

Financial Report – May 31, 2021

Report prepared by Alec Harmer, June 22, 2021

Summary

The income statement showed underwriting at eight times the budgeted amount with a \$4.77 million profit. Earned premiums were up 5.8% from last year, despite lack luster premium growth. However, the remarkable result is due to the low claims incurred year to date. Net claims costs are down 32.5% compared to this time last year and down 56.6% from budget. General expenses, in total, are very close to budget at \$4.8 million, 3.1% lower than budget. Overall, the market value of our investments are remaining strong and year to date market value increased in value by \$258,000. In general our investment income is off last year's results but in line with budget expectations. Our net profit of \$4 million after our tax estimates is a significant improvement over last year and budget expectations.

Details – Balance Sheet

Our balance sheet is strong with surplus up 19.8% from this time last year. Cash and investments are up 16% from last year and 1.0% higher than budgeted. Cash will be reviewed at the end of June and any excess will be transferred to investments.

Assets and liabilities have fluctuated just through the normal course of business. There are only a couple of areas that show a larger variance from last year. Under reinsurance and outstanding claims I have reallocated amounts in a few accounts to clearly identify the recoverable and claims outstanding for IBNR from our case reserves.

Assets now stand at \$85.2 million dollars, up 12.5% from last year and 0.9% above budget.

Liabilities are up 8.8% from last year however they are 5.4% under our budgeted amount. The most significant change is the increase in claims reserves.

Details – Income Statement

Direct premiums written has increased by 3.3% over the same period last year and continues to fall further below budget expectations. Discussion with our brokers will focus on premium growth. Auto is a major contributor to the downturn with negative growth.

After reinsurance costs, net earned premiums are up 5.8% from last year.

Reinsurance costs were inflated in 2020 due to the accounting practices of evenly spreading our reinsurance deposit out equally by month. Since we write less business at the start of the year, reinsurance costs appear to be higher. In 2021, reinsurance is based on our actual premiums earned by line of business.

When reviewing the claims and general expenses you will notice that we have added some new expense accounts that will enable us to provide the board and management more detailed information. When we add new accounts, we can't show a direct comparison to last year, as last year's account is \$0 and this will continue for a year. By next March, you will have a year over year comparison for each of these new accounts. I will highlight where the comparable information was last year as we go through each section.

Gross Claims Incurred

Our positive results year to date are a result of the low claims incurred year to date of \$3.0m, down 32.5% from last year and 57% from budget. Our reinsurance recoveries in the first quarter were in a negative position by just over \$100,000. This adjustment increases Net Claims Incurred to \$3.1 million.

Net loss ratio to May 31st is 24.7%.

You will also notice the first new account, Claims Benefits. Prior to this year we expensed all of the health benefits and pension to one account. We are now allocating our benefit costs and company portion of the pension costs to the applicable department.

Policy Acquisition Expenses

We have made a few changes to this section. The Distribution manager's salary is now included with the sales salaries and all of their benefits are broken out into a new account. In addition, we are including the amortization of the purchase of Gunter Insurance in this section. Last year it was included with depreciation.

Directors Fees and Benefits

Similar to the other areas the benefits are now allocated to a new account. Director fees are down 4% from the budgeted amount. As was mentioned last year, the directors' fee expenses were exaggerated through the year and correct at year end. 2021's figures represent the actual expenses for January through May. The board has also moved to pay out annual honourariums on a monthly basis, increasing the accuracy further.

Professional Fees

While some of this is timing, there is some additional expense in this category that was unbudgeted as well as an expense from 2020 that also impacted this category.

Salaries and Benefits

Two areas impacting this section are reallocating the distribution manager's salary and benefits as well as allocating benefits to each specific area (claims, loss prevention, directors and distribution).

Advertising & Donations

Advertising costs are \$15,000 higher than expected due to an invoice related to last year's calendars being received and paid in February. Donations are just starting in 2021 compared to 2020, which were accelerated by the pandemic.

Depreciation

Depreciation expense last year included computer depreciation and amortization of Gunter Insurance. This year they are being allocated to their own accounts.

Technology

We have added several new accounts in this section. Insurance System Fees (ISF) are basically Cognition costs, then we have IT Contractors, IT Supplies, Software and other License Fees and Depreciation for Computers. The budget for IFS is off due to the expense being paid by quarter and the budget allocating the expense by month (5 months budget and two quarters paid).

Risk Analysis & Prevention

Similar to the other departments we have added benefits to this section. We will also have a new account for External Inspection Expense to recognize the cost of inspection software and other inspection expense from third parties.

Investment Income

While investment income is up, mainly due to increases in overall investments and dividend income is up as well, this was more than offset by poor performance in realized and unrealized gains in investments.

Underwriting profit is up \$4.77 million from 2020 with our combined ratio sitting at 63.3%.

We use approximately 25% as a tax rate, so the result is an estimate of just over \$1.35m on \$5.4m of pre-tax profit.