HTM
INSURANCE COMPANY

MD&A
2022 – Q1

M D & A

For 2022 Q1

Contents

Overview

For Q1 2022

Since 1898

Hamilton Township Mutual Insurance Company (HTM) was started in 1898. Currently the company writes about $35 million in premium with surplus of $42 million. We have a staff of 40, 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. Our servicing area is within a 2 hour drive of the office, primarily to the North and East of Cobourg.

Executive Summary

For Q1 2022

The first quarter of 2022 was not a mirror image of 2021 as we would expect. 2021 was the best year in company history where our combined ratio was below 75%. Q1 saw an increase in claims to a higher than normal level, in both counts and incurred. This has led to a small underwriting loss and April has made this worse. Adverse development in prior year claims as well as some pure IBNR claims made average results look worse. Growth continues to be a struggle for us with auto continuing to lag as it did in 2021.

Our results and activities are laid out in this document.

Current Status

Staff & Department Updates

Staff & Directors	In 2022, we hired one new person in underwriting and a new agent from our agency company, Pearson Insurance. We created a role of Business Analyst and a person from underwriting was chosen to fit that role. The rest of the company, including directors, have remained stable.
Finance	We are in the interview process with two individuals for a senior position in the finance department. Shortly after, we will ramp up efforts to find a new VP of Finance. Both of these openings are retirements.
Underwriting	The underwriting department is up and running on our new platform after a busy year of migration and training in 2021 on Cognition+. Guidelines and authority levels have been developed in the department and implemented in 2022.
Claims	The claims department just completed a full conversion to the new Cognition+ claims system. This is a drastic change from the old system with very little of the system looking familiar. Staff is stable but we will be considering an addition later in 2021.
Loss Prevention	This department has been running as usual since February, given the pandemic environment shut it down in December. We are considering an additional person and/or third party resources to help with a backlog that the pandemic has made worse.

Products and Services

Updates

General	Our products have been reviewed and updated for release this year. The services we offered are consistent with the previous year.

Drones	HTM has received the license amendment for drones but we have not written any at this time.
Overland Flood	Nothing has changed with our water offering.

Distribution

Brokers and Agents

Purchase	We have acquired our agency, Pearson Insurance and have started the changeover. We hired one of the agents from the agency and are merging the portfolio of Pearson Insurance with the broker portfolio we purchased a few years ago. All four agents will service the combined portfolio.
New Broker	We added a new brokerage, HRC Insurance on the Northern edge of Territory. We have started training with their staff in May.
Cancelled Broker	We have ended our relationship with Roughley Insurance, which was entered into because of an impending merger with an existing brokerage. This fell through and we felt it was best to end the relationship with this brokerage.

Risk Management / ERM

Policies & significant risks

Policy and Work	We have met several times with our new governance committee. Our risk register is being updated, and we will be reviewing our risk appetite and Capital management policy.
Cyber Security	No activity in this area.
Pandemic	HTM continues to work in the pandemic environment successfully, maintaining a high level of service to policyholders and other stakeholders. More staff are working in the office, however we are still requiring masks to be worn by our staff and anyone who enters the building. We have reduced testing to a voluntary and “as necessary” basis. A number of our staff over the last six months have contract the virus, but nothing connected to our office and no serious illnesses have occurred.
Weather	We have had a regular storm activity period in 2022.
License	The company has a license to write property and casualty business, limited accident and drone insurance. We operated within our license in 2022.

Auditor / Actuary

For Q1 2022

Wilkinson & EY	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

Coverage

Retention	No changes in our reinsurance program or company, Farm Mutual Re.

Portfolio Profile

Policies and Investments

Policies	Our risk profile should not change in any substantial way. We have added a broker at the edge of our territory which will put some risks out a little farther than our traditional market.
Investment	No changes to our investment policy and we look forward to discussing the performance with our investment managers in May.

Analysis of 2022 Results

Income Statement

General

The Financial Report shown below is based on the company's internal financial reporting but does not deviate in any material way from the P&C1. Moderate growth with average claims results have come together to provide breakeven underwriting profit. Lack luster performance on investments due to rising interest rates and poor equity returns have turned the bottom line negative.

Income Statement for Q1 2022 compared to 2021 and our budget

Income Statement to March 31, 2022

	2022	2021	2022 B	% off 2022	% off 2021
Premiums	7,197	6,889	7,267	(1.0%)	4.5%
Reinsurance Premiums	1,291	1,045	1,052	18.5%	23.4%
Increase (Decrease) in UEP	(1,590)	(1,517)	(1,398)	12.1%	4.8%
Net Premiums Earned	7,497	7,361	7,612	**(1.5%)**	**1.8%**
Policy Interest / Charges	132	121	129	2.3%	9.0%
	$7,629	**$7,482**	**$7,742**	**(1.5%)**	**2.0%**
Gross Claims & Adjusting Incurred	5,810	1,326	3,456	40.5%	338.2%
Reinsurance Recoveries	1,144	(202)	675	41.0%	(665.8%)
Net Claims Incurred	4,666	1,528	2,781	**40.4%**	**205.4%**
Policy Acquisition Expenses	1,907	1,743	1,819	4.6%	9.4%
All other Expenses	1,290	1,145	1,294	(0.3%)	12.6%
General Expenses	3,197	2,888	3,113	**2.6%**	**10.7%**
Underwriting Profit / (Loss)	**($234)**	**$3,066**	**$1,848**	**891.2%**	**(107.6%)**
Investment Income	(2,366)	(89)	156	106.6%	2558.3%
Income Tax Expense	(650)	751	501	177.1%	(186.5%)
Net Profit / (Loss)	**($1,950)**	**$2,226**	**$1,503**	**177.1%**	**(187.6%)**

Income	Premiums grew a modest 4.5%, below budget expectations. With lower growth in premiums, we had lower reinsurance costs and UEP, which resulted in net premiums only being off by $70,000 from our budget. Net premiums earned was fell by $115,000. Automobile was the drag on premium growth but commercial was not steller either.
Claims	Claims were up dramatically from 2021, but that was to be expected. Prior year claims incurred of $720,000 and pure IBNR claims of $200,00 added to the experience. Residential lead the way in claims incurred starting the year out with a claim in excess of $1 million.
Policy Acquisition	Decrease in deferred policy acquisition costs of $80,000 and an increase in direct commissions related to premium growth have caused the change in policy acquisitions.
General expenses	These are outlined in more detail below. In general terms, we were right on budget in total.
Underwriting Loss	The first quarter had a small underwriting loss. Lack luster premiums with some increases in claims have created a close to break-even quarter.
Investments	Investments fell dramatically due to stock market issues and rising interest rates.

Expenses

General

These amounts are based on the company's internal financial reporting and expands on the detail provided in the P&C1.

General Expenses for Q1 2022 compared to 2021 and our budget

Income Statement to March 31, 2022 - Detailed Expenses

	2022	2021	2022 B	% off Budget	% off Change
Policy Acquisition Expenses	1,907	1,743	1,819	4.6%	9.4%
Directors Fees and Benefits	56	54	66	(19.0%)	2.6%
Professional Fees	14	19	22	(57.4%)	(26.6%)
Salaries and Benefits	502	447	465	7.3%	12.2%
Travel Expenses & Meals	3	0	8	(146.9%)	1714.1%
Advertising & Donations	37	26	21	44.1%	44.1%
Conventions & Annual Meeting	1	0	1	(18.9%)	0.0%
Education	8	3	10	(20.7%)	168.8%
Depreciation	63	62	63	(0.4%)	1.1%
Sundry / Other	4	4	6	(58.8%)	(2.8%)
Membership Fees	48	49	49	(2.7%)	(1.7%)
Government & Regulatory	30	27	28	7.7%	11.2%
Building Expenses	46	53	62	(35.6%)	(13.8%)
Office Expenses	48	47	49	(2.7%)	1.8%
Technology	236	178	224	5.2%	32.8%
Risk Analysis & Prevention	154	140	183	(19.0%)	10.3%
Bank Charges	39	35	35	10.1%	11.6%
General Expenses	**$3,197**	**$2,888**	**3,113**	**2.6%**	**10.7%**

Directors Fees and Salaries	Directors' fees are inline with 2021 and off from budget due to a restricted OMIA March convention. Salaries are up with one addition as well as increases in salaries due to inflation and a salary review process near the end of 2021. The budget did not anticipate those scenarios.
Advertising & Donations	We have started to work on a new website and agents' sales site with a marketing firm. Some of the additional costs in this area are due to this work.
Technology	Increases in our Cognition+ system as well as other software license fees have caused the 11% change.
Risk analysis & prevention	We have been able to get back to our inspection routine in 2022 versus 2021. Most of the additional costs are in salary increases and mileage as the inspectors are back on the road. Our budget anticipated more spending on 3rd party inspections.

Balance Sheet

General

These amounts are based on the company's internal financial reporting but does not deviate in any material way from the P&C1. The budget did not anticipate the refund from surplus in 2022 which means our budgeted surplus will be higher by $2 million, just for that one reason.

Balance Sheet for Q1 2022 compared to 2021 and our budget

Balance Sheet as at March 31, 2022

	2022	2021	2022 B	% off Budget	% off 2021
Cash & Investments	59,660	54,426	63,145	(5.8%)	9.6%
Accounts receivable	7,672	7,853	7,296	4.9%	(2.3%)
Reinsurance	6,765	7,932	6,924	(2.3%)	(14.7%)
Broker Acquisition	246	360	180	26.9%	(31.7%)
Building & Equipment	7,054	7,359	7,058	(0.1%)	(4.1%)
Other Assets	3,503	3,460	3,616	(3.2%)	1.2%
Total Assets	**$84,900**	**$81,389**	**88,219**	**(3.9%)**	**4.3%**
Accounts Payable	512	461	509	0.5%	11.2%
Due to Brokers	761	683	697	8.3%	11.3%
Outstanding Claims	24,815	24,022	23,934	3.6%	3.3%
Taxes Due	(914)	481	437	147.8%	(290.2%)
UEP & Other Liabilities	19,546	15,876	16,818	14.0%	23.1%
Total Liabilities	**44,720**	**41,523**	**42,396**	**5.2%**	**7.7%**
Members' Surplus	**40,180**	**39,866**	**45,822**	**(14.0%)**	**0.8%**
	$84,900	**$81,389**	**$88,219**	**(3.9%)**	**4.3%**

Cash & Investments	Although the budget anticipated an improvement in this area, it was not as significant as anticipated. Claims payouts, yearend reinsurance adjustments and a higher CPC payout all affected cash.
Reinsurance	No significant change.
Broker Acquisition	No significant change. Purchase of our agency will occur in July of 2022.
Total Assets	Assets are up 4.3% over the prior year but fell short of an aggressive budget.
Outstanding Claims	Claims incurred in the first quarter was up and some additional reserves are in place, spread out over all lines.
Total Liabilities	Total liabilities increase $700,000 or 7.7%. The main difference is in the refund to policyholders and income tax account, which will be shown as an asset on the P&C1 based on income tax recoveries on our pre-tax loss.
Surplus	Surplus increased to just above the $40 million mark, in line with last year, but off budget due to an expectation of profit and not taking into consideration the refund to the policyholders of $2.9 million.

Detailed Analysis

Claims

General

The claims shown below are pure case reserves plus independent adjusters, legal, etc. They do not include internal adjusting expenses, office expenses, IBNR or facility. Overall, both frequency and severity fell to record lows on all lines of business.

Claim counts for Q1 2022, prior and budget

Gross Claims (Year-to-Date)

Claims Count by Policy Class

Policy Class	Current	Prior	Change #	Change %	Budget	Off Budget #	Off Budget %
Auto	88	69	19	27.5%	87	1	1.1%
Commercial	11	9	2	22.2%	11	0	0.0%
Farm	25	14	11	78.6%	24	1	4.2%
Residential	92	40	52	130.0%	77	15	19.5%
Total	**216**	**132**	**84**	**63.6%**	**199**	**17**	**8.5%**

Counts

Claims count increased 84 from the prior period with only residential taking the lead. As you can see from the budget, we aniticipated an increase, but not enough in the residential area.

Gross Claims Incurred for Q1 2022, prior and budget

Gross Claims (Year-to-Date)

Claims Incurred by Policy Class

Policy Class	Current	Prior	Change #	Change %	Budget	Off Budget $	Off Budget %
Auto	1,530,311	24,522	1,505,789	6140.6%	639,204	891,107	139.4%
Commercial	723,591	237,216	486,375	205.0%	251,102	472,489	188.2%
Farm	586,033	(107,484)	693,517	(645.2%)	522,381	63,652	12.2%
Residential	2,685,496	875,835	1,809,661	206.6%	1,792,738	892,758	49.8%
Total	**5,525,431**	**1,030,089**	**4,495,342**	**436.4%**	**3,205,425**	**2,320,006**	**72.4%**

Incurred

Every single line of business saw significant increases with auto and residential having the most significant impact from prior periods. While we anticipated worse results on all lines from the stellar 2021, we were still low.

It is only the first quarter and on our size company, results can turn around quickly.

Premiums

General

The premiums shown below are direct written without facility. Growth was disappointing based on budget expectations even though we had an increase over 2021. Auto was the drag along with commercial.

Policy counts for 2021, prior and budget

Policy Count (Year-to-Date)

By Policy Class with Budget Comparison

Policy Class	Current	Prior	Change #	Change %	Budget	Off Budget #	Off Budget %
Auto	5,622	5,666	(44)	(0.8%)	5,670	(48)	(0.8%)
Commercial	1,826	1,847	(21)	(1.1%)	1,833	(7)	(0.4%)
Farm	2,823	2,807	16	0.6%	2,812	11	0.4%
Residential	10,237	10,186	51	0.5%	10,243	(6)	(0.1%)
Total	**20,508**	**20,506**	**2**	**0.0%**	**20,558**	**(50)**	**(0.2%)**

Counts

Policy counts were stagnant compared to the prior year but in-line with our budget. We saw drops in auto and commercial throughout the first quarter again. With the economy opening up and more activity going on, we can expect to see some improvement as the year goes on.

Premiums Written for Q1 2022, prior and budget

Premiums Written (Year-to-Date)

By Policy Class with Budget Comparison

Policy Class	Current	Prior	Change #	Change %	Budget	Off Budget $	Off Budget %
Auto	1,770,280	1,804,870	(34,590)	(1.9%)	1,823,305	(53,025)	(2.9%)
Commercial	983,722	945,010	38,712	4.1%	975,508	8,214	0.8%
Farm	1,931,740	1,805,687	126,053	7.0%	1,917,098	14,642	0.8%
Residential	2,451,418	2,285,202	166,216	7.3%	2,497,832	(46,414)	(1.9%)
Total	**7,137,160**	**6,840,769**	**296,391**	**4.3%**	**7,213,743**	**(76,583)**	**(1.1%)**

Policies

Inflation helped pull commercial up into a positive range even with the drop in policy count. Residential and farm both performed better but again, a lot of the growth was due to inflation factors pushing insurance limits higher. Auto continues to struggle in 2022. Some improvement in April for auto premiums, but it is still in negative territory.

Performance

General

The figures shown below are direct written without facility and claims expenses described above.

Gross Loss Ratios for Q1 2022, prior and budget

Gross Loss Ratio (Year-to-Date)

By Policy Class compared to 3 Year Average

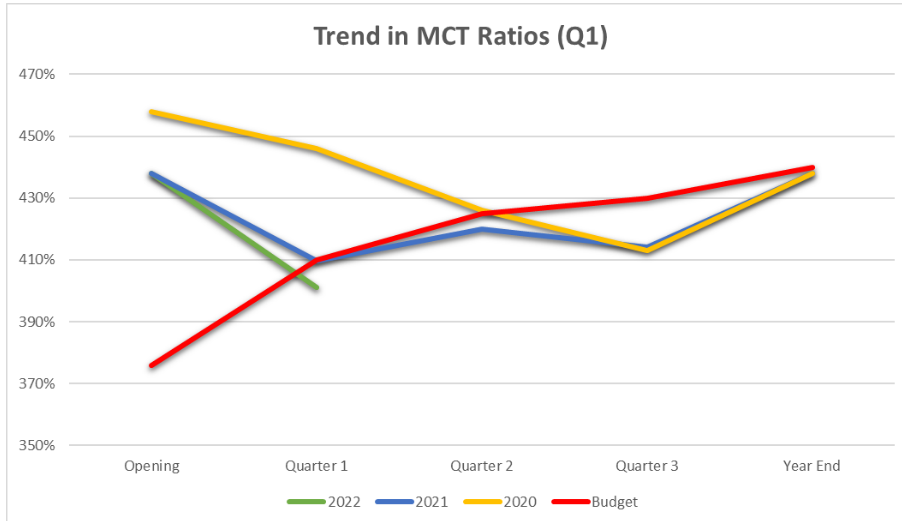
Policy Class	Current	Prior	3 Year AVG	Budget	Off Budget #	Off Budget %
Auto	66.7%	6.6%	45.0%	53.4%	13.3%	24.8%
Commercial	52.8%	4.4%	16.2%	34.5%	18.3%	53.0%
Farm	27.4%	(0.3%)	42.8%	67.8%	(40.4%)	(59.6%)
Residential	85.1%	28.1%	63.9%	46.7%	38.4%	82.0%
Total	**62.2%**	**12.8%**	**48.1%**	**55.0%**	**7.2%**	**13.1%**

Ratios

Comparing to 2021 this year will be difficult. Those was “normal” loss ratios as you can see above. On the other hand, we need gross loss ratios below 60% to make an underwriting profit. A couple large losses have pushed residential into the 85% range. On one quarter of a year’s premium, a large loss can make a significant impact.

MCT

Ratio

General	The MCT ratio is shown below in chart form for the last 3 years as well as our budget. The budget anticipated a medium underwriting profit with growing premiums, claims reserves and UEPs and investment income.
MCT for 2022,2021, prior and budget	
Target	Our target (ORSA) is a ratio of 350%. We do not want the MCT to go below 400%. As the MCT test gets tightened and puts downward pressure on the ratio, our results have held us at a fairly steady ratio over the years.
Budget	The budget for the MCT is based on the ending budget of last year and increasing to year end of 2021. With the investment performance, it will be a challenge to maintain the same MCT.

Future Outlook

Strategic plans and Actions items

General

The company has a 5 year strategic plan with a full review every three years. The pandemic pushed our last plan off by a year to allow the company to deal with that issue. In 2021, we met as a group, first with employees and then with management and directors. We put together another plan that starts in 2022 and goes through to 2026.

Main financial targets of the new plan 2022-2026

Item	Description
Premium Growth	➢ target growth range of 4% to 8% which equates to $43 million to $53 million; and ➢ Agents' growth in 10% to 15% range; and ➢ the benchmark will be Ontario mutuals' average growth + 1%.
Surplus Strength	➢ Surplus exceeds premium volume ➢ Combined ratio of 95% or less ➢ MCT exceeds 350% target

2022 Actions items

- We have been working with OMIA on our implementation of IFRS-17. We have showed the board what the new statement would like using the first quarter of 2022 results. Our system is close to being developed to allow an easy switch between the current accounting format to IFRS-17. We are on-track to be ready for 2023.
- We Implemented the new claims module in Cognition+ and went live in April. The system has some significant enhancements to help our claims adjusters to handle and monitor their claims portfolios.
- We have seen a demonstration of the new accounting module and look forward to implementing it later this year.
- We have signed a SOW to move forward with a new broker inquiry process and upload of new property and auto policies.
- We have signed the purchase contract for our agency, Pearson insurance. We have hired one of their agents and are starting the “conversion” process to “direct” with HTM and our agents.

Summary

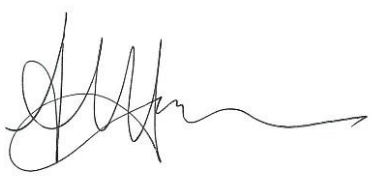
Final thoughts

The start of 2022 has been a little tougher than expected when it comes to claims, but the real picture is the investment results. Our investment policy and our 3rd party investment team are both solid. The investments will rebound over time, but based on inflation pushing interest rates up, it may not happen in 2022.

We sent our refund to policyholders out in April. A significant amount of the refund has already been deposited. Other than the odd pain dealing with depositing a cheque at the bank with multiple payees, there has been a number of nice emails and messages coming into our office.

Our focus will be on our action items in 2022, which will enhance policyholder and broker services. It will be an exciting year of improvements and will set us up well for 2023 (including IFRS-17).

Respectfully submitted,



Alec Harmer CIP
President & CEO