

The Farm Mutual RePort



November 2021

Message from the Board Chair



As those of us in southern Ontario wonder if it will stop raining long enough to harvest what appears to be a bumper crop, it is my pleasure to provide my fourth report to you as the Chair of the Board of your reinsurance partner. The Board and its various committees continue to be engaged in a full fall schedule.

At the September Board meeting — which was a hybrid in person/virtual meeting — the Board received updates from each of the Board committees and adopted refinements to a number of company policies and statements. In addition to other management reports, the Board received a statement from our CFO, Amy Butler, with respect to completion of our Own Risk and Solvency Assessment, and a Financial Condition Report from our appointed actuary. Despite the challenging underwriting results, we are currently experiencing, the stress-testing conducted both internally and externally confirmed that Farm Mutual Re continues to enjoy a firm financial footing, capable of withstanding one or more “black swan” events.

We also received additional information regarding our innovation initiative. While the Board recognizes the need for innovation and fully supports advancing the initiative, time was spent discussing the “science” behind it — the process, the timing, the cost and the

need for tangible results. Many of you will have viewed Andrea Kerswill’s innovation presentation at the P&M which echoed much of the same information. We will communicate with you more extensively on this topic as this project evolves.

As many of you know, Jeff Whiting, who is a Board nominee on the Board of Directors, will be retiring from the Board after 12 years of outstanding service as of the 2022 annual meeting. I recently had the privilege of participating in the interviews of the nominees wishing to fill the upcoming vacancy. The committee was impressed with the quality of the candidates and is confident that the new director will be an asset to the Board. An announcement regarding the successful candidate will be made in the coming months.

In closing, as we grind our way through the pandemic, I continue to encourage you to take care of yourself and, if you can, to take care of someone else too.

Paul Vandebosch

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Message from the CEO



We are on the final stretch to close out 2021 and in the most important season for the reinsurance team. They are hard at work completing our members' renewals, finalizing facultative certificate requests and renewing our broker segment business. In addition, they are completing the Phase 1

testing of our new reinsurance system involving a complete re-tooling that should be completed in 2022.

This is a very busy team, and your support and patience are greatly appreciated. We recognize that our response time has recently been longer than usual, and we apologize. Colleagues from across our company are leaning in to support the team right now and we expect this will improve response times.

By now you will all have had the time to absorb and perhaps decide on your reinsurance renewal terms. If you need help let us know. The whole team at Farm Mutual Re and our Board of Directors has wished Kevin Cameron the best in his new adventure. We are grateful for his contributions over the years. The recruitment process for his replacement will begin shortly. In the meantime, you

can get in touch with us via your usual contact on the reinsurance team. If it was Kevin, please reach out to me.

As you know, the Product Services team has been working hard on piloting an underwriting audit process over the last couple of years. We are confident that audits are a strong risk control measure that can help us all on our Path to Profitability. I'd like to thank the members who participated in our pilot audits. Your feedback is being used to shape how we conduct them in the future. These audits help guard our capability to purchase traditional reinsurance to protect the entire mutual community. They will also restore the financial health of Farm Mutual Re and the entire mutual community for the long term. We are working on the details and will provide them to you as they are established.

In other news, we have adapted our work environment to a hybrid format and are ready to reopen our doors to more employees in a few weeks. As an additional safety measure, we're installing higher barriers between cubicles and we have implemented a vaccine policy. We will encourage people to come to the office at least once a week and we're looking forward to collaborating and connecting in person with those who are able.

Farm Mutual Re is committed to be your partner. We have only one focus and that is to be there for each of you. It is a commitment that our Board of Directors and our whole team takes very seriously.

JP Gagnon

Loss Prevention Training Program

To encourage underwriting and loss prevention personnel to strengthen their risk selection process and loss prevention proficiency, Farm Mutual Re's Loss Control Technical Development department created a 28-week training program (one hour per week virtual class time). This program has been delivered twice, to 36 participants from six member companies. The sessions were geared towards enabling loss prevention and underwriting staff to focus on COPE (Construction, Occupancy, Protection, Exposure) data and understanding risks and risk selection.

Topics included:

- Construction risk classification
- Probable Maximum Loss (PML)
- The requirements of a facultative or high Total Insured Value (TIV) risk assessment
- Reducing loss potential by understanding fire risks related to construction types
- Passive and active fire prevention methodologies

Watch for an announcement of when the virtual program will be delivered again next year!

Financial Information

Underwriting Experience

At the end of Q3 of 2021 we have incurred an underwriting loss of \$32.1 million. This underwriting loss is driven by significant losses in the Manitoba and Saskatchewan crop programs and the continued poor experience coming from member property per risk.

Investment Income

Net investment income declined by \$4.7 million compared to the same point one year ago, a headwind to performance that is expected to persist given low fixed income yields.

Net Income

Weak underwriting results drove a net loss of \$8.0 million.

Capital Position

Farm Mutual Re's capital position remains well in excess of both minimum and internal capital and external regulatory requirement as at September 30, 2021, with total surplus of \$426.2 million and a Minimum Capital Test (MCT) ratio of 404%.

Key Financial Measures

The table below provides key financial measures as at and for the period ended September 30, 2021.

(In thousands of Canadian dollars unless otherwise stated)	2021 September 30	2020 September 30
Net premiums earned	164,570	144,964
Investment income	20,203	24,914
Underwriting loss	(32,139)	(27,560)
Net loss	(7,953)	(325)
Surplus	426,234	412,518
Combined ratio	120%	119%

Claims Trend: Pandemic Inflation

We completed 24 renewal meetings with our reinsurers in October. All were keenly interested in the inflationary increases arising from the pandemic and their impact on property indemnity costs as well as impacts of social inflation.

Farm Mutual Re new assumed property per risk severity is almost \$100,000 higher year to date when compared with 2020 and 2019. While inflation is expected to remain higher than pre-pandemic norms for the foreseeable future, the cost of raw materials overall has retreated on the wholesale market. Both trends will impact the retail market in the coming months. Some observations from the Opta Q3 2021 report (optaintel.ca) on reconstruction costs include:

- Reconstruction costs in Canada remain high at 5.7% year over year, but cost pressures are cooling off

- Lumber prices continue to decline from their May 2021 high of \$1,600 (per 1,000 feet of lumber) to \$430 in September 2021 (Pre COVID - \$300)
- Canadian renovation boom slowing down with total building permits decreasing 3.9% month over month in July

Reinsurers were also very interested in our six ceded property losses, specifically the three dairy farm fire losses and a possible developing trend. We provided data on loss control efforts by members and Farm Mutual Re. We also explained the nature of these risks and provided rationale for the severity of the losses including size of the risks, modernization of the milking operations as well as pandemic inflation.

We encourage members to heighten focus on dairy risks when planning 2022 risk inspection strategies.

EDI Business Case

At Farm Mutual Re we've been talking a lot about Equity, Diversity and Inclusion (EDI) lately and there is good reason. EDI is not merely a one-time HR program or a short-term focus. EDI is a fully enacted philosophy within an organization's culture based on a solid business case.

A business case for EDI supports the need to attract and retain diverse representation at any organization, and Farm Mutual Re is no exception. There are five main value propositions for implementing EDI practices at Farm Mutual Re:

1. Diverse organizations are more successful at recruiting top talent
2. Inclusive workplaces improve job satisfaction and retention

3. Valuing diverse talent maximizes productivity
4. Diverse teams are critical for innovation
5. Inclusion boosts company reputation

These value propositions create a competitive advantage that drives revenue, growth and improved profitability which ultimately benefits our members and other stakeholders. And we can't forget more engaged employees!

For Farm Mutual Re, our need to innovate, lead change and sustain employee engagement through experience means the business case is a slam dunk.

Reinsurance Underwriting Audits

Reinsurers have been hit by several large losses the past number of years stemming from our book of business. These partners are becoming increasingly inquisitive on what Farm Mutual Re is doing to understand members' underwriting and loss prevention practices to control claims costs, avoid adverse selection and profitably manage growth.

To protect member capacity, reinsurance underwriting audits will help develop a deeper understanding of what could be creating risk in the mutual portfolio. Audits are a strong risk control measure to support the Path to Profitability and the financial health of the entire mutual community for the long term.

The provisions to conduct audits are also included in your reinsurance contracts with Farm Mutual Re.

Our intent is to implement reinsurance underwriting audits starting in 2022 and we will begin to contact member companies in early February for scheduling. An updated communication will be shared in the coming weeks.

If you have questions or concerns regarding this new practice, please contact Product Services at uwservices@farmmutualre.com, or JP Gagnon, President & CEO, at jgagnon@farmmutualre.com.

Commercial Strategic Framework

The updated Commercial Strategic Framework (CSF) is available in an online offering on our members' website. The seven-module framework can be reviewed at a convenient time and speed that works for everyone.

The CSF is all about establishing a strong foundation within a mutual's commercial business operations to help reduce risks and support profitable growth.

The CSF has something for members in all stages of their commercial journey from starting out, to looking for added operational controls and efficiencies. The CSF provides the planning elements, supporting templates, tools, and suggested processes to enable mutuals to develop a formal and structured approach in pursuit of commercial business.

We appreciate hearing from you regarding the value of this tool: uwservices@farmmutualre.com.

Innovation Update

In 2021, we truly began to invest in innovation. This included hiring an innovation leader and engage that leader in delivering a vision and mission catered to the unique nature of our mutual roots. Over the past six months we have developed this new vision and mission, and began to build out an Enterprise Innovation group, setting the stage to become a beacon of mutual innovation.

Our innovation mission also focuses on how we enable the mutual community, since our first experiment of creating a Mutual Innovation Lab. We have reviewed the outcomes of our experiment and considered the community's perspective on how to best move forward. For example, we heard that over 66% of participating members¹ would like to focus on solving multiple problems and experiment with more ideas, while also participating in the innovation ecosystem.

As a result, our focus period has been extended to include November and December so that we may provide recommendations on the path ahead. Considerations include the value proposition of a Mutual Lab, experimentation options, and opportunities to participate in the innovation ecosystem. Stay tuned for more details at the OMIA Managers meeting in December.

We also wanted to extend a sincere thank you to the mutual community for your support, interest, and engagement throughout this journey. While 2021 has been a strategic build year, we are beginning to see how the formation of a dedicated Enterprise Innovation group will help us to innovate, together.

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	n/a
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

¹ Participating Members: Members who agreed to participate in the experiment of a Mutual Innovation Lab following COMPASS 2020.