Proposed

Caradoc Townsend Mutual Insurance Company

Business Plan

May 9, 2017

Summary

Two strong mutual insurance companies with common values propose to amalgamate our operations and obligations to provide enhanced value for our members, and to ensure long term sustainability and relevance in our communities. We intend to provide and be recognized for high quality service that anticipates our members' needs and goes beyond insurance.

Combining the personnel, capabilities, assets, and liabilities of Caradoc Delaware Mutual Insurance Company (CDM) and Townsend Mutual Insurance Company (TM) is a continued evolution of our shared history, and will create an even stronger company that is able to focus on the needs of the future, while maintaining the personal touch today.

The principles underlying this amalgamation include:

- We will maintain and expand our local presence at current office locations;
- We will enhance our profile and engagement within our communities; and
- We will maintain local employment in each location, develop and grow our talent pool, to service the prudent growth that the amalgamation will unlock.

We will realize many benefits from our amalgamation, including:

- The ability to build better and deeper solutions and products for our members;
- Broader geographic spread of risk;
- Sharing cost and benefits of technology;
- Enhanced business continuity and disaster recovery capabilities;
- Enhanced organizational development;
- Enhanced predictability of financial results, driven by larger volumes; and
- Enhanced access to automobile insurance for members in the Middlesex/London area.

Proposed Board of Directors

Currently, CDM has six Directors, and TM has nine. The Board of the amalgamated corporation will be comprised of twelve Directors, initially selected from each of the amalgamating companies, (five from CDM, and seven from TM). Subsequent to creation of the inaugural Board, Directors will be elected on a three-year term basis. Four inaugural Directors' terms will expire in each of 2019, 2020, and 2021.

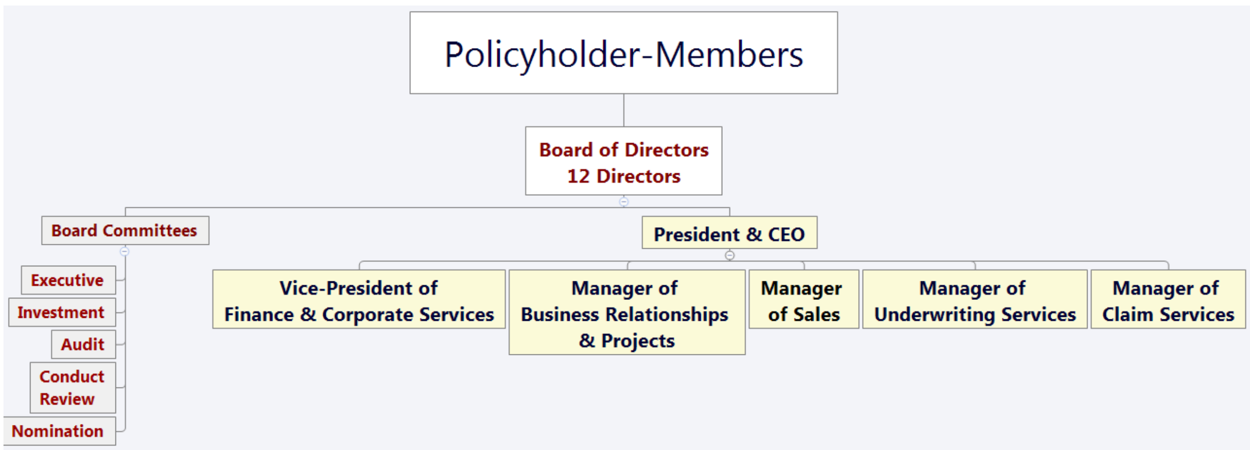
It is the view of the current CDM and TM boards that the number of directors should be reduced to nine within five years of amalgamation.

Proposed Management Team

The amalgamated corporation will operate with a management team comprised of

- Neil Shay, President & CEO
- Mary Heastont, VP Finance and Corporate Services
- Bill Jellous, Manager of Business Relationships & Projects
- Tracey McGrory, Manager of Underwriting Services
- Greg Andrews, Manager of Claim Services
- Beki Bergeron, Manager of Sales

Below is a chart of the proposed management organizational structure.



Key to our principle of enhancing local relevance and identity, the amalgamated corporation will operate out of both Mt. Brydges and Waterford. Each location will be the base of senior management personnel, and all management will spend time working with their teams at both locations. The CEO will be based in Waterford.

We are planning for ***increased employment*** due to the ***enhanced growth opportunities*** presented by the amalgamation. However, some existing job functions may change and there may be additional travel required for some senior management and staff.

Strategic Plan

Working collaboratively, the Boards of the amalgamating mutual insurers began a strategic planning cycle for the amalgamated corporation and describe the desired **culture** of the new Caradoc Townsend organization as follows:

Their **vision** for the future as being a company that provides

Peace of mind for a safe, prosperous community.

Our mission is: **Beyond insurance**…building on history to protect the future.

The following **values** are integral to how Caradoc Townsend Mutual will conduct its business:

- Integrity
  We will treat everyone fairly and honestly for our mutual benefit.
- Service
  We will foster strong internal and external relationships.
- Teamwork
  We will recognize each other's strengths and collaborate to achieve our goals.
- Commitment with passion
  We are determined and dedicated to find solutions.

Our opportunities in this integration project include:

- Enhanced Automobile growth in the near term;
- Cost savings (I.T., trade association, audit/compliance, reinsurance, and claims adjudication);
- A stronger, deeper, and wider pool of talented staff, to accomplish great things for our members;
- Increased scale to accomplish more great things for our members;
- Geographical diversity;
- Strength in management depth;
- Improved surplus and capital position; and
- A platform for long term growth.

Our challenges include:

- Harmonizing rates, policies and products, taking the best from each company and going beyond, in order to build better products for our members;
- Changing I.T. platforms in conjunction with amalgamation;
- Communicating clearly with our members, our staff, and other stakeholders;
- Maintaining service standards during the transition; and
- Integrating our operations and building a single unified team.

Our short term strategic priorities during the amalgamation period include:

- Staff – Communications and Organizational Development;

- Harmonization of products, procedures and pricing;
- Member Communications;
- Board Governance, Cohesion & Advocacy; and
- I.T. Conversion.

The strategic planning cycle will be refreshed and completed in the second half of 2017, with tactical objectives and measureable success factors to help us track progress.

Proposed Governance Structure

The amalgamated corporation will be governed consistent with the Carver model.

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

- Board Overall;
- Board Chair;
- Committees of the Board;
- Director Self-Evaluations; and
- Director Peer-to-Peer Evaluations.

Implementation of these assessments will be phased in over the first three years following amalgamation.

Initially, the amalgamated corporation will have five standing Board committees, with appropriate mandates:

- Executive;
- Conduct Review;
- Audit;
- Investment; and
- Nomination.

With the exception of the Executive, each committee will have four members with a quorum of three. The Executive may have three members.

Distribution of Products

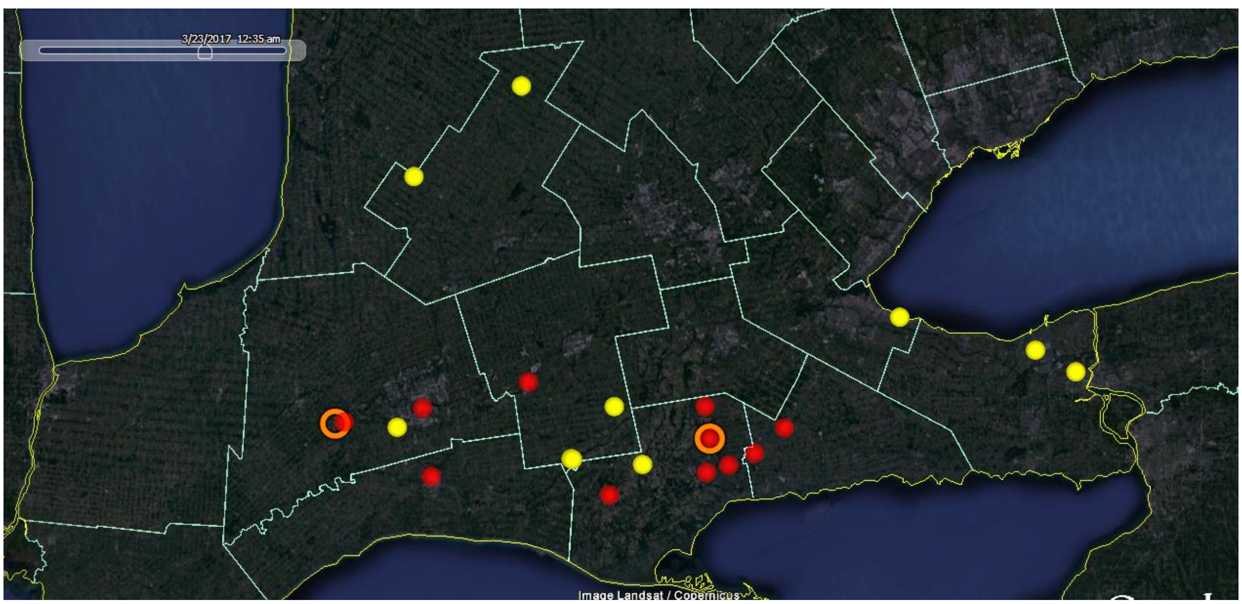
CDM distributes exclusively through agents, while TM distributes 70% of premium through agents, and 30% through brokers. At inception, the amalgamated company will have about 24% of its business serviced through the broker channel and the balance through dedicated agents. We expect this ratio to hold steady during the five-year planning horizon.

The two channels are complementary. TM's current brokers operate primarily outside of the core areas that are currently serviced by the agents of TM and CDM. We expect to appoint additional agents and brokers during the planning horizon.

The Manager of Sales will operate out of both the Mt. Brydges and Waterford locations.

Toward the end of the projection period, we expect that our critical mass in talent and our increased I.T. spend will enable us to participate in direct on-line and mobile business acquisition.

The map below illustrates the locations of corporate offices (orange circles), broker offices (yellow dots) and dedicated agents (orange dots) at inception.

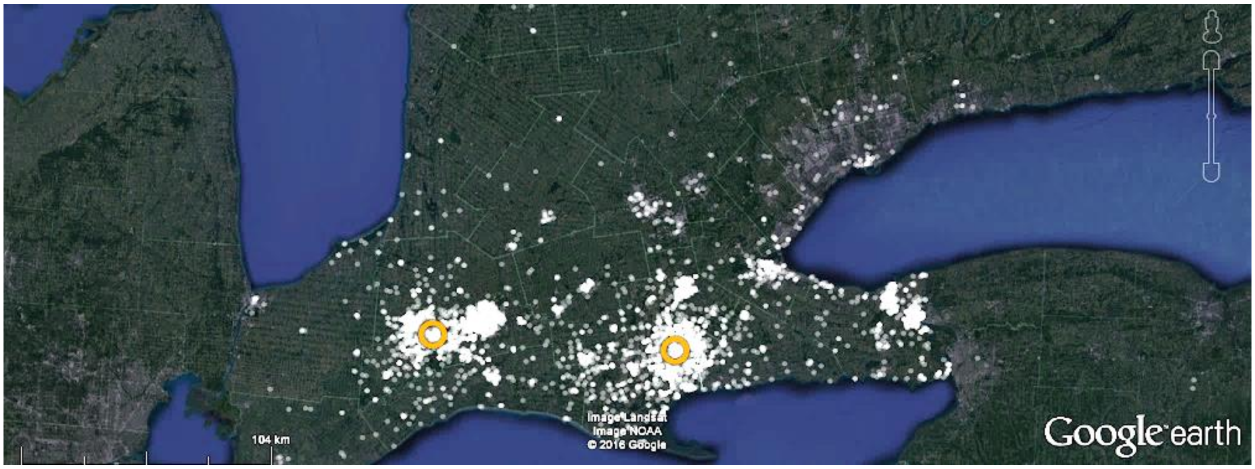


Geography of Membership

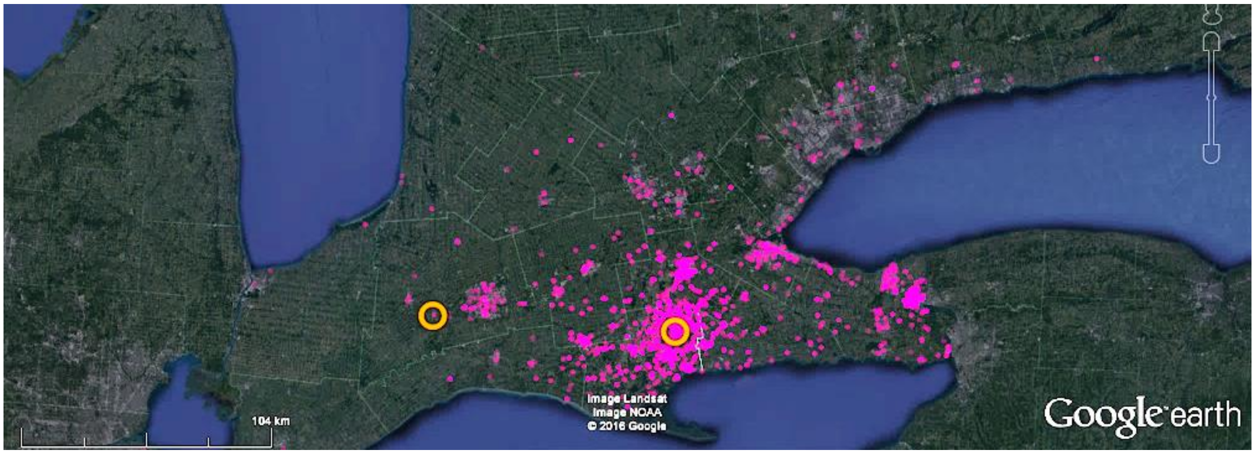
The two amalgamating companies currently have significant policyholder concentrations in London-Middlesex, Norfolk, Brant, and Niagara, as well as surrounding jurisdictions and a province-wide commercial program. In 2016 the combined companies wrote 10,788 policies through multiple agent and broker locations.

There is only slight overlap in the geographical coverage of the two amalgamating companies. The amalgamated corporation will have a significantly greater geographic spread of risk than either of the two amalgamating companies.

The map following illustrates the 2016/09/30 distribution of property and general liability policy locations serviced by the two companies.



CDM does not currently write automobile, but TM has significant automobile policy concentrations in Norfolk, Brant, and Niagara. TM's geographical automobile distribution is highly correlated with its property distribution. The map below illustrates the 2016/09/30 distribution of automobile policy garaged locations.



Underwriting

TM is currently part of the OMIA & Farm Mutaual/FMRP **automobile** rate filing, and although CDM is licensed for automobile, it does not currently write this line. The amalgamated company will be part of the OMIA/FMRP automobile rate filing, and there will be no issues with aligning the rates or the products for the automobile line of business.

The alignment of our **property** rates and reconciliation of product differences is underway. We are working closely with the Business Development group at our reinsurer to develop enhanced products and rates for new and renewal business effective January 1, 2018. The rates will have actuarial support, and will be territorially based. Any significant individual rating dislocations will be phased in over a period of one to three years.

The Manager of Underwriting Services will be based in the Waterford location, with underwriting team members located in Mt. Brydges and Waterford.

Financial and Capital Management

Strong capital position - An estimate of the amalgamated company's surplus has been provided in the financial estimates, and is projected to be $24,321,000 as of 2022. On average, we expect after-tax ROE of 5% per year initially, accelerating to 7% towards the end of the projection period.

Minimum Capital Test (MCT) -The combined MCT of the two companies at December 31 2016 was 532%. The amalgamated corporation will open with a minimum MCT target of 300%, and an operating MCT target of 350%. The operating target is based on TM's current actuarially derived operating target, and will be updated with actuarial assistance two years post-amalgamation.

Risk Management - The amalgamated corporation will open with an *Enterprise Risk Management* plan that will be jointly developed by the amalgamating companies in the 4th quarter of 2017. The corporation will complete its *Own Risk Solvency Assessment* in the 1st or 2nd quarter of 2018.

The amalgamated corporation will use a consulting actuary to value policy liabilities annually. The amalgamated corporation will open with claim and premium liability reserves and provision for adverse deviations consistent with Accepted Actuarial Practice (AAP), also known as "discounting". To prepare for this, the amalgamating companies will convert to AAP during 2017.

Proposed Computer Systems

Both amalgamating companies currently use the "Nopper" policy management system. The licensing rights for this system were purchased in 2015 by SEH Computer Systems. The Nopper system has a sunset of 2018, with a default conversion path to SEH's flagship "Titan" product.

Both amalgamating companies intend to convert to the Mutual Concepts Computer Group (MCCG) policy management software. TM started the conversion process in March 2017, with an expected completion date of January 2018. The amalgamated corporation will open business on the MCCG system. CDM will not convert to MCCG during 2017. Instead, the CDM policies will be added to the converted system in 2018.

This schedule, while increasing pre-amalgamation workload at TM, will minimize conversion costs and provide a clean slate for the amalgamated corporation. The amalgamating companies propose to close 2017 on the Nopper system, and open 2018 on a strategic platform that **positions the amalgamated company for mobile operations and customer-responsive analytics in the future.**

The database and business logic for the amalgamated corporation's MCCG implementation will be hosted at the Waterford location.

Claims Handling

Claims will be serviced out of each physical office, primarily by in-house employees or contract staff. After-hours service will be contracted, and independent adjusters that demonstrate compliance with the amalgamated corporation's customer service standards will be used when necessary.

The Manager of Claim Services will be based in the Waterford location, with claims team members located in Mt. Brydges and Waterford.

Complaints Handling

The amalgamated corporation will institute a complaint handling protocol that is designed to achieve the following objectives when complaints are received:

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

Bill Jellous, Manager of Business Relationships & Projects, will be the Company Ombudsman / Liaison Representative for the amalgamated corporation, and will operate primarily from the Mt. Brydges location.

In the pre-amalgamation period, CDM and TM will continue to operate complaint handling protocols to meet these same objectives.

Estimated Financial Results (five-year horizon)

The financial projections on the following pages are based on these assumptions:

- Rapid adoption of the automobile product by existing CDM members;
- Enhanced organic growth of the property product in the CDM trading area because of synergies with the automobile product;
- Moderate organic growth in the TM trading area in the first twelve months after amalgamation;
- Additional brokers appointed during the projection period;
- Additional agent(s) appointed in both existing trading areas during the projection period;
- Reinsurance premium ratio increases from 20% in 2016 to stabilize at 29% by 2019, due to anticipated **reinsurance rate increases** that are unrelated to the amalgamation. This is higher than either company's current reinsurance ratio, but **lower than if an amalgamation were not taking place**. As a result, net expense ratios will remain somewhat higher than otherwise expected due to the anticipated higher reinsurance rates;
- Both amalgamating companies convert from "undiscounted" claims reserves to Accepted Actuarial Practice in 2017, resulting in a decrease in claims reserves, offset by the addition of Provision for Adverse Deviation, for a one-time overall increase of approximately $400,000 in net incurred claims;
- Conversion to MCCG insurance management system and associated costs will be coincident with the amalgamation process, but will be less than the conversion costs would be if the amalgamation were not taking place;
- Overall I.T. expenditures will increase over the projection period from 2.7% of 2016 GWP to 5.5% of 2022 GWP;
- Additional salary expenses in administration, claims adjusting and underwriting to service expected growth in the number of policies in force;
- No additional participants in the Defined Benefit pension plan;
- Additional Defined Benefit pension funding required in 2019, 2020, 2022;
- A Refund from Surplus to members is generated if gross ROE exceeds 10%;
- Average net claims ratios of 54% during the projection period: 50% for property, 50% for general liability, 60% for primary automobile, and 110% for Facility automobile; and
- The overall financial results over the full projection period are relatively insensitive to possible increases in interest rates. For example, if interest rates increase by approximately 150 basis points, then there will be a decrease in investment income due to declining market value of the bond portfolio. However this will be offset by an increase in underwriting income, due to a reduction in discounted claims reserve provisions, and the reduction or elimination of expected defined benefit pension plan deficits.

Income and Surplus Projections

	CDM + TM		New Mutual Insurance Corporation				
	Actual 2016	**Projected 2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Underwriting Revenue							
Direct Premiums Written							
Property	5,741	6,086	6,794	7,405	8,146	8,960	9,856
Automobile	4,814	5,442	6,531	7,512	8,337	9,253	10,087
General Liability	1,246	1,346	1,564	1,783	2,033	2,317	2,642
Total Direct Written	11,802	12,874	14,889	16,700	18,516	20,530	22,585
Assumed Premiums Written	29	35	46	57	57	57	72
Gross Premiums Written	11,831	12,909	14,935	16,758	18,573	20,588	22,657
Reinsurance Premium Ceded	2,372	3,217	3,858	4,762	5,324	5,907	6,519
Net Premiums Written	9,459	9,692	11,077	11,996	13,249	14,681	16,138
(incr) / decr in unearned premium	-349	-550	-1,032	-928	-930	-1,032	-1,053
Net Premiums Earned	9,110	9,143	10,044	11,068	12,319	13,649	15,085
Service Charges & other Misc. Income	182	199	230	258	286	317	349
Total Underwriting Revenue	9,292	9,341	10,274	11,326	12,605	13,965	15,433
Claims and Expenses							
Net Claims							
Property	2,867	2,387	2,506	2,763	3,026	3,328	3,661
Automobile	1,981	2,147	2,403	2,708	3,006	3,282	3,547
General Liability	300	492	543	614	701	799	892
Reinsurance Assumed	0	2	2	3	3	3	4
Total Net Claims	5,148	5,027	5,455	6,088	6,735	7,411	8,103
Acquisition Expenses	1,209	1,433	1,635	1,814	1,991	2,186	2,383
General Expenses	2,668	3,024	3,077	3,493	3,811	3,920	4,324
Total Claims & Expense	9,025	9,484	10,167	11,395	12,537	13,518	14,810
Underwriting Gain/(Loss)	**267**	**-143**	**107**	**-70**	**68**	**447**	**623**
Investment Income	**1,080**	**1,153**	**1,203**	**1,269**	**1,329**	**1,398**	**1,490**
Other Revenue/Expense	0	0	0	0	0	0	0
Refund to Members	0	0	0	0	0	0	0
Gross Income/(Loss)	**1,347**	**1,010**	**1,311**	**1,199**	**1,397**	**1,845**	**2,113**
Income Tax	203	242	315	288	335	443	507
Net Income /(Loss)	**1,144**	**768**	**996**	**911**	**1,061**	**1,403**	**1,606**
Accumulated Surplus	**17,575**	**18,343**	**19,339**	**20,251**	**21,312**	**22,715**	**24,321**

Key Performance Projections

	CDM + TM		New Mutual Insurance Corporation				
	Actual 2016	**Projected 2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Some Key Performance Indicators							
Gross Automobile Written Ratio	41%	42%	44%	45%	45%	45%	45%
ROE before Refund	8%	6%	7%	6%	7%	9%	9%
ROE after tax	7%	4%	5%	5%	5%	7%	7%
MCT	534%	525%	506%	491%	479%	470%	463%
Gross Risk Ratio	0.67	0.70	0.77	0.83	0.87	0.91	0.93
Net Risk Ratio	0.54	0.53	0.57	0.59	0.62	0.65	0.66
Property GPW Growth	6%	6%	12%	9%	10%	10%	10%
Automobile GPW Growth	6%	13%	20%	15%	11%	11%	9%
Liability GPW Growth	10%	8%	16%	14%	14%	14%	14%
Total GPW Growth	7%	9%	16%	12%	11%	11%	10%
Property NPW Growth	8%	2%	8%	9%	10%	10%	10%
Automobile NPW Growth	3%	3%	22%	7%	10%	11%	9%
Liability NPW Growth	11%	12%	18%	19%	13%	13%	13%
Total NPW Growth	6%	2%	14%	8%	10%	11%	10%
NPE Growth	10%	0%	10%	10%	11%	11%	11%
Reinsurance Premium Ceded Ratio	20%	25%	26%	28%	29%	29%	29%
Net Claims Ratio	57%	55%	54%	55%	55%	54%	54%
Gross Acquisition Expense Ratio	11%	12%	12%	11%	11%	11%	11%
Gross Non-acquisition Expense Ratio	23%	24%	22%	22%	22%	20%	20%
Total Gross Expense Ratio	34%	36%	34%	33%	33%	31%	31%
Net Acquisition Expense Ratio	13%	16%	16%	16%	16%	16%	16%
Net Non-acquisition Expense Ratio	29%	33%	31%	32%	31%	29%	29%
Total Net Expense Ratio	43%	49%	47%	48%	47%	45%	44%
Operating (aka combined) ratio	99%	104%	101%	103%	102%	99%	98%

Expected Efficiencies

Large expense savings are not the primary objective of the amalgamation, and in fact there will be additional expenses and an increase in overall expense ratio in the early years.

Instead, we plan for enhanced products and profitable growth that generates significant benefits for our members. This growth will be supported in part by the following efficiencies that we will realize from the amalgamation:

- Broader geographical spread of risk;
- Deeper skill sets and "bench strength" in all functional areas, leading to better member experiences at acquisition, renewal and claim times;
- The ability to provide automobile for the CDM members without the expense or risk of building out a new automobile service infrastructure;
- Strengthening and broadening of management expertise;
- Rationalization and consolidation of Board expertise and expense;
- Reduction of regulatory burden expense factors (one set of reporting requirements instead of two);
- Reduction of auditing and actuarial expense factors (one set of requirements instead of two); and
- Initial I.T. and data costs and expense factors that are higher than current levels, but lower than the amalgamating companies would experience separately, given that conversion to a new policy management system must take place irrespective of the amalgamation project.
- More capital available in a common pool to be prudently deployed to support enhanced products and growth, instead of being partitioned in two separate silos.

Reinsurance

As required by Ontario statute, the amalgamated corporation will continue to use Farm Mutual Re for general reinsurance.

The amalgamated corporation will open with retentions that are either substantially similar to, or larger than, TM's current excess-of-loss and catastrophe treaties, namely:

- $230,000 Property Excess of Loss retention;
- $690,000 Catastrophe per occurrence retention;
- $360,000 Automobile Excess of Loss retention; and
- $230,000 General Liability Excess of Loss retention.

Reinsurance premium savings are not a primary objective of the amalgamation, but we do anticipate some savings due to the amalgamated corporation's ability to absorb larger retentions.

However, reinsurance premium rating methodology is not under our control; Farm Mutual Re does its own price setting. We anticipate continually increasing rates from

Farm Mutual Re in the near and medium term. The reinsurance premium costs for the amalgamated corporation will be lower than if the amalgamating companies did not proceed with amalgamation, but they will likely be higher than current reinsurance premium costs.

Investment Operations

The Investment Policies of each company are somewhat similar. The Boards of Directors of each amalgamating company will approve a harmonized Investment Policy for the amalgamated corporation in the fourth quarter of 2017.

The incoming Board of Directors of the amalgamated corporation will then review and maintain the Investment Policy. The standard for the incoming Board of Directors will be to establish and ensure that the amalgamated corporation shall adhere to "investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments and loans to avoid undue risk of loss and obtain a reasonable return."

The incumbent investment managers will continue on an interim basis after the amalgamation, and a process to select long term investment managers will be undertaken by the amalgamated corporation in 2018.

Plans to Maintain Stability in Operations During Transition Period

Pre-Amalgamation: Business as Usual

Each amalgamating company is appropriately staffed for their business volume and product set. In the pre-amalgamation period, each amalgamating company will continue to operate in a "business as usual" fashion. We will not let service and responsiveness to member needs be negatively impacted because of the amalgamation.

In anticipation of amalgamation date, the two companies are already sharing resources and expertise to assist each other in the pre-amalgamation period.

Conversion to a different policy management system

An exception to the "business as usual" principle is the project to convert to MCCG. While it is not an amalgamation transition issue, it is happening at the same time as the amalgamation process, and does affect resourcing available. The amalgamating companies are preparing to "staff up" with appropriate contract personnel to assist with the conversion to MCCG.

Writing Automobile in London-Middlesex

In the pre-amalgamation period, the current CDM **agents are being cross-trained** in automobile, to ensure they are ready to be trusted insurance advisors for this line after the amalgamation. Under close supervision, some automobile policies are being written with TM by current CDM agents.

Thorough Amalgamation Committee

The joint amalgamation committee for the amalgamating companies has management and director participation. The committee has the benefit of sound legal advice and a considerable body of knowledge in the OMIA group of companies on the key success factors for stable transitions during amalgamations.

Post-Amalgamation

To assist our members and communities, we plan to maintain the historical identities and associations of the amalgamating companies for an extended period.

We will continue both physical locations with effective location management that will supplement line of business management that may be located elsewhere.

We plan for full continuity of staff at both amalgamating companies.

Addressing Automobile Rate Filings

As previously addressed under the "Underwriting" heading, there are no issues to be addressed to harmonize or integrate automobile rate filings. The amalgamated corporation will continue to use the OMIA and Farm Mutual Re group filing (company #789). TM's compliance infrastructure will continue into the amalgamated corporation, addressing, rating, rules, statutory accident benefits schedule, and UDAP.

---end---