

Management Discussion and Analysis Report – Q2 of 2021

Overview

Hamilton Township Mutual Insurance Company was formed in 1898. We operate under a trade name of HTM Insurance Company. Our office is in Cobourg, Ontario and we are licensed in the proving of Ontario to write property and casualty insurance. Our license also includes drones and limited accident according to the business plans filed with FSRA. Most of our business is within a two hour radius of the company through brokers (90%) and agents. We have a staff of about 40 and a board of directors of 9 local policyholders. We will write approximately \$36 million in premium in 2021.

Executive Summary

The first quarter has seen underwriting profits increase to almost \$6 million. July has continued that trend adding a further \$1.3 million in underwriting. Why we are having these results when our portfolio and rating have remained consistent is a mystery. Even less activity and more people home due to the pandemic cannot support this level of change. Prior period activity is favourable, but not a significant portion of the results. Growth has improved in June and July to over 6%, which has pushed up our premium growth to about 4% on a year-to-date basis. This is reviewed in more detail further in the report.

Analysis of Operating Results

Shown below is our in-house financials in dollars.

The strength in our balance sheet has continued during the first half of 2021. Total assets are up over 10% and that is a function of cash provided by profitable operations. Outstanding claims have held steady and UEPs are up due to increase in premium revenue. Overall, surplus has improved by almost 20% over 2020.

Balance Sheet as at June 30, 2021

	2021	2020	% of Change
Cash & Investments	56,252,800	50,456,193	11.5%
Accounts receivable	9,089,874	8,820,009	3.1%
Reinsurance	8,174,906	6,287,103	30.0%
Broker Acquisition	331,033	416,533	(20.5%)
Building & Equipment	7,271,306	7,576,378	(4.0%)
Other Assets	<u>4,255,572</u>	<u>3,500,260</u>	<u>21.6%</u>
Total Assets	<u>\$85,375,492</u>	<u>\$77,056,477</u>	10.8%
Accounts Payable	541,417	420,298	28.8%
Due to Brokers	1,015,875	824,253	23.2%
Outstanding Claims	22,735,663	22,760,122	(0.1%)
Taxes Due	931,486	633,475	47.0%
UEP & Other Liabilities	<u>17,413,736</u>	<u>16,517,655</u>	<u>5.4%</u>
Total Liabilities	<u>42,638,177</u>	<u>41,155,803</u>	3.6%
Members' Surplus	<u>42,737,315</u>	<u>35,900,673</u>	19.0%
	<u>\$85,375,492</u>	<u>\$77,056,477</u>	10.8%

Our budget for the balance sheet, shown below, is quite accurate, especially considering it is the first time we have done a balance sheet budget. Significant differences are in the area of claims and taxes as the underwriting profit was not anticipated. This translated into a higher surplus than anticipated.

Balance Sheet as at June 30, 2021

	2021	2021 B	% Off Budget
Cash & Investments	56,252,800	57,135,022	(1.5%)
Accounts receivable	9,089,874	8,956,040	1.5%
Reinsurance	8,174,906	7,789,999	4.9%
Broker Acquisition	331,033	331,933	(0.3%)
Building & Equipment	7,271,306	7,244,661	0.4%
Other Assets	<u>4,255,572</u>	<u>3,839,501</u>	<u>10.8%</u>
Total Assets	<u>85,375,492</u>	<u>85,297,157</u>	0.1%
Accounts Payable	541,417	429,619	26.0%
Due to Brokers	1,015,875	918,688	10.6%
Outstanding Claims	22,735,663	27,873,289	(18.4%)
Taxes Due	931,486	(443,522)	(310.0%)
UEP & Other Liabilities	<u>17,413,736</u>	<u>17,848,574</u>	<u>(2.4%)</u>
Total Liabilities	<u>42,638,177</u>	<u>46,626,649</u>	(8.6%)
Members' Surplus	<u>42,737,315</u>	<u>38,670,508</u>	10.5%
	<u>\$85,375,492</u>	<u>\$85,297,157</u>	0.1%

The only areas for note are the reduction in claims expenses and general expenses. A combined ratio of 62.6% is very unusual and has not been significantly impacted by prior year developments. Investment income is down and it's across all categories of investments except dividend income, which is up. The most significant change is a loss of sale of investments versus a gain on sale of investments in 2020.

Income Statement to June 30, 2021

	2021	2020	% of Change	% of EP	% of EP
				2021	2020
Premiums	17,090,872	16,468,397	3.8%		
Reinsurance Premiums	2,092,430	2,002,669	4.5%		
Increase (Decrease) in UEP	<u>20,122</u>	<u>356,481</u>	(94.4%)		
Net Premiums Earned	14,978,320	14,109,248	6.2%		
Policy Interest / Charges	<u>245,651</u>	<u>232,044</u>	5.9%		
	<u>\$15,223,971</u>	<u>\$14,341,291</u>	6.2%		
Gross Claims & Adjusting Incurred	3,586,915	6,521,407	(45.0%)	23.9%	46.2%
Reinsurance Recoveries	<u>61,218</u>	<u>468,547</u>	(86.9%)	0.4%	3.3%
Net Claims Incurred	3,525,697	6,052,860	(41.8%)	23.5%	42.9%
Policy Acquisition Expenses	3,522,992	3,192,889	10.3%	23.5%	22.6%
All other Expenses	<u>2,334,268</u>	<u>2,731,838</u>	(14.6%)	15.6%	19.4%
General Expenses	5,857,260	5,924,726	(1.1%)	39.1%	42.0%
Underwriting Profit / (Loss)	\$5,841,014	\$2,363,705	147.1%	62.6%	84.9%
Investment Income	945,941	1,277,163	(25.9%)		
Income Tax Expense	<u>1,690,000</u>	<u>900,000</u>	87.8%		
Net Profit / (Loss)	<u>\$5,096,956</u>	<u>\$2,740,867</u>	86.0%		

Below compares the 2021 figures to our projections. The only areas of variance is in claims and investments. Both of which are better than anticipated.

Income Statement to June 30, 2021

	2021	2021 B	% Off Budget	% of EP 2021	% of EP 2021 B
Premiums	17,090,872	17,540,168	(2.6%)		
Reinsurance Premiums	2,092,430	2,442,948	(14.3%)		
Increase (Decrease) in UEP	<u>20,122</u>	<u>277,317</u>	(92.7%)		
Net Premiums Earned	14,978,320	14,819,902	1.1%		
Policy Interest / Charges	<u>245,651</u>	<u>245,467</u>	0.1%		
	<u>\$15,223,971</u>	<u>\$15,065,369</u>	1.1%		
Gross Claims & Adjusting Incurred	3,586,915	9,843,412	(63.6%)	23.9%	69.8%
Reinsurance Recoveries	<u>61,218</u>	<u>1,350,000</u>	(95.5%)	0.4%	9.6%
Net Claims Incurred	3,525,697	8,493,412	(58.5%)	23.5%	60.2%
Policy Acquisition Expenses	3,522,992	3,649,934	(3.5%)	23.5%	25.9%
All other Expenses	<u>2,334,268</u>	<u>2,329,218</u>	0.2%	15.6%	16.5%
General Expenses	5,857,260	5,979,151	(2.0%)	39.1%	42.4%
Underwriting Profit / (Loss)	\$5,841,014	\$592,806	885.3%	62.6%	102.6%
Investment Income	945,941	780,718	21.2%		
Income Tax Expense	<u>1,690,000</u>	<u>343,381</u>	392.2%		
Net Profit / (Loss)	<u>\$5,096,956</u>	<u>\$1,030,143</u>	394.8%		

Claims

Claims counts for the year are down across the board with the exception of commercial. We have had one large fire loss (just under \$600,000). Typically, we would have 4 or 5 large losses in a six month period.

Gross Claims (Year-to-Date)

Claims Count by Policy Class

Policy Class	Current	Prior	Change #	Change %	Budget	Off Budget #	Off Budget %
Auto	121	158	(37)	(23.4%)	212	(91)	(42.9%)
Commercial	18	15	3	20.0%	20	(2)	(10.0%)
Farm	37	56	(19)	(33.9%)	73	(36)	(49.3%)
Residential	84	96	(12)	(12.5%)	201	(117)	(58.2%)
Total	260	325	(65)	(20.0%)	506	(246)	(48.6%)

The chart below shows claim count changes over the year. You can see the significant change in 2021 compared to all other years. 2020 was our best year prior to 2021.

Claims Reported (Year-to-Date)

Trend by Accident year and Policy Class

Policy Class	2021	2020	2019	2018	2017	Average	Change from 2020
Auto	135	180	227	242	191	195	(25.0%)
Commercial	14	20	26	27	23	22	(30.0%)
Farm	39	56	75	141	83	79	(30.4%)
Residential	97	118	221	266	200	180	(17.8%)
Totals	285	374	549	676	497	476	(23.8%)

Claims incurred is down across all lines of business as well.

Gross Claims (Year-to-Date)

Claims Incurred by Policy Class

Policy Class	Current	Prior	Change #	Change %	Budget	Off Budget \$	Off Budget %
Auto	791,241	2,629,285	(1,838,044)	(69.9%)	2,317,772	(1,526,531)	(65.9%)
Commercial	387,673	620,498	(232,825)	(37.5%)	840,721	(453,048)	(53.9%)
Farm	410,362	490,525	(80,163)	(16.3%)	1,561,318	(1,150,956)	(73.7%)
Residential	1,477,754	2,302,761	(825,007)	(35.8%)	4,696,278	(3,218,524)	(68.5%)
Total	3,067,030	6,043,069	(2,976,039)	(49.2%)	9,416,089	(6,349,059)	(67.4%)

We monitor our claims reserves closely and analyze the impact of prior year reserves on current year claims. In addition, from an accounting standpoint, an actuary provides us with IBNR calculations and during the year, we add \$30,000 per month in net IBNR to cover potential year end changes. The chart below shows the impact on prior 2021 claims on current year results.

Gross Claims Incurred (Year-to-Date)

By Class showing the effect of Claims Activity for prior years

Policy Class	2021 Claims Incurred	Prior Year Claims Incurred	Total Incurred	% Impact of Prior Year Claims
Auto	1,019,130	(227,889)	791,241	22.4%
Commercial	487,687	(100,014)	387,673	20.5%
Farm	690,224	(279,862)	410,362	40.5%
Residential	1,723,016	(245,262)	1,477,754	14.2%
Totals	3,920,058	(853,028)	3,067,030	21.8%

Expense Ratio

The expense ratio dropped below 40%. This is the result of some net overall growth in excess of expense spending on the general expense side. Part of this reduced expense is due to the current pandemic environment. Education, travel and convention have all been significantly reduced.

Investments

As mention above investment income was down from the prior year in all areas except dividend income. These are not significant changes and are not due to any changes in investment philosophy or policy change. Our investments are handled by a single firm and they report directly to the board twice per year. The board reviews the investment policy annually and did not make any changes during the last review in 2020. Investment performance is looked at over several periods and compared to industry benchmarks by major category. We also consider the comparison to the mutual system provided to us by the FRC.

The table below are our targets and benchmarks for each class. Our investment advisor provides us with a report showing any violations to the policy. Getting outside our policy is usually caused by timing of sales and purchases affecting temporary cash position or a drop in the credit rate of a bond, falling below our threshold and the timing of the sale of that bond.

Asset Class	Min	Target	Max	Benchmark
Cash & Short Term Securities	0%	5%	10%	FTSE TMX Canada 60 Day T-Bill Index
Fixed Income	55%	65%	85%	FTSE TMX Canada Short-Mid Blend Index
Total Equities	10%	25%	30%	
Canadian Equities	10%	20%	30%	S&P/TSX Composite Index
U.S. Equities	0%	5%	10%	S&P 500 Index (CS)
International Equities	0%	0%	0%	MSCI EAFE Index (C\$)
Alternative Investments	0%	5%	10%	FTSE TMX 91-Day T-Bill Index + 5%

Significant Changes

There have been significant changes to the organization in the last quarter other than a very unusual profitable 1st half of the year.

Significant Risks

Insurance

There has been no significant changes to our risk profile or risk appetite.

Cyber

No change from year end. We continue to monitor issues and update our system to be secure. We provide our staff with numerous examples of phishing emails and examples of cyber-attacks they should be aware of. No known attacks or intrusions have occurred to our knowledge at this time.

Staff

No senior staff changes have been made in the last quarter.

Technology

The company has migrated to Cognition+ for all lines of business in the underwriting department. Although there has been challenges, this is not a system conversion, but more a user interface upgrade using the same database. The claims section is next for late fall and accounting in 2022.

Compliance

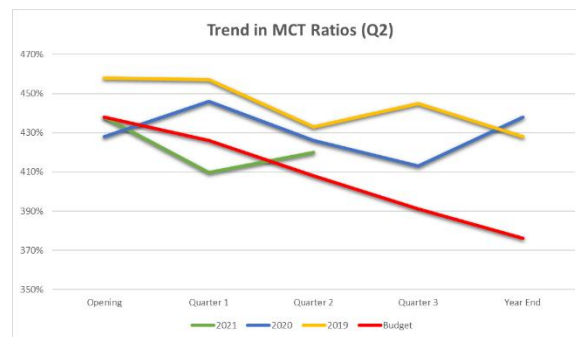
There are no known compliance issues at this time.

Succession

We have no succession issues at this time. Two directors are retiring later this year and the nominating committee has gone through an extensive interview process and has chosen two new candidates. The committee will provide their findings to the board in August.

MCT

The ratio rebounded to 420% with the record financial performance. The MCT chart is shown below with Budget in red. The reason for the budget MCT to look this way was in anticipation of continued premium growth in the 8% range and a small underwriting profit. The 1st half of 2021, premium growth has been slow and underwriting profit is substantial.



Other

We are updating our business plan for the next 3 to 5 year period. Board and management will meet with a facilitator at the end of August for a strategic planning session.

Respectfully submitted,

Alec Harmer, CIP
President/CEO