Salus Mutual Insurance Company

Business Plan
Submission to Financial Services Regulatory Authority
May 20, 2022

Background and Summary

Two financially strong mutual insurance companies are proposing an amalgamation of their operations to provide even greater value for their policyholders. Combining the existing assets and liabilities of Howard Mutual Insurance Company of Ridgetown, Ontario ("Howard") and West Elgin Mutual Insurance Company of Dutton, Ontario ("West Elgin") will create a stronger corporation that is better able to focus on the future and maintain the personal touch that has been the hallmark of the two companies in the past.

Both Companies are members of the Fire Mutuals Guarantee Fund, the Ontario Mutual Insurance Association ("OMIA") and reinsure with the Farm Mutual Reinsurance Plan Inc. ("Farm Mutual Re").

The principles supporting this amalgamation include:

- We will maintain our local presence at current office locations
- We will remain relevant in our communities
- We will maintain local employment and develop the talent that we have

The benefits of our amalgamation include:

- Greater geographic spread of risk
- Sharing the cost of technology
- Enhanced business continuity and succession
- Enhanced Corporate development
- Reduced dependency on reinsurance
- Enhanced predictability of financial results, driven by larger volumes

The following pages project a draft business plan in support of our proposed amalgamation.

Proposed Board of Directors

Currently the Board of Howard consists of nine (9) directors and West Elgin six (6) directors. It is intended that initially the Board of the amalgamated corporation will be comprised of 15 Directors, consisting of all current directors of each of the amalgamating corporations.

As a Board, these 15 directors will determine the length of their terms (1, 2 or 3 years) and, subject to the size of the Board being reduced, commencing with the first AGM in March of 2024, five (5) directors will be elected for three (3) year terms in accordance with the Act.

It is the view of the current Howard and West Elgin Boards that the ideal number of directors is nine and it is expected the reduction will take place over a reasonably short period of time. These reductions will take place in accordance with the Corporations Act limitations.

The new Board will be responsible for determining a robust process of overall Board effectiveness, individual assessments (including peer assessments) of Board member skills and contributions. Using a skills matrix as well as a lens on diversity, equity and inclusion, the Nominating Committee which will be established by the new Board will be responsible for recruiting, interviewing and recommending Board members for election or re-election.

Proposed Management Team:

The newly amalgamated corporation will operate with an experienced, professional management team comprised of:

- President & Chief Executive Officer – Jodi Rich, CIP (currently the President and CEO of Howard)
- Chief Integration Officer – Brian Downie, HBA, FCIP, CRM (currently the President and CEO of West Elgin)
- Chief Financial Officer – Jenny Menard, CPA, CA (currently CFO of Howard)
- Chief Technology Officer – Mark Preston (currently Chief Operating Officer and IT Manager of Howard)
- Underwriting Manager – Sandra Leys, BA, FCIP, CRM (currently UW Manager of West Elgin)
- Claims Manager – David Balogh CIP (currently Claims Manager of West Elgin)
- Sales Manager – Roberta Giffin (currently Business Development Manager of Howard)
- Administrative Manager – Carolyn Rickman (currently Administrative Manager of Howard)
- Compliance Administrator – Melanie Brissette (currently Compliance Administrator of Howard)

The amalgamated corporation will operate in a decentralized manner taking advantage of all the resources available across each of the former companies. It will continue to operate out of the current offices from which Howard and West Elgin currently operate, with the Dutton office designated as the head office location.

Branch addresses are as follows:

West Elgin Mutual	Dutton	29584 Pioneer Line,
	Rodney	238 Furnival Road
	Shedden	35783 Talbot Line
	Aylmer	150 John Street N.
Howard Mutual	Ridgetown	20 Ebenezer Street W.
	Blenheim	58 Talbot Street W.

Both the Dutton and Ridgetown locations will be the base of senior management personnel. The CEO will divide her time between both offices but be predominantly based in Ridgetown.

It is expected that employment will increase, due to the enhanced growth opportunities presented by the amalgamation. There may be additional travel required for some senior management, however the experience during COVID has demonstrated the effectiveness of virtual meetings and working remotely in many circumstances.

One of the principles embraced by the amalgamated corporation is that no one will lose employment as a result of the amalgamation, and no one will be forced to commute to a new location. Some job functions may change, and some staff may volunteer to relocate to other offices across the network.

Strategic Plan

Working collaboratively, the amalgamating companies describe their collective vision for the future as *"Being a trusted and respected partner, driven to protect our community".*

The key enablers that motivated the companies to pursue an amalgamation included the following common points:

- The opportunity to achieve a greater spread of risk
- Being better able to manage and interact with distribution network
- Provide leverage for internal expertise and gain redundancy for key roles
- The ability to enable stronger investment in technology to enhance efficiency
- Reduction of the risk of rising reinsurance costs
- Build a Company with a stronger and broader infrastructure
- Make the most of the strengths and depths available in management
- Improved surplus and capital position
- The creation of a platform for long term growth.

The amalgamated corporation will be market competitive in terms of products and prices and will differentiate itself on the basis of its service to policyholders including the ability to be flexible and nimble, providing high levels of expertise, greater convenience and ease of accessibility. Both amalgamating companies bring strong financial positions, a loyal client base and they both use the same insurance related software, thereby making for a smooth transition.

Every amalgamation comes with its challenges. These challenges have already been identified by the Board and current Management of both companies. We understand that it will be important to harmonize rates, policies and products, and take the best from each company in order to build better products for our policyholders. We also realize that maintaining current service standards during the transition, integrating operations with staff input, and communication (with staff and policyholders) is key to building a single unified team and ensuring a successful amalgamation.

Policyholders, staff and other stakeholders have been advised of our proposed amalgamation and all feedback received by both companies to date has been positive. The new Board will undertake a combined, formal strategic planning exercise during 2023.

Proposed Governance Structure

Initially, the Board of the amalgamated corporation will be comprised of 15 Directors (9 from Howard Mutual and 6 from WE Mutual). Both companies' Boards operate as policy boards, rather than operational boards and the amalgamated corporation's board will continue to function as such.

The inaugural Board will select among themselves for terms of office (either 1, 2 or 3 years) commencing January 1, 2023, in compliance with the Corporations Act. When assessing Board positions for renewal or replacement, the Board will consider the skills matrix of the incumbent as compared to the combined matrix of the desired Board complement. In addition, Board member self-assessment, peer assessment, diversity opportunities and individual contributions will assist the Nominating Committee in selecting the appropriate candidate to fill expiring terms.

There will be a comprehensive process of Board evaluations including assessments for:

- Board Overall
- Board Chair
- Committees of the Board
- Committee Chairs
- Director Self-Evaluations
- Director Peer Evaluations

Initially, the amalgamated corporation will have the following standing Board committees, with appropriate mandates, and the following number of members:

- Conduct Review (which will also oversee Conflict of Interest Policies and will be comprised of at least 3 independent members
- Audit Committee of at least 3 independent members
- Investment Committee of at least 3 independent members
- Nomination Committee of at least 3 independent members

Additional Board Committees may be established as needs arise.

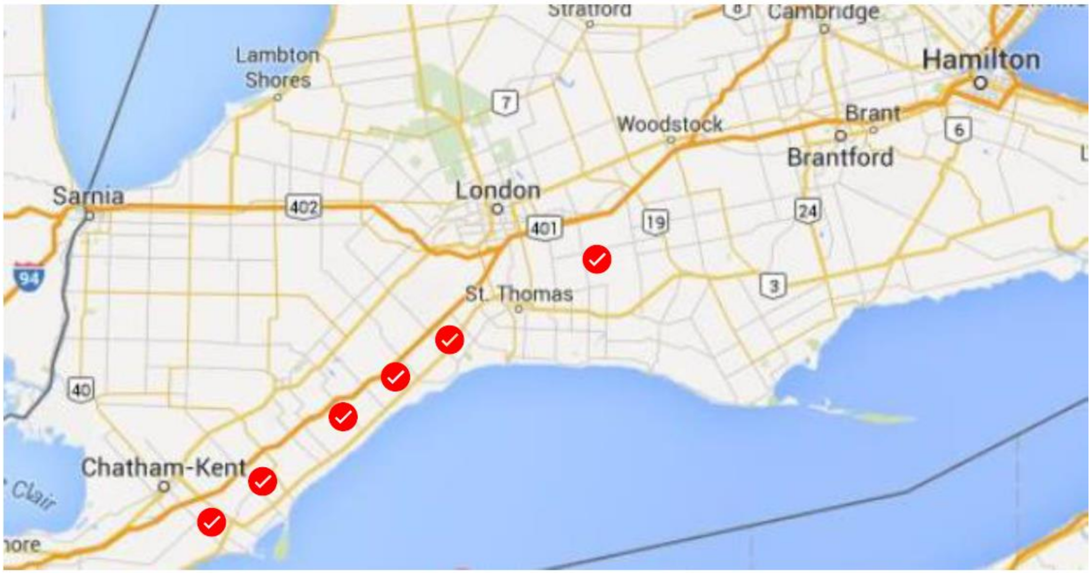
Distribution of Products

The plan is to continue to offer our products to policyholders through exclusive agents. The amalgamated corporation will begin operations with 23 agents spread across the six locations with a variety of experience ranging from just over one year to more than 35 years. There exist opportunities for agents to specialize in certain policyholder risk profiles and to hone their expertise to provide coverage that best suits their clients' risk appetite.

The amalgamated corporation will have the ability to create a stronger distribution network, covering a larger geographic area creating an improved spread of risk than either of the two amalgamating companies currently have. The Sales Manager will be assessing opportunities to increase the agent force in order to both plan for succession and to fill potential gaps in underserviced areas. It is expected that up to an additional five agents may be appointed during the planning horizon of five years.

The Sales Manager will be headquartered in the Blenheim office but will be expected to travel to all offices to provide oversight, mentoring and training to the agents.

Branch Locations for Salus Mutual Insurance



Underwriting

Both amalgamating companies are currently part of the Ontario Mutual Automobile Plan (OMAP) formerly administered through OMIA/Farm Mutual Re and source their reinsurance exclusively through Farm Mutual Re. There will be no issues with aligning the rate or the product for the automobile line of business.

The alignment of our property rates and product differences has begun. Rates for new business effective January 1, 2023 will be developed in advance of that date and any significant rating differences for renewals will be addressed and harmonized over the first year of operations. The two companies have engaged a consultant to assist in reviewing, comparing and evaluating the property underwriting guidelines, risk selection and pricing for the non-automobile book of business. Initial indications of the differences, along with a plan to bring them in line, is expected to be tabled by mid-2022. With a larger database of premiums and loss history, engaging professional assistance in setting rates will provide more reliability going forward. As Mutual Companies we are keenly interested in ensuring any dislocation is properly managed for the benefit of our policyholders. Final property rate harmonization could be impacted depending on the outcome of the consultant's analysis and our desire to balance retention with getting the right pricing for the risk.

The Underwriting Manager will be based in the Dutton office and supervise underwriters across the organization.

Financial and Capital Management

Upon amalgamation the estimated opening surplus for the combined company will be in excess of $67M. Gross written premium in the first full year of operations is estimated to be $37.8M

Under the current assumptions and estimates the surplus is projected grow by 4% per year on average, depending on the application of refunds of surplus to policyholders. No such refunds have been included in the projections. Projections of risk ratio vary from 54% at the outset, gradually increasing to 58%

The Minimum Capital Test percentages for the two amalgamating companies are very strong. The amalgamated corporation's MCT is estimated to be 550% and remain strong over the projection period. Although it is currently unknown what the impact of IFRS will have on the MCT initial indications appear to indicate it will be minimal. Any changes would impact the two companies whether amalgamation occurs or not.

The amalgamated corporation will complete its Own Risk Solvency Assessment and combine their approach to Enterprise Risk Management early in 2023. It will also open with claim and premium liability reserves and provisions for adverse deviations consistent with Accepted Actuarial Practices.

The CFO will be based in the Ridgetown office and supervise a team of accounting staff split between the Ridgetown and Dutton offices.

Proposed Computer Systems

Both companies are among the owners of Cognition+ based in London, Ontario and use their insurance management solution. Transition to a common structure and functionality will commence in the third quarter of 2022. It is proposed that the datasets for the amalgamated corporation will be hosted in one physical data center. Currently options are being reviewed for either the Dutton office or alternatively a hosted cloud solution.

Each office will have connectivity to the common data center with all data also shuttled to an off-site disaster recovery site on a regular basis. We will have the ability to make the disaster recovery site live to allow access from any appropriately configured Internet connected PC if access to the primary site becomes unfeasible. Access to the disaster recovery site would be available within 12 hours of an event.

The CTO will be based in Ridgetown, providing technology guidance across the organization.

Claims Handling

Claims will be handled by adjusters in each of their current locations. Community presence is a key success factor for each of our companies and having local adjusters is an integral part of that success. In the event of a catastrophic loss, adjusters from the other location can provide additional support. Technology provides adjusters remote access to the policyholder database. This allows them to respond to a policyholder's claim in a timely manner regardless of the time of day or location of the claim. With very few exceptions, it is expected that most claims will continue to be handled by in-house adjusters.

After-hours claims will continue to be contracted out, and independent adjusters that demonstrate compliance with the amalgamated Corporation's customer service standards will be used when necessary. Consolidation of claims reserving philosophy and claims handling will occur quickly.

The Claims Manager will be based in the Dutton office and supervise adjusters across the organization.

Complaints Handling

Both amalgamating companies have complaints policies and once amalgamated, the corporation will adopt one of those policies and update as necessary, to achieve the following objectives when complaints are received:

- Investigate the facts.
- Evaluate if the corporation complies with the law and with the requirement to treat customers fairly.
- Identify any market conduct issues stemming from the complaint.
- Evaluate if any policies and procedures need to change as a result of the complaint.

The Chief Integration Officer has been designated as the Corporation Ombudsman/Liaison Representative

Estimated Financial Results (five-year horizon)

Beginning with the 2022 approved budgets for Howard & West Elgin as the starting point, projections from there were prepared for the following five years (2023 – 2027) for Salus Mutual Insurance Company

The financial projections on the last page of this document are based on the following assumptions:

- Premiums written are projected to increase at a conservative rate of 7% annually over the 5-year period to a total of $50M by the end of 2027. While we don't directly control automobile premium (estimated to more than 40% of total volume) we will be balancing existing client retention with adequate pricing on our non-auto book to accomplish this growth. Additional agents will be engaged to ensure succession planning and to fill service gaps as they are identified. We don't have plans to significantly change our underwriting territory.

- Starting with estimates from Farm Mutual Re for 2023 estimated base rates and relativity factors we started with a relatively low retention compared to our surplus position. It is anticipated that retentions will increase in successive years as we define risk tolerance levels with the refinements to our ORSA and ERM. These increased retentions will help to manage our reinsurance costs. These costs are projected to be a declining percentage of our gross premiums written.

- Gross claims and adjustment expenses are based on historic trends and are estimated to be in the low 60% range for the period. Give a relatively high and increasing retention the expected recoveries, on average, are expected to be low.

- Commission expenses are estimated to be slightly higher in the first year and then average out just above 13% based on our existing rates and adjustments upon renewal of existing contracts.

- General Expenses are projected to increase on average at 7% based on delayed savings on a few items (Association Fees and Technology Fees have clauses that delay savings in the first two years of an amalgamation). It is expected that the workforce will increase over the planning horizon (net of retirements). Large expense savings are not the primary objective of this amalgamation and our projections through the five-year period shows only a small decrease in expense ratio starting from 37% and ending at approximately 34% in 2027. There is no reinsurance commission revenue as we do not anticipate using quota share reinsurance in our programs.

- Investment income is modest in our estimates anticipated to be approximately 3.5%. It is expected that the amalgamated corporation will continue to allocate up to 20% of assets in equities, similar to the two amalgamating companies. With rising bond rates, we are prepared for declines due to market value adjustments. In the two years leading up to amalgamation both companies have been shortening their bond duration which should temper the market value changes and allow for reinvestment in bonds with at a higher rate.

- Underwriting income is positive over the projection timeframe, averaging a combined ratio of approximately 97%. Following the mutual philosophy of providing insurance at, or near cost, any additions to surplus could be offset by refunds of surplus to policyholders, providing certain targets are achieved and there is adequate surplus to support growth.

- Surplus is expected to grow over the planning horizon to be approximately $84M by the end of 2027. This is dependent on any potential refunds as mentioned above. This surplus projection will allow the amalgamated corporation to have options to control reinsurance costs and retain risk to our own account in accordance with our risk tolerance.

Reinsurance

The Financial Projections have included an analysis of the amalgamated Corporation's reinsurance risk tolerances. The analysis has identified that an $800,000 reinsurance retention per risk and $2,000,000 per event in 2023 would expose approximately 1.25% of our combined surplus for a single loss and 3% in the event of a catastrophic loss. This is lower than the current exposure of either of the individual companies

The financial projections also anticipate growth in surplus which enables the Corporation to make future retention decisions that are appropriate to the increased surplus, commensurate with our risk tolerance.

As required by Ontario statute, the amalgamated corporation will continue to use Farm Mutual Reinsurance Plan Inc. for all reinsurance requirements. We will access all the traditional reinsurance programs; Excess of loss for property, automobile and general liability, Excess of occurrence for catastrophe, and stop loss for overall portfolio protection.

Reinsurance premium savings are not a primary objective of the amalgamation, but we do anticipate having more options to control future reinsurance costs, due to the amalgamated corporation's ability to absorb larger retentions.

Investment Operations

The Investment Policies of each of the companies are very similar. It is expected that the amalgamated corporation will continue to use the investment managers used by each of the companies, until such time as the Board and Investment Committee of the amalgamated corporation determine otherwise.

The Board of Directors of the amalgamated corporation will approve a harmonized Investment Policy Statement (IPS) for the amalgamated corporation in the first quarter of 2023. Reviewing our asset allocation and given the opportunity to review relative performance may uncover opportunities to reduce some of the discretionary managers currently employed. Any proposed changes to the IPS will, of course, continue to be in accordance with the Insurance Act and adhere to the prudent person principles contained therein.

Plans to maintain stability in operations during transition period

Rate alignment and product consistency is currently being pursued. Since a significant portion of the total business is automobile, the integration for that portion will not create any dislocations or product differences.

Property rates and products are being thoroughly compared to identify differences, decide on best options going forward and to monitor dislocations. It is anticipated that the alignment will be completed by December 31, 2023. Service to agents and members will be maintained at each of the local offices.

Claims service will continue without disruption at each of the current offices. The majority of claims will continue to be handled by in-house professional adjusting staff. As with both company's current practices, external adjusting relationships will be maintained to ensure response is available during peak times, holidays and for potential claims occurring outside of our normal service area.

We will be working to review and align salaries, benefits and employment policies. Since all the offices will remain operational there will be few redundant positions. We do not foresee a significant risk of staff departures.

Policyholders will see very little initial change other than the name of the Corporation that they are insured with. They will continue to interact with the same salesperson at the same location that they have dealt with in the past. Claimants will continue to work with the same staff adjuster that they met with since their claim was filed. We are focused on maintaining our existing relationships and service levels to ensure retention of current business and to offer the same local, caring, professional service to more consumers into the future.

Conclusion

The amalgamation of our two companies is intended to create a more diverse corporation better positioned to compete with the human resource, distribution and technology challenges that we both face individually today. Maintaining our focus on local and personal service throughout our existing territories of operation will keep us connected to what has made us successful in the past, while leveraging economies of scale for the benefit of our policyholders into the future.

Salus Mutual Insurance Company

Income Projections ($,000)

	2023	2024	2025	2026	2027
Premiums					
Gross Written Premiums	38,220	40,879	43,722	46,765	50,020
Reinsurance Ceded	(3,600)	(3,726)	(3,860)	(3,999)	(4,143)
Net Premiums Written	34,620	37,153	39,862	42,766	45,877
Decrease (increase) in Net Unearned Premiums	(1,402)	(1,324)	(1,417)	(1,516)	(1,622)
Net Premiums Earned	33,218	35,828	38,445	41,250	44,255
Service Charges & Other Revenue	225	236	247	260	273
Total Underwriting Revenue	**33,443**	**36,064**	**38,692**	**41,510**	**44,528**
Claims					
Gross Claims and Adjustment Expenses	20,600	22,000	23,800	25,661	27,714
Reinsurance Recovered	(400)	(400)	(400)	(400)	(400)
Net Claims and Adjustment Expenses	**20,200**	**21,600**	**23,400**	**25,261**	**27,314**
Expenses					
Commissions	4,867	5,207	5,571	5,961	6,379
General Expenses	7,635	8,003	8,501	8,867	9,227
Premium Taxes	94	100	107	115	123
Reinsurance Commission Revenue	0	0	0	0	0
Total Expenses	**12,596**	**13,310**	**14,180**	**14,944**	**15,729**
Underwriting Income (Loss)	**648**	**1,154**	**1,113**	**1,305**	**1,485**
Investment Income	**3,010**	**3,100**	**3,300**	**3,500**	**3,700**
Net Income (Loss) before Income Taxes	**3,658**	**4,254**	**4,413**	**4,805**	**5,185**
Income Taxes (Current & Deferred)	(900)	(1,060)	(1,100)	(1,200)	(1,285)
Net Income (Loss) for the Year	**2,758**	**3,194**	**3,313**	**3,606**	**3,900**