



## FINANCIAL REVIEW COMMITTEE FINANCIAL EXAMINATION COMMITTEE

March 25, 2021

To: Fire Mutual Guarantee Fund Members  
From: OMIA - Financial Review Committee  
Subject: 2020 Annual Results – Fire Mutual Guarantee Fund Members

### Summary:

The financial results for the Ontario farm mutuals for 2020 improved, with Net Income of \$92.8 million compared to Net Income of \$67 million for 2019. The Return on Equity for 2020 rose to 7.1% from 5.5% a year earlier. The ROE is higher than any year since 2014 when it reached 7.96%.

The Net Income was comprised of the following key elements:

- Underwriting Gain of \$38.7 million (includes a portion of the Rebates as expenses)
- Investment Income (excluding Unrealized Gains and Losses) \$60.8 million;
- Unrealized Gain \$35.6 million,
- Other Expenses (primarily Policyholder Refunds) & Revenue \$14.7 million
- Income Taxes \$27.6 million.

At year-end 2020, the FMGF members had an aggregate **Minimum Capital Test Ratio of 482.89%** compared to 502.85% at December 31, 2019. The decline in the MCT Ratio reflects the increased Capital Required in all three major categories, which in aggregate were 11.9% higher than a year earlier. In comparison, Capital Available rose by 7.64%.

### Net Income

The Return on Equity for the Ontario mutuals for the year increased to 7.13% from 5.5% a year earlier. The main reason for the improvement was an Underwriting Gain of \$38.7 million compared to an Underwriting Loss of \$26 million, a year earlier.

Net Investment Income declined in 2020 to \$96.4 million from \$118 million last year, but was still considerably higher than years prior to 2019. Investment Income reflects Unrealized Gains of \$35.6 million, lower than the prior year end, but considerably improved over the 2020 quarterly results.

### Aggregate results:

On a quarterly basis, Net Income fluctuated as shown below:

1. First quarter Loss \$38.4 million
2. Second quarter Profit \$84.7 million
3. Third quarter Profit \$34.6 million
4. Fourth quarter Profit \$11.9 million

One of the principal reasons for the fluctuation was Unrealized Gains & Losses, with Losses at March 31 of \$62 million and Gains at December 31 of \$35.6 million.

### Underwriting Results

Underwriting Results in 2020 improved considerably over the prior year, with an Underwriting Gain of \$38.7 million reported. The Combined Ratio was 95.51%.

In 2020, the FMGF members collectively paid **Refunds/ Rebates and charitable contributions of over \$25 million, to their Policyholders and communities**. This includes Refunds for both Property and Automobile insurance. Most companies reported the Refunds as Other Expenses and thus the amounts were not reflected in the Underwriting account.

In 2019, the companies experienced an Underwriting Loss of \$26.2 million, similar to the two previous years. The Underwriting Gain in 2020 is the first since 2016 and compares to the results for 2015.



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The Claims ratio was 55.7%, considerably lower than the last two years which had Claims Ratios in the 65% to 67% range. The Expense Ratio deteriorated to 40.77%, up from 38.7% in 2019. General Expenses Increased to \$167 million, an increase of almost \$30 million from a year earlier. As mentioned above, a portion of the Rebates was included in General Expenses.

With an increase in Gross Premiums of 8.32%, Commissions were also higher in 2020. Gross Premiums now exceed \$1 billion.

The Claims Ratios for the various classes of business were similar and much improved over 2019. Automobile had a Net Claims Ratio of 56% while Property was only minimally higher at 57%.

#### **Investment Income**

At year-end 2020, FMGF companies reported \$35.6 million in Unrealized Gains, only \$7 million of which arose from Common Shares. The majority of the Unrealized Gains arose from Bonds & Debentures. At year-end 2019, Common share holdings accounted for \$39 million of the \$54.6 million in Unrealized Gains.

Common Shares at year end 2020 amounted to \$421 million, approximately 25% of Total Investments. Bonds & debentures continue to be the largest component at almost 60%.

Investment Results are comprised of the following:

- Dividend & Interest Income \$49.6 million
- Realized Gains \$17 million
- Unrealized Gains \$35.6 million
- Investment Expenses \$5.8 million
- Net Investment Income \$96.4 million.

The foregoing resulted in a Yield on Investments of 5.36%. This is lower than the 7.11% Yield reported in 2019. The main difference arose from the lower Unrealized Gains, which were \$54.6 million at year end 2019.

#### **Minimum Capital Test**

Although the FMGF members had positive results, with a Return on Equity of over 7%, the MCT Ratio declined from 502.85% at year-end 2019 to 483.82% at December 31, 2020. Capital Required increased in all major sectors, with Market Risk Capital Required increasing by almost 20% from \$161 million to \$193 million. Interest Rate Risk, Foreign Exchange Risk and Equity Risk all increased by over 15%. The largest increase was in Equity risk, reflecting the 20% increase in holdings year over year.

#### **Conclusion**

At this time, there are no major items facing the Ontario farm mutuals.

If you have any questions, do not hesitate to contact us.

Regards

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