The MEARIE Group May 2008

Reciprocal News

Helping to Manage Your Risk

The MEARIE Group's Reciprocal Newsletter

A publication designed for the benefit of Ontario's Energy Industry.

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Safeguarding Your Reciprocal

As commercial property and casualty insurance companies continue to battle it out for new and more profitable clients, a small group of reciprocal insurance exchanges across Canada have been quietly building their business and providing a growing list of comprehensive policy options.

Although reciprocals insure only a portion of what the commercial market covers, they have proven themselves to be an extremely viable and competitive alternative insurance solution.

A recent study of reciprocals in Canada by The MEARIE Group revealed a wide variety of them operating from coast to coast and extending into the far north. The prairie provinces, especially Alberta, seem to host the greatest concentration of reciprocals including the Canadian Applicators Insurance Reciprocal (aerial sprayers), based out of Winnipeg, the Energy Insurance Exchange of Calgary and the Northern Communities Insurance Exchange based in Vancouver. One-quarter of all of the reciprocals in Canada (our research located 24) operate on a national scale. The largest reciprocal in terms of liability coverage is the Healthcare Insurance Reciprocal of Canada (www.hiroc.com) with subscribers representing over 500 health care facilities such as hospitals, nursing homes and community health centers.

Other nationally run reciprocals provide insurance solutions to such organizations as doctors and healthcare providers, lawyers, energy companies such as oil and gas, community newspapers, and universities. (See page 2 for a complete list of reciprocals)

The MEARIE Group's reciprocal (known as MEARIE) has been the primary source for insurance solutions for Ontario's distributors of electricity since 1987. For almost 20 years, MEARIE has been providing its members with a financially stable, non-taxable policy that is customized to meet the needs of the LDC market. With no or low deductibles, and highly competitive coverage including environmental, terrorism and extended Directors & Officers in one policy, MEARIE is the first choice for Ontario's LDCs. Our knowledge of the electricity industry, strong insurance expertise and our group purchasing power makes for a compelling story.

PROTECTING MEMBERS

The hard market conditions of the early 1980s led various organizations such as municipalities, hospitals, school boards, public utilities, legal associations and community newspapers to seek alternative risk financing programs in order to obtain the insurance coverage they required at a stable, reasonable cost. The MEARIE Group, which began offering liability insurance to Ontario's dis-

Safeguarding Your Reciprocal (Continued)

Reciprocals In Canada	
Alberta Local Authorities' Reciprocal Exchange Alberta	Healthcare Insurance Reciprocal of Canada National
Alberta Municipal Insurance Exchange Alberta	Jubilee Reciprocal Insurance Exchange Alberta
Alberta School Board Insurance Exchange Alberta & NWT	Metro Public Education Insurance Exchange Ontario
Alberta Roofing Contractors Reciprocal Insurance Exchange	Municipal Electric Association Reciprocal Insurance Exchange Ontario
Asset Protection Insurance Exchange Saskatchewan	Municipal Insurance Association for BC B.C.
Canadian Applicators Insurance Reciprocal Manitoba	Northern Communities Insurance Exchange YK, NWT & NVT
Canadian Lawyers Insurance Association National	Nunavut Association of Municipalities Insurance Exchange Nunavut
Canadian Medical Protective Association National	Ontario Municipal Insurance Exchange Ontario
Canadian Universities Reciprocal Insurance Exchange National	Ontario School Board Insurance Exchange Ontario
Community Newspapers Reciprocal Insurance Exchange National	Poultry Insurance Exchange Reciprocal of Canada Ontario
Energy Insurance Exchange National	Real Estate Insurance Exchange Alberta & Sask.
Genesis Reciprocal Insurance Exchange Alberta	Western Reciprocal Group Manitoba & Sask.

tributors of electricity on January 1, 1987, has emerged as one of the most successful examples of a reciprocal. In 1992, fleet/vehicle insurance was introduced, followed by a comprehensive property insurance program in 2004.

For each of these organizations, the reciprocal format became a viable long-term solution to protecting its members - a solution that continues to prove its value against the current difficulties experienced in the commercial market place.

At all reciprocals, there are usually multiple safeguards to protect members against any large claim or catastrophic event. Yet despite the safety measures in place, the possibility still exists for all members of a reciprocal to pay for a single member's misfortune. However, it should be considered as a last line of defense in what is an extremely well built insurance model for groups of industries with similar risks.

With MEARIE, the risk of a retro assessment is minimal due to several operational strategies. We have put in place several safeguards that would be deployed before we would declare any short-fall and need to make any retroassessment against our members.

These safeguards as described below are so comprehensive that when MEARIE settled the largest civil claim action in Canada, they were able to do so without raising rates or levying a retro-assessment.

DETERMINING APPROPRIATE PREMIUM LEVELS

The backbone of any insurance service provider is being able to determine accurate and realistic underwriting premiums. The premiums collected should be in line with claims payment expectations and other expenses such as administrative costs. Should an insurance company fail to properly calculate the amount required, then they run the risk of a shortfall. At MEARIE, we have a 20-year history of understanding our client's level of risk and calculating appropriate and stable premiums.

CLAIMS FLUCTUATION RESERVE

The Claims Fluctuation Reserve (CFR) is a financial cushion created to absorb the impact of any unanticipated exposure or claims occurrences. It is the accumulated balance from a combination of yearly premiums that are not paid out in claims and investment income. One of the most important benefits of a large CFR is that it is managed on a yearly basis and used to produce smooth, stable rates unlike those in the commercial market place.

As well, the accumulation of the CFR makes it possible to provide premium reductions which are issued periodically to all renewing members. The creation of a CFR is not required under current insurance legislation but it does protect the members from the threat of any

Safeguarding Your Reciprocal (Continued)

retro-assessment. To put into perspective the strength of MEARIE's CFR, commercial insurance companies the size of MEARIE must have a statutory capital requirement of at least $4 million to cover future claims. MEARIE's CFR is currently valued at over $20 million which is five times the required amount.

REINSURANCE

Reinsurance is an agreement whereby an insurance company transfers part or all of its risk of loss under insurance policies it writes by means of a separate contract with another insurance company. MEARIE has engaged several reinsurance companies to assume various levels of monetary risk.

CLAIMS & LITIGATION STRATEGIES

A key element in reducing the financial impact of any claim is to have a solid litigation strategy in place. At MEARIE, we have over 30 years of courtroom and arbitration experience including lawyers dedicated to the electricity community, claims specialists who understand the industry and electrical specialists who are called in to testify or advise. Should a claim be scheduled to go before the courts, it is preferred that a settlement be reached between the parties before the court date in order to minimize settlement amounts and avoid litigation expenses.

CLAIMS PAYMENT STRATEGIES

In the unlikelihood that the MEARIE reciprocal experiences such a catastrophic loss that both the CFR and Reinsurance protection are depleted, and if the litigation process was unfavorable for MEARIE, then the reciprocal could adopt one of several potential claims payment strategies to reduce the likelihood of a retro-assessment. Since MEARIE receives renewal premiums that are required to include a built-in contingency amount for catastrophic events, future premiums could be accumulated on an annual basis to fund the settlement of claims.

STRUCTURED DEBT FINANCING

Adopting a structured debt financing strategy is the last safeguard before MEARIE might consider a retro assessment. This would involve securing either a short or long-term loan from a major financial institution to settle any claim or lawsuit.

Although retro assessments are always a possibility for members of a reciprocal, a large CFR backed up by reinsurance programs as well as claims, litigation and claims payment strategies makes the prospect of this occurring remote at best. We have already demonstrated our ability to successfully manage one of Canada's largest liability claims without having to resort to a retro assessment. The bottom line is that, in the unlikely event of a retro assessment, the impact to a member may be no worse than the premium increases many organizations are experiencing in the commercial market place.

The MEARIE Group's Reciprocal News is an electronic publication intended for subscribers of The MEARIE Group's Property and Casualty Insurance programs. It is published on a periodic basis and is intended for information purposes only. For further information, visit www.mearie.ca or contact Gary Durie, Risk Analyst, Underwriting and Risk Services at gdurie@mearie.ca.

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