, Director
Kevin Konecny	Director	Board	K&E Mutual, CEO
Jill Taylor	Director	Board	Tradition Mutual, Director
Jill Chuli	Director	B	Caradoc Townsend Mutual, Director
Gord Lodwick	Director	E	Commonwell, Director
Derek MacFarlane	Director	Board	Stanley Mutual, Director
Christine Van Daele	Director	A	Westminster Mutual, CEO
Shane MacKinnon	Director	F	PEI Mutual, Director
Jeff Whiting	Director	Board	Ayr Farmers Mutual, CEO

For your information and convenience, this table of information about the Farm Mutual Re Board of Directors will be included in each issue of the Farm Mutual RePort.

Innovation Update

As our Innovation journey continues at Farm Mutual Re, we wanted to provide an update on our leadership transition.

As you may have heard, Dave Inglis and Matt Cebulski's (Threshold Leadership) time with us came to a close at the end of June. They did a great job creating an initial foundation for Innovation, and we thank them for their contributions, thoughtfulness and energy.

With this chapter ending, we have also had the pleasure of welcoming Andrea Kerswill – our new AVP, Innovation.

Andrea has spent the past two months getting a thorough understanding of what has been achieved so far with our Innovation journey and considering how we continue to build from our initial foundation and move toward innovation outcomes.

She also spoke with many across Farm Mutual Re to learn about of our past, present and future to be able to identify where and when our Innovation efforts can have a lasting impact. Andrea has also had the opportunity to share some of her experience in actualizing innovation with the member community and conducted a workshop with Farm Mutual Re on the power of reframing questions to solve important problems.

As we move ahead, we're looking forward to sharing our pathway for Innovation, including the operating model and team composition. Our focus is on building our next leg of the Innovation strategy to best serve our future needs and empower Farm Mutual Re to learn and grow from our Innovation outcomes.

Stay tuned for more in the coming weeks as we continue this exciting journey!

Decentralizing Fleet and Garage

In the last six years, Farm Mutual Re has invested significant resources to work collaboratively with members to provide centralized quoting and underwriting services for fleet and garage risks.

In September 2015, Farm Mutual Re launched commercial fleet to Ontario members. A solution was created for members to write fleet business, with Farm Mutual Re providing technical expertise, a software rating system, as well as underwriting, quoting, and training support for new and renewal business.

Early in 2018, the Ontario garage auto product launched as a centralized quoting and underwriting service, with a full training program as part of the launch. The goal of the centralized service was to protect members' capacity by ensuring garage business fits the risk appetite and premium tolerance.

Since the programs were introduced, members have created their own fleet and garage business strategies, and some have requested access to the quoting software to be able to independently underwrite and

quote business. Now is the right time to review our current service and look for opportunities to evolve.

Recently, Farm Mutual Re's Product Services department began assessing how to effectively decentralize the fleet and garage automobile products. We partnered with selected member companies to pilot service decentralization. Piloting with members currently using the service enables us to conduct small scale testing of the decentralization process, provides valuable learnings through the members' feedback, and gives members the opportunity to be involved in, and influence the final outcome. Both assessment projects are well underway, with completion planned for November 2021.

Once the assessments are complete, we will share next steps and a roadmap for the full roll out of decentralization of the fleet and garage products.

For any questions, please contact Matina Kipouros, AVP Product Services at mkipouros@farmmutualre.com.