HTM INSURANCE COMPANY

MD&A
2021

M D & A

For the Year 2021

Contents

Overview

For 2021 Year end

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 2021 Year end

2021 was the most successful year in company history from a financial perspective. Our plans for the year were carried out and we set our sights on the next 5 year period to lay the groundwork for further success. HTM carried out our mission and vision in taking care of our policyholders, partners, community and our staff. In addition to helping out our policyholders with their claims, HTM reached out to over 50 organizations to provide financial assistance.

Our results and activities are laid out in this document.

Current Status

Staff & Department Updates

Staff & Directors	In 2021, we hired four people, two in underwriting and two in claims. Three people left the organization. We had a young man in the claims department who passed away suddenly. The second was a retirement and the last one did go to a fellow mutual for a new opportunity. Our plan calls for the addition of another agent with the successful purchase of an agency in July of 2022. This was delayed for a year, but it is moving forward in 2022. We have found two new directors to replace Bruce Buttar and Bob Burley, both retiring from our board after 15 years of service. Susan Treverton and Trish Baird were appointed to the board in November and will run for election (unopposed) to the board for a three year term in March 2022.
Finance	The finance department will see some significant changes in 2022. We hired a BA internally who started in the department in January of this year. A senior accounting person is retiring in June, so we will have to replace her. In addition, our VP Finance has plans to retire in spring 2023. Hiring her replacement will occur in the fall of this year to allow for overlap as this role is critical to our operations.
Underwriting	In 2021, HTM worked with Cognition+ to develop their policy management system to handle residential, farm and commercial business. Mid-way through the year the company had successfully moved the entire underwriting department to the Cognition+ platform. We updated our underwriting manual to include more direction for our distribution force and created our first internal underwriting manual with authority levels to guide our department staff.
Claims	Our claims practices have not changed in 2021. The department lost a property adjuster at the start of the year as well as an internal change moved one claims admin to loss prevention. Two new individuals were hired. We hired a new AB adjuster to help support a future succession strategy and beef up our claims department. Unfortunately we suffered a terrible loss with the sudden passing of a senior claims adjuster. He was senior in experience only but young in age.

Loss Prevention	This department saw no changes in 2021, however it was the most affected with the pandemic situation. We had the staff doing inspections and then pulled them off to work on desk reviews. When the pandemic eased in the summer they went back on the road. They were pulled off again before Christmas and have just returned to field inspections.

Products and Services

Updates

General	During 2021, we did not update our products. They remain in-line with industry practices. A review of our products is taking place and the target is to have new versions completed for July renewals. 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	Water coverage modelling has improved, however we still do not have a rate bridge to provide the brokers' systems with a "live" rate. We have remained with static pricing through a manual. We are working towards this service with our software provider Cognition+.

Distribution

Brokers and Agents

No changes	We have not made any additions or deletions during 2021. We are currently investigating one potential new brokerage and we have plans to terminate a broker who we brought on solely due to an impending merger with an existing brokerage. The merger fell through and we see no benefit to continue on with this brokerage.

Risk Management / ERM

Policies & significant risks

Policy and Work	We did a very basic review of our ERM internally. Our risk register was not updated, nor our risk appetite and Capital management policy. We did recalculate our ORSA and stress test and compared those to the MCT and our targets. Our company has remained strong and these tests improved.
Cyber Security	As mentioned in the Q3 report, HTM did suffer a security breach. While we have yet to finalize the whole process, we managed to eliminate the risk for our policyholders and other stake holders through the cyber team and their actions. We were able to break back into the cyber criminals' systems and determine that the files they took were not copied and we deleted them from their servers. The controls and systems we had in place to prevent a breach helped in this situation by allowing us to cut the cyber criminals off part way through their process. We have painstakingly reviewed all the files that were taken to determine the depth of private information that was stolen. Our system has been further upgraded to prevent further intrusions.
Pandemic	HTM continues to work in the pandemic environment successfully, maintaining a high level of service to policyholders and other stakeholders. When the pandemic eases we have more staff in the work environment and when cases increase, we limit staff exposure by having more work from home. We take the safety of our staff and those we work with in the community seriously.
Weather	Weather patterns appear to be more volatile and that can have a significant impact on insurance claims. HTM is part of the mutual system where quality mapping of risks are being developed, such as flood zones. HTM also has a robust reinsurance program offering unlimited Cat protection and automatic renewals. Our exposure is capped at $1.8 million on any one storm.
License	The company has a license to write property and casualty business, limited accident and drone insurance. We operated within our license in 2021.

Auditor / Actuary

For 2021 Year end

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	Minor changes in retention on Auto (increase of $50,000). Moderate change to Property (increase of $25,000). These are highlighted in the P&C1. I investigated the cost/benefits of some co-reinsurance options (accepting 10% of the claim's cost in excess of our retention to $2.5 million). The discount on our reinsurance spend was not worth the increased exposure to large claims.

Portfolio Profile

Policies and Investments

Policies	Our risk profile should not change in any substantial way. We are looking at promoting fleet and garage auto more in 2022. These programs were developed by FM Re over the past few years. We do not anticipate significant expansion of our territory or in our target market.
Investment	Our investment policy remains unchanged and has served us well during these volatile times. We have one firm handle our investments. They review the performance on a semi-annual basis. We have an investment policy that they follow and report any deviations from the policy if/when they occur. Our policy contains specific limits on investment type, quality and percentages of the overall portfolio. The performance is based on standard industry benchmarks of portfolios with similar asset classes and duration. We also compare our results to the mutual averages.

Analysis of 2021 Results

Income Statement

General

The income statement shown below is in whole dollars. These amounts are based on the company's internal financial reporting but does not deviate in any material way from the P&C1. Moderate growth with excellent claims results have come together to provide an excellent income statement. Actually a historic one, which includes, to the best of our knowledge, our first ever refund to the policyholders.

Income Statement for 2021 compared to 2020 and our budget

Income Statement to December 31, 2021

	2021	2020	2021 B	% Off Budget	% Off Prior
Premiums	35,713,620	34,298,836	37,097,566	(3.7%)	4.1%
Reinsurance Premiums	5,072,990	4,407,797	5,161,868	(1.7%)	15.1%
Increase (Decrease) in UEP	829,797	1,232,441	1,386,679	(40.2%)	(32.7%)
Net Premiums Earned	29,810,833	28,658,598	30,549,019	**(2.4%)**	**4.0%**
Policy Interest / Charges	498,049	471,386	507,000	(1.8%)	5.7%
	$30,308,882	**$29,129,984**	**$31,056,019**	**(2.4%)**	**4.0%**
Gross Claims & Adjusting Incurred	10,202,283	18,554,394	20,569,729	(50.4%)	(45.0%)
Reinsurance Recoveries	(141,873)	3,630,294	2,700,000	(105.3%)	(103.9%)
Net Claims Incurred	10,344,156	14,924,100	17,869,729	**(42.1%)**	**(30.7%)**
Policy Acquisition Expenses	8,137,421	6,446,199	7,680,907	5.9%	26.2%
All other Expenses	4,915,266	5,128,413	4,834,628	1.7%	(4.2%)
General Expenses	13,052,687	11,574,611	12,515,535	**4.3%**	**12.8%**
Underwriting Profit / (Loss)	**$6,912,039**	**$2,631,272**	**$670,755**	**930.5%**	**162.7%**
Refund to policyholders	2,912,000	0	0		
Investment Income	2,049,557	3,449,282	1,280,000	60.1%	(40.6%)
Income Tax Expense	1,560,000	1,600,000	487,689	219.9%	(2.5%)
Net Profit / (Loss)	**$4,489,596**	**$4,480,554**	**$1,463,066**	**206.9%**	**0.2%**

Income	Premiums grew a modest 4.1%, well below budget expectations. In discussing this with our distribtion force, we are similar to their growth in the majority of cases. With lower growth in premiums, we had lower reinsurance costs and UEP, which resulted in net premiums only being off by $750,000 from our budget. Net premiums earned was still up over $1,000,000 from 2020. Automobile was the drag on premium growth in 2021.
Claims	Claims were down dramatically in 2021. Some of the reduction was from the settlement of prior year claims to the tune of $2.5 million, however pure IBNR claims added $1 million to the costs for a net benefit of $1.5 million. Large losses were at a record low since our system conversion in 2010 and water (flooding, etc.) was not a real issue.
Policy Acquisition	These costs were up for three reasons; premium growth, CPC payout which was double, and the write-off of $480,000 of facility due to a cumulative error over a decade. The commission costs on the facility report were missed and that amount was shown on the balance sheet as a receivable. Our new Vp Finance caught this error and it was corrected in the year.
General expenses	These are outlined in more detail below. In general terms, we were slightly under budget as we anticipated being able to participate in more in-person events in 2021 than what actually happened. 2020 had additional costs in salaries and a few other areas, leaving us with apparent reduced expenses in the current year.
Underwriting Profit	The year ended with a staggering underwriting profit of $6.9 million dollars. This unprecedented year was not the result of any significant changes in underwriting or rating. With a retention of over 90%, the portfolio makup was the same as in prior years. The pandemic may have helped with these results based on fewer vehicle on the road and more people home to catch potential issues (pipe leak). But in general terms, it was just our year.
Refund to Policyholder	With a strong underwriting profit in 2020 and now 2021 with $6.9 million, the company decided to share this profit back to the policyholders. $2.9 million has been set aside to pay back to the policyholders and cover the cost of the refund. The refund is based on the 2021 earned premiums of every in-force policy on December 31st. Cheques will go out in March along with a letter of explanation.
Investments	Investments held fairly strong although our market value dropped just over $300,000.

Expenses

General

The detailed expenses shown below are in whole dollars. These amounts are based on the company's internal financial reporting but does not deviate in any material way from the P&C1. Moderate growth with excellent claims results have come together to provide an excellent income statement. Actually a historic one, which includes, to the best of our knowledge, our first ever refund to the policyholders.

General Expenses for 2021 compared to 2020 and our budget

Income Statement to December 31, 2021 - Detailed Expenses

	2021	2020	2021 B	% Off Budget	% off Prior
Policy Acquisition Expenses	8,137,421	6,446,199	7,680,907	5.9%	26.2%
Directors Fees and Benefits	228,484	188,417	218,688	4.5%	21.3%
Professional Fees	104,234	90,020	89,000	17.1%	15.8%
Salaries and Benefits	1,785,229	2,266,518	1,831,056	(2.5%)	(21.2%)
Travel Expenses & Meals	22,868	30,926	47,000	(51.3%)	(26.1%)
Advertising & Donations	210,111	109,359	120,000	75.1%	92.1%
Conventions & Annual Meeting	8,478	5,536	61,000	(86.1%)	53.1%
Education	37,725	32,981	40,000	(5.7%)	14.4%
Depreciation	225,702	486,774	255,402	(11.6%)	(53.6%)
Sundry / Other	112,200	123,899	139,000	(19.3%)	(9.4%)
Membership Fees	66,728	108,040	82,000	(18.6%)	(38.2%)
Government & Regulatory	134,952	112,170	113,596	18.8%	20.3%
Building Expenses	165,891	145,100	177,000	(6.3%)	14.3%
Office Expenses	134,888	151,072	205,000	(34.2%)	(10.7%)
Technology	905,804	670,578	709,768	27.6%	35.1%
Risk Analysis & Prevention	603,555	460,694	621,118	(2.8%)	31.0%
Bank Charges	168,417	146,331	125,000	34.7%	15.1%
General Expenses	**$13,052,687**	**$11,574,611**	**$12,515,535**	**4.3%**	**12.8%**

Directors Fees and Salaries	In 2021, we made some improvements to our internal financial reporting. In prior years, benefit expenses were lumped together with general salaries category. In this year, salaries in policy acquisition and Risk analysis and prevention categories had the cost of associated benefits become part of their category. Directors fees did as well, which is why the costs appear to be significantly higher than the prior year. This creates a one-time adjustment reducing salaries.
Advertising & Donations	The company continued it’s charitable giving in 2021. The pandemic has been hard on many people in our communities as well as organizations that serve them. In addition to the increased support for hospitals and foodbanks, we made two special $25,000 donations. As the year continued to get better and better, the company’s generosity grew and this is why we went over budget.
Conventions	In our budget we believed (hoped) conventions would start to resume in 2021. Only a partial opening for the P&M convention occurred.
Depreciation	Prior year had the amortization of a broker purchase. We have reallocated those costs to the policy acquisition category as well as computer depreication to the technology category.
Office expenses	There were plans for additional spending in this category, such as policy printing. This did not occur.
Technology	This was impacted over the prior year by the reallocation of depreciation. In 2021, we invested more in technology as well as had increased license fees. Investment in enhanced business analytics was one activity. Further, we engaged with the cyber experts to do further improvements for the security of our system and had a $25,000 deductible for our cyber insurance claim.
Risk analysis & prevention	2020 did not include benefits and inspections were down significantly due to the pandemic. One major area of reduction was in mileage in 2020. As you can see from the budget, we anticipated the icrease appropriately.

Balance Sheet

General

The balance sheet shown below is in whole dollars. These amounts are based on the company's internal financial reporting but does not deviate in any material way from the P&C1. The profitable year has reflected positively in the balance sheet. In addition, balance sheet risk in terms of claims outstanding and recoverable have improved through reductions in these areas of uncertainty.

Balance Sheet for 2021 compared to 2020 and our budget

Balance Sheet as at December 31, 2021

	2021	2020	2021 B	% Off Budget	% Off Prior
Cash & Investments	63,101,587	55,001,065	61,423,585	2.7%	14.7%
Accounts receivable	9,013,045	9,603,974	8,846,581	1.9%	(6.2%)
Reinsurance	6,269,660	8,845,843	7,511,664	(16.5%)	(29.1%)
Broker Acquisition	274,033	387,733	1,324,133	(79.3%)	(29.3%)
Building & Equipment	7,133,586	7,435,414	7,122,243	0.2%	(4.1%)
Other Assets	3,503,692	2,839,655	3,707,609	(5.5%)	23.4%
Total Assets	**89,295,603**	**84,113,685**	**89,935,816**	**(0.7%)**	**6.2%**
Accounts Payable	1,561,325	1,458,126	1,290,713	21.0%	7.1%
Refund to Policyholders	2,912,000	0	0		
Due to Brokers	1,083,568	513,331	1,024,417	5.8%	111.1%
Outstanding Claims	23,385,338	25,990,071	29,750,071	(21.4%)	(10.0%)
Taxes Due	0	1,118,178	(190,752)	(100.0%)	(100.0%)
Unearned Premium	18,223,411	17,393,614	18,957,936	(3.9%)	4.8%
Total Liabilities	**47,165,642**	**46,473,320**	**50,832,385**	**(7.2%)**	**1.5%**
Members' Surplus	**42,129,961**	**37,640,365**	**39,103,431**	**7.7%**	**11.9%**
	$89,295,603	**$84,113,686**	**$89,935,816**	**(0.7%)**	**6.2%**

Cash & Investments	Although the budget anticipated an improvement in this area, excess profit boosted this category further up. 2020 investments were pushed up by significant market value change, whereas in 2021, it was all profits from insurance operations.
Reinsurance	While the budget anticipated some reductions in this area, favourable settlements and few new large claims resulted in a drop in caes reserves as well as IBNR.
Broker Acquisition	An acquisition did not take place in 2021, but will in 2022. The reduction from 2020 is simply the amortization of a prior acquisition over 5 years.
Total Assets	Assets are up 6% over the prior year but fell short of an aggressive budget. This was the first year with a balance sheet budget and we ended up off by less than 1%.
Outstanding Claims	Usually with premium growth, outstanding claims increase, as shown in the busget. Fortunately the company saw positve settlements and an overall reduction in this area, along with an IBNR reduction. Claim settlements/adjusting did not change in 2021 from prior years.
Total Liabilities	Total liabilities increase $700,000 or 1.5%. The main difference is in the refund to policyholders.
Surplus	Surplus exceeded the $40 million mark. This was up 12% from the prior period and almost 8% higher than anticipated. This was after a 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 2021, 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	306	323	(17)	(5.3%)	450	(144)	(32.0%)
Commercial	36	38	(2)	(5.3%)	40	(4)	(10.0%)
Farm	98	144	(46)	(31.9%)	130	(32)	(24.6%)
Residential	244	234	10	4.3%	325	(81)	(24.9%)
Total	**684**	**739**	**(55)**	**(7.4%)**	**945**	**(261)**	**(27.6%)**

Counts

Claims count dropped 55 from the prior period with only residential showing a small increase, As you can see from the budget, the average number of claims we have is close to 900 with the budget anticipating an increase to 945 based on new policy counts. Both 2021 and 2020 outperformed prior periods.

Gross Claims Incurred for 2021, 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	1,945,494	3,541,265	(1,595,771)	(45.1%)	4,800,000	(2,854,506)	(59.5%)
Commercial	895,077	919,468	(24,391)	(2.7%)	1,500,000	(604,923)	(40.3%)
Farm	2,327,851	3,297,274	(969,423)	(29.4%)	4,000,000	(1,672,149)	(41.8%)
Residential	4,437,481	9,749,135	(5,311,654)	(54.5%)	9,200,000	(4,762,519)	(51.8%)
Total	**9,605,903**	**17,507,142**	**(7,901,239)**	**(45.1%)**	**19,500,000**	**(9,894,097)**	**(50.7%)**

Incurred

Every single line of business saw drops with auto and residential having large reductions from prior periods. Considering 2020 was an excellent year providing over $2 million in underwriting profit, 2021 was extrordinary.

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 2020. 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	5,617	5,666	(49)	(0.9%)	5,917	(300)	(5.1%)
Commercial	1,838	1,857	(19)	(1.0%)	1,832	6	0.3%
Farm	2,827	2,785	42	1.5%	2,758	69	2.5%
Residential	10,245	10,180	65	0.6%	10,335	(90)	(0.9%)
Total	**20,527**	**20,488**	**39**	**0.2%**	**20,842**	**(315)**	**(1.5%)**

Counts

Policy counts were stagnant compared to the prior year and well off budget. We saw drops in auto and commercial throughout the year.

Premiums Written for 2021, 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	8,203,713	8,414,775	(211,062)	(2.5%)	9,424,669	(1,220,956)	(13.0%)
Commercial	4,355,550	4,287,095	68,455	1.6%	4,496,577	(141,027)	(3.1%)
Farm	9,014,598	8,344,568	670,030	8.0%	8,813,589	201,009	2.3%
Residential	13,893,067	12,977,593	915,474	7.1%	14,102,731	(209,664)	(1.5%)
Total	**35,466,928**	**34,024,031**	**1,442,897**	**4.2%**	**36,837,566**	**(1,370,638)**	**(3.7%)**

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.

Performance

General

The figures shown below are direct written without facility and claims expenses described above. Every line of business came together to make 2021 successful.

Gross Loss Ratios for 2021, 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	23.5%	43.1%	45.0%	53.4%	(29.9%)	(56.0%)
Commercial	20.6%	22.7%	16.2%	34.5%	(13.9%)	(40.3%)
Farm	26.8%	40.8%	42.8%	67.8%	(41.0%)	(60.5%)
Residential	33.3%	78.4%	63.9%	46.7%	(13.4%)	(28.8%)
Total	**27.7%**	**53.4%**	**48.1%**	**55.0%**	**(27.3%)**	**(49.6%)**

Ratios

The most significant improvement was in the residential line of business. Residential over the last 5 years has exceeded 60%.

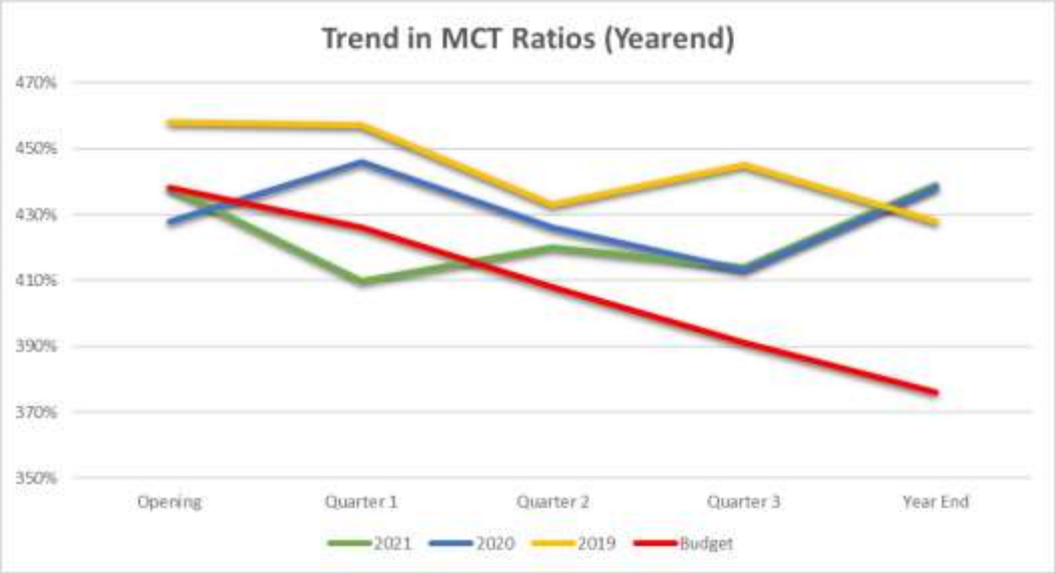
MCT

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 small profit with growing premiums, claims reserves and UEPs.

MCT for 2021,2020, 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 was the first attempt and fortunately did not come to fruition.

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 former plan 2018-2022

Item	Description	Result
Premium Growth	➢ target growth range of 4% to 8% which equates to $32 million to $37 million; and ➢ the benchmark will be Ontario mutuals’ average growth + 1%.	2021 yearend premiums are $35.5 million We were closely aligned with the mutuals average.
Surplus Strength	➢ Surplus between $38 and $43 million ➢ Combined ratio of 98% or less ➢ MCT exceeds 350% target	Surplus at $42 million Better combined ratio MCT over 400%

Actions completed in 2021

- Moved the entire underwriting department into Cognition+ system
- Virtual annual meeting
- Development of consumer portal – live in 2022 Q2
- New phone system
- Updated BI tools
- Hired four new people
- Updated job descriptions
- Compensation review (pay equity)
- Cross training

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

- Agent access to Cognition+ for quotes and inquiry, new business upload and document storage
- Policy inquiry and new business upload from brokers BMSs
- Implementation of IFRS
- Implement new claims module in Cognition+
- Implement new accounting system in Cognition+
- Implementation of new inspection system
- Purchase of agency Pearson insurance

Summary

Final thoughts

2021 was a year of significant financial success. While we don't believe that this will occur in the future anytime soon, it provided the company with an additional surplus boost. The refund to our policyholders will tell them of the mutual world and why that's the best place for them to be. We were very successful in getting the important activities done in 2021 as well and we made some significant strides forward. That momentum will continue on into 2022.

While we can celebrate a number of successes we had in 2021, the memory of those will fade. The memory of the people that we left behind will always be with us.

Respectfully submitted,

Alec Harmer CIP
President & CEO