Management Discussion & Analysis – February 2021

Overview

Hamilton Township Mutual Insurance Company (HTM) was started in 1898. Currently the company writes about $34 million in premium with surplus of $37 million. We have a staff of 35, which includes 4 field inspectors and 3 agents. The head office is located in Cobourg. HTM is a broker driven company with 19 brokers, 1 agency & now 3 agents. We operate within a 2 hour drive of the office primarily North and East of Cobourg.

Executive Summary

Staff

In 2020, we hired several replacement people, an additional administrative person in underwriting and an IT person. In 2021, we are currently hiring in the claims to replace one person who left for another company and a second one who made an internal move. The biggest staffing change was Donna White took over as our new VP of Finance. This is Donna's first year end and everything has gone well.

Our plan calls for the addition of another agent with the successful purchase of an agency later this year.

There are no new directors, however two directors will retire this year and we will be actively looking for replacements in the summer. The directors have been working extensively on this over the last year and a half developing a plan to recruit and bring more diversity to the board.

Policy Wording Changes

Nothing was done to our wordings for 2020, but they will require some minor modifications in 2021.

Our website shows our forms in an easily accessible format.

Claims

Our claims practices have not changed in 2020. By the end of 2021, we will be into the new Cognition+ software for claims.

Underwriting

With the pandemic, we made only minor rate changes. In the fall, all large homeowners packages will need to be transferred to another carrier due to changes with our treaty. We have put a new cap in place at $1.5 million on the dwelling. We have also increased rates on homes over $1 million effective January 1 of 2021.

Brokerages

We have not made any additions or deletions during 2020.

Loss Prevention

This department felt the most change in 2020 due to the pandemic. During the summer, we developed a virtual inspection tool that the policyholder can use to capture interior and exterior for us. In some cases, our inspector will visit the property to do an exterior review, along with measurements and a valuation. At other times, inspectors were doing desk reviews with the purpose of updating old evaluations.

Finance and Investment

Most of the focus in the area was the transition to Donna being the VP of Finance. She is taking the time to help develop internal resources and revamp some old accounting practices. We have created a new budgeting process and updated the GL accounts to reflect modern naming conventions.

Our investment policy remains unchanged and has served us well during these volatile times. We had interviewed another portfolio manager to split our investments up, but there doesn't seem to be an appetite at this time to do so.

Risk Management / Profile

No new classes of business or initiatives should change our risk profile other than to lower it. Due to reinsurance changes, we are eliminating homeowners with dwelling limits over $2m from our profile, unless they are part of a significant farm operation and FM Re allows us to remain on risk. We do not anticipate significant growth nor additions to our brokers in other areas in 2021. There is one new reinsurance risk as detailed under the reinsurance section below.

We have created a compliance officer position to assist in maintenance and creation of documentation, areas of corporate governance and our ERM practices. This role is just being developed over 2021.

Auditor / Actuary

No changes are anticipated with these two positions other than we would participate in the group actuary process through OMIA when available. One comfort in making this change is we use the same actuary that the group would use.

Reinsurance

Minor changes in retention on Auto (increase of $25,000). Moderate change to Property (increase of $50,000). These are highlighted in the P&C1.

Farm Mutual Re has introduced an exclusion in the contract that was effective January 1, 2021. This impacts CGL policies and the requirement for an enhanced exclusion for the spread of disease. While we are putting this exclusion on every commercial policy as it renews, there is a gap in coverage until the renewal period.

Analysis of Operating results

Income Statement Changes

	2020	2019	Variance $	Variance %
(1) Net Written Premiums	29,891	27,608	2,283	+8.3%
Underwriting Revenue	29,127	26,338	2,789	+10.6%
(2) Claims Expenses	14,924	15,872	-948	-6.0%
(3) Operating Expenses	11,572	10,672	+900	+8.4%
Underwriting Profit (Loss)	2,631	(205)	+2,836	
(4) Investment Income	3,449	3,275	+174	+5.3%
Net Income Before Tax	6,081	3,070	+3,011	+98.1%
Net Income (loss)	4,481	2,306	2,175	+94.3%

(1) A combination of gross premium increases of 8.3% in direct business along with a corresponding decrease in reinsurance rates caused the increase in net premiums written. Inflation and new business created the bulk of the increase. Growth was down from 2019's double digit increase and some of this can be attributed to the pandemic.

(2) Claims were down over 2019 but severity was up. This resulted in reinsurance recoveries being up as well. We had the largest loss in the decade I have been with the company. One home at $2.8 million was lost due to a fire. Auto was down from 2019 but on par with the previous 3 years. Commercial and farm were responsible for the underwriting profit in 2020.

(3) Commissions went up, due to increase in premiums and an increase in CPC and the marketing program. We have a full year amortization on our broker purchase (was in 2019). Salaries had a one-time adjustment along with a small additional DB pension contribution. You can also see areas such as travel which were an impact of the pandemic. Expense ratio dropped from 41.1% to 40.4%.

(4) Investments were up again despite the economic challenges caused by COVID. Our investment policy and strategy did not change during the year. The market value of our investments increased by $2.2 million.

Balance Sheet Changes

Assets	2020	% of Total	2019	% of Total	Variance $	Variance %
(1) Cash and Cash Equivalents	8,978	10.7%	6,118	8.4%	2,860	47%
(1) Investment Income due and accrued	110	0.1%	129	0.2%	-19	-15%
(1) Total Investments	45,914	54.6%	41,180	56.4%	4,734	11%
(2) Receivables	9,604	11.4%	8,517	11.7%	1,087	13%
(3) Reinsurance share of claims	8,339	9.9%	5,897	8.1%	2,442	41%
(4) Property and Equipment	7,435	8.8%	7,478	10.2%	-43	-1%
(5) Deferred Policy Acquisition Expense	3,125	3.7%	2,930	4.0%	195	7%
(6) Deferred Tax Assets	130	0.2%	130	0.2%	0	0%
(7) Intangible Assets	388	0.5%	502	0.7%	-114	-23%
Other Assets	92	0.1%	104	0.1%	-12	-12%
TOTAL ASSETS	**84,115**		**72,985**		11,130	15%
Liabilities & Surplus						
(8) Unpaid Claims	25,990	30.9%	21,782	29.8%	4,208	19%
(9) Unearned Premiums	17,394	20.7%	16,161	22.1%	1,233	8%
Other Liabilities	3,090	3.7%	1,409	1.9%	1,681	119%
TOTAL LIABILITIES	**46,474**	55.3%	**39,352**	53.9%	7,122	18%
(10) **TOTAL EQUITY**	**37,640**	44.7%	**33,160**	45.4%	4,480	14%

(1) Investments, in total, year over year, increased mainly due to a significant reversal in market value as well as reinvested interest, dividend income. Profits showed up in the form of increased cash in our bank. We transferred $4M into our investment portfolio in January 2021.
(2) Receivables are on up with growth and amounts owing from Farm Mutual Re.
(3) As mention in the income statement review, reinsurance took a bit of a hit in 2020 with a large fire in September ($2.8M), a CAT loss in November and another smaller fire loss on December 31st.
(4) We had upgraded our servers in 2020 and purchased laptops for work at home capabilities for staff. The reduction in this category represents those purchases less normal depreciation.
(5) No change.
(6) No real change.
(7) This is the broker purchase less further amortization for 2020. The amount will be amortized to "0" over the next 3-1/2 years.
(8) Unpaid claims increased almost $3M on property claims and $1M on auto.
(9) Unearned premiums are up with premium increases of 8.3%.
(10) The increase of surplus was a balance of underwriting profits and investment income. This increase helped keep our surplus ahead of our premium growth.

Gross Claims Incurred

	2020	2019	Variance $	Variance %
Property (1)	13,252	11,514	1,738	15.1%
Liability (2)	595	199	396	199.0%
Automobile (3)	3,545	5,015	-1,470	-29.3%
Boiler & Machinery	91	8	83	1037.5%
Accident	24	16	8	50.0%
TOTAL	**17,507**	**16,752**	**755**	**4.5%**

* The chart above shows figures for direct claims only and does not include internal adjusting expenses, facility or IBNR

(1) Severity of individual claims and of an event lead to the increase in 2020. Our largest individual personal lines loss was a $2.8 million homeowners loss. We also had a CAT loss in November resulting in $2.2 million in wind claims and some water claims. Claim counts were down on all policy classes except farm.

(2) Actual liability claims reported in 2020 was 34 compared to 16 in 2019. 22 of the 34 are still open with a few claims reserved at $100,000.

(3) Automobile results on a direct basis improved over 2019, however the loss ratio in 2020 is similar or higher than 2018, 2017 & 2016. Automobile benefited by approximately $800k in prior year reserve takedowns.

Premiums Written

	2020	2019	Variance $	Variance %
Property (1)	22,023	20,056	1,967	9.8%
Liability (2)	3,449	3,367	82	2.4%
Automobile (3)	8,415	7,869	546	6.9%
Boiler & Machinery	114	89	25	28.1%
Accident	23	24	-1	-4.2%
TOTAL	**34,024**	**31,405**	**2,619**	**8.3%**

* The chart above shows figures for direct premiums only and does not include facility

(1) There were no property rate changes during 2020 however inflation on buildings was added at 4% inflation rate. Policy counts were only up 1.3% for the company in 2020. One project that helped improve property premiums was desk inspections with a focus on limit adequacy.

(2) Liability rates were not changed and the increase is simply reflective of policy growth and some increase in liability limits.

(3) Automobile growth held fairly well considering the pandemic where we endorsed policyholders auto policies removing vehicles or reducing rates due to work at home driving conditions.

Minimum Capital Test (MCT)

The MCT has remained consistent with the previous 3 years. Increasing exposures to risk have been offset by increasing capital available.

We continue to monitor MCT as one of our measures of capital adequacy. A 350% MCT is our target ratio.

Future Outlook

Strategic Plans

For 2021 we have the following key action items:

1. Continuing to work on migrating our insurance system over to the Cognition+ platform.
2. Development of a consumer facing portal providing access to policy, claims and AR information for our policyholders.
3. We have a major project for human resources to improve policy development, performance management and other HR processes.
4. Review and refresh of our website and central repository
5. Addition of a new sales website and marketing program
6. Acquisition of our one insurance agency.

ERM and ORSA

In some ways this took a back seat in 2020 as we dealt with the challenges of the pandemic. In other ways it was at the forefront as we pulled out our pandemic plan and used it as a starting point to address the challenges in front of us. 2020 was a real life trial of a disaster and how HTM could handle it. From a policyholder perspective, our policy, claims and AR services were maintained and in some cases improved during the year. The strengths and weaknesses of our organization and its structure were highlighted and we have worked diligently to shore up our weak areas.

One of the challenges we have in the ORSA/ERM process is identifying a dollar amount to various risks. Actually experiencing a pandemic has not helped us clarify the costs. While we have direct costs, such as hardware for staff to work at home, the financial results of the organization reflect a stellar year.

Drones

HTM has received the license amendment for drones but we have not written any at this time.

Overland Flood

With an improved model, we are comfortable implementing a more robust water rating system. This will occur in Q3 of 2021. Flood was not an issue in 2020, but has been in the previous 3 years since it has been implemented.

Cyber Security
We filled out a cyber survey through OMIA and are reviewing the areas of weakness in our systems. HTM has invested a significant amount in security, both software, hardware and AI. In 2021, we are seeking a different firm to do penetration testing on our network. We have hired our first employee who sole role is technology. He will be working on further improving our security.

We have a Cyber insurance policy.

Distribution
We have not added any new brokers in 2020, but our agent business has continued to do well in growth and more important, loss experience. We are discussing the acquisition and conversion of our remaining agency in 2021.

Accident
With a lot of work from OMIA, the Farmers Accident Product has been converted into an accident product that can be applied to our commercial business. We are looking at ways to expand the offering and create a better base of premium to cover the shock loss you get from time to time on this product.

Pandemic
The continuing pandemic will challenge HTM during 2021. It is not business as usual. Our staff are working from home or a home/office combination. Their home lives include stresses they have never faced before such as children learning on-line, isolation, or complications in caring for elderly parents in this environment. Our inability to get together and have that real life connection has an impact on culture, health & wellbeing, innovation and productivity. We have purchased the equipment and have the infrastructure in place to handle day-to-day activities but keeping the staff spirit alive and well will be one of our biggest challenges in 2021. We have staff now that have never met each other in-person or had lunch in the office together. For a company that has a "You're with family" slogan, this goes against our culture. We will work to slowly bring people back in the office in a safe way. Hopefully by the end of this year, we can be closer to a "normal" working environment.

Respectfully submitted,

Alec Harmer CIP
President & CEO