



**2015 ANNUAL
REPORT**



2015 OMEX Annual Report

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About OMEX

The Ontario Municipal Insurance Exchange (OMEX) is a not-for-profit insurer dedicated solely to providing insurance to Ontario municipalities since 1989. We provide a member-governed alternative to the conventional insurance market, with a complete focus on serving the unique needs of Ontario municipalities.

Because it's our only business, we create products and services specific to municipal needs. OMEX offers a comprehensive range of insurance policies, and we deliver in-house underwriting, risk management, risk advisory, program administration, claims administration, member education and more, directly to our members.

Our vision is to be the insurer of choice for municipalities in Ontario in all product lines of coverage and services required. It is our mission to provide innovative, proactive, competitively priced products, ensuring the long term viability and sustainability of the reciprocal.

Chair's Message



2015 marked OMEX's most successful financial year to date. This is a direct result of prudent fiscal policies and careful organizational management, and is an accomplishment of which we can all be very proud – staff and membership alike. It is bittersweet for us to celebrate such an achievement while at the same time we mourn the loss of Bill Bishop, who occupied the role of Director of Finance with a combination of skill, humility, and humour that is rarely seen and was deeply appreciated.

Fulfilling the role of Director of Finance, we are pleased to welcome Gloria Thomas to OMEX. Gloria has a wealth of financial administration and insurance experience, and we look forward to her contributions to our organization.

The solid financial performance of OMEX was the result of the hard work of the entire team as well as the ongoing support of the membership. The Board deserves commendation for its commitment and engagement in the governing process.

Reciprocal insurance is a unique model that provides for flexibility and ownership in the insurance programme, something that is vitally important to municipalities as our operations become increasingly diverse and complex. OMEX continues to look forward, seeking new opportunities for its membership through products, services, and unique partnerships. We appreciate and deeply value the contributions of all members to our organization.

Shelby Askin Hager

*City Solicitor and Corporate Leader, Economic Development and Public Safety
City of Windsor
OMEX Board Chair*

President`s Message



During the year 2015 we continued with our strategy to strengthen the reciprocal's financial results, create stability and ensure sustainability. This was arrived at by funding to the aggregate, stabilizing claims reserves, and pricing to value. Our new pricing tool has proven to be fair and balanced to the individual municipality as well as the total membership.

We continued our members' onsite visits, as your schedules allowed and we listened to your feedback with intent to address.

OMEX conducted several risk management sessions to address claim, and risk management trends. These seminars and workshops were well attended and well received.

Our policy wording has been reviewed, and we again are pleased to report that we do have a most comprehensive wording. In addition, new products and coverages were considered.

The reciprocal agreement was reviewed, and proposal of changes to benefit the whole, has been made. We continue to work on a new image, and positioning in the market place. A high number of requests for proposals, was received and responded to, in a continuously competitive market, where products are priced with a goal to increase market share.

Our strategy at OMEX is to maintain a stable program through proper and adequate pricing. Representing OMEX I have attended several conferences during the year such as OGRA, AMCTO and AMO where I was a speaker at one of the events. I also addressed the Captive Summit speaking about reciprocals, and represented OMEX at the Canadian Association of Insurance Reciprocals. In addition, I met with several of the consultants which municipalities hire during the RFP season, and received their feedback and input.

It has been a productive year with several challenges, and strong results. Our financials show that our effort is beginning to pay off. For the second year, our minimum capital test results far exceed the regulatory requirement. We ended the year with a surplus of \$30.8 million.

Our challenges as a reciprocal are not over. We continue to dispel myths and misconceptions about the reciprocal, by increasing visibility and awareness.

On behalf of myself and the OMEX team I would like to thank the Board for their support, and their role in making some tough decisions.

Our new year 2016 started with the loss of our colleague Bill Bishop, Director of Finance. This has been a particularly difficult time for our team. Bill made significant contributions over the last 13 years.

On your behalf, we continue to extend all our effort towards the growth of this organization.

We thank you for your support.

Nahla Hanna

President and Attorney in Fact

Audit Committee Chair`s Message



OMEX is governed by the Board of Directors who set policy, review management performance, oversee financial integrity, and make decisions about the direction of the reciprocal. All member municipalities have the opportunity to put forward a candidate in Board elections. Members can also participate on the Audit Committee. OMEX's Audit Committee's role is to assist the Board of Directors in its oversight responsibilities by exercising responsibility for financial control and reporting. The committee has the following responsibilities:

- Recommend to the Board, the retention of, and terms of engagement for outside legal Counsel, accountants or other authorities or advisors as required to advise the Committee;
- Assist the Board in fulfilling its oversight role as it relates to audit financial reporting and internal control;
- Seek information from any employee or management, all of whom are directed to cooperate with Committee's requests, or external parties.

The committee's duties include assuring itself of the adequacy of the annual audit, receiving and reviewing the audit report and financial statements, performing the regulatory duties of the Conduct Review Committee, completing regular reviews and making recommendations to the Board relating to corporate financial policies, internal controls and procedures.

The audit committee reports to the Board of Directors. Quarterly financial results are reviewed by the Committee prior to presentation to the Board. The Audit Committee works alongside the Board to ensure that the services being provided to our member municipalities are financially sound and appropriate.

Linda Leeds

Director of Corporate Services

Town of Milton

OMEX Audit Committee Chair

MANAGEMENT OVERVIEW

Results of Operations

Income

Gross premiums written decreased to \$23.3 million in 2015 compared with \$41.5 million in 2014 which was largely a result of the 2014 supplemental assessment. Premiums written net of premiums ceded to reinsurers (net premiums earned) were \$16.5 million compared with \$33.9 million in 2014.

Direct losses incurred

Gross incurred losses and claims expenses decreased to \$19.7 million from \$68.2 million in 2014. Reinsurance recoveries of \$6.7 million reduced direct losses to \$13.0 million, down from \$15.8 million in 2014.

Expenses

Operating expenses were \$2.7 million, compared with \$3.0 million in 2014.

Underwriting income (loss)

We reported an underwriting income of \$2.5 million, compared with an income of \$18.8 million in 2014. This decrease reflects lower net premiums earned due to a drop in membership.

Investment income, net

Net investment income was \$1.8 million in 2015, compared with a net income of \$3.7 million in 2014.

At year-end, investments at fair value including short-term investments totalled \$87.3 million, compared with \$65.5 million the previous year. Our portfolio is conservative, comprised of government and bank issue bonds with a rating of A or better.

Comprehensive income for the year 2015

We reported a comprehensive income of \$2.5 million, compared with a comprehensive income of \$18.8 million in 2014.

Surplus

As a result of our comprehensive income, the surplus at year-end 2015 was \$30.8 million, compared with \$28.2 million at the end of 2014. OMEX is committed to maintaining a prudent level of surplus for the current book of business, taking into account market conditions.

Financial Condition

Liquidity and Capital Resources

Based on membership and other assumptions, we believe we have the flexibility to obtain the funds we need to fulfill our cash requirements during the current financial year. The Insurance Act of Ontario requires OMEX to maintain a minimum capital surplus of at least \$50,000 in excess of all liabilities, in cash or approved securities. As regulator, FSCO has the authority to require OMEX to levy additional contributions to further strengthen reserves. As a reciprocal, excess funds are ultimately returned to OMEX members.



Ontario Municipal Insurance Exchange

Summary Financial Statements

For the year ended December 31, 2015

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Report of the Independent Auditor on the Summary Financial Statements

To the Members of Ontario Municipal Insurance Exchange

The accompanying summary statement of financial position as at December 31, 2015 and the summary statement of comprehensive income and surplus for the year then ended and related notes ("summary financial statements") are derived from the audited statement of financial position and audited statement of comprehensive income and surplus contained in the audited financial statements of Ontario Municipal Insurance Exchange for the year ended December 31, 2015. We expressed an unmodified audit opinion on those financial statements in our report dated February 18, 2016.

The summary financial statements do not contain all the statements and disclosures required by International Financial Reporting Standards. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Ontario Municipal Insurance Exchange.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary of the audited financial statements on the basis described in Note 1.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Canadian Audit Standard (CAS) 810, 'Engagements to Report on Summary Financial Statements'.

Opinion

In our opinion, the summary statement of financial position as at December 31, 2015 and the summary statement of comprehensive income and surplus for the year then ended and related notes derived from the audited financial statements of Ontario Municipal Insurance Exchange are a fair summary of those financial statements, on the basis described in Note 1.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
February 18, 2016

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms

Ontario Municipal Insurance Exchange Summary Statement of Financial Position

December 31 **2015** 2014

Assets

Cash and cash equivalents	\$ 13,081,314	\$ 4,562,449
Investments	74,625,201	61,467,958
Interest income due and accrued	300,250	277,705
Amounts receivable from subscribers	10,599,257	24,719,626
Reinsurance recoverable on paid losses	7,288,489	7,579,624
Reinsurers' share of provision for unpaid claims and adjustment expense	114,218,215	117,607,500
Prepaid expenses	31,149	46,050
Equipment and intangible assets	8,801	13,933
	\$ 220,152,676	\$ 216,274,845

Liabilities and Surplus

Liabilities

Accounts payable and accrued liabilities	\$ 1,624,199	\$ 3,062,263
Provision for unpaid claims and adjustment expenses	187,222,649	184,509,799
Deferred revenue	481,001	428,313
	189,327,849	188,000,375

Surplus

Minimum surplus	50,000	50,000
Additional surplus	30,774,827	28,224,470
	30,824,827	28,274,470
	\$ 220,152,676	\$ 216,274,845

The accompanying notes are an integral part of these summary financial statements.

Ontario Municipal Insurance Exchange Summary Statement of Comprehensive Income and Surplus

For the year ended December 31	2015	2014
Income		
Premiums written	\$ 23,320,288	\$ 41,471,886
Premiums ceded	<u>(6,799,088)</u>	<u>(7,564,342)</u>
Net premiums earned	<u>16,521,200</u>	<u>33,907,544</u>
Direct losses incurred		
Gross incurred losses and claims expenses	19,744,316	68,206,779
Less: reinsurance recoveries	<u>(6,725,934)</u>	<u>(52,363,203)</u>
	<u>13,018,382</u>	<u>15,843,576</u>
Underwriting gain before other expenses	<u>3,502,818</u>	<u>18,063,968</u>
Expenses		
Operating expenses	2,028,376	1,753,728
Premium taxes	720,176	1,252,467
Depreciation	<u>8,856</u>	<u>13,963</u>
	<u>2,757,408</u>	<u>3,020,158</u>
Underwriting income	<u>745,410</u>	<u>15,043,810</u>
Investment income	1,682,280	3,735,544
Interest and other income	<u>122,667</u>	<u>-</u>
Comprehensive income for the year	<u>2,550,357</u>	<u>18,779,354</u>
Surplus, beginning of year	<u>28,274,470</u>	<u>9,495,116</u>
Surplus, end of year	<u>\$ 30,824,827</u>	<u>\$ 28,274,470</u>

The accompanying notes are an integral part of these summary financial statements.

Ontario Municipal Insurance Exchange

Notes to Summary Financial Statements

December 31, 2015

1. Summary Financial Statement Preparation

Management is responsible for the preparation of the summary financial statements. The summary presented includes the summary statement of financial position, the summary statement of comprehensive income and surplus and selected notes. It does not include the statement of cash flows or all of the notes to the financial statements. The summary statement of financial position and summary statement of comprehensive income and surplus are presented in the same detail as the audited financial statements except that the note referencing has been removed.

Copies of the December 31, 2015 audited financial statements are available at the Ontario Municipal Insurance Exchange office.

2. Nature of Operations and Summary of Significant Accounting Policies

Reporting entity

Ontario Municipal Insurance Exchange (the "Exchange") was formed under the Reciprocal Insurance Exchange Agreement for Municipalities in the Province of Ontario dated December 13, 1988, by various municipalities subscribing to the agreement. The Exchange is licensed by the Financial Services Commission of Ontario ("FSCO") to provide automobile, liability, errors and omissions, environmental impairment, legal expense, property, crime and boiler and machinery insurance to its subscribers in accordance with Part XIII of the Insurance Act of Ontario, R.S.O. 1990. The Exchange commenced operations on February 6, 1989 and as at December 31, 2015 has 13 subscribers to the agreement.

Significant accounting policies

Insurance contracts

(a) Provision for unpaid claims and adjustment expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income.

Claim liabilities are carried on a discounted basis to reflect the time value of money.

Ontario Municipal Insurance Exchange

Notes to Summary Financial Statements

December 31, 2015

2. Nature of Operations and Summary of Significant Accounting Policies (continued)

Insurance contracts (continued)

(b) Reinsurers' share of provision for unpaid claims and adjustment expenses

The Exchange enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

Expected reinsurance recoveries on unpaid claims are recognized as assets at the same time using principles consistent with the Exchange's method for establishing the related liability.

Financial instruments

The Exchange classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a settlement date basis. The Exchange's accounting policy for each category is as follows:

(a) Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Exchange will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policyholders and reinsurers, such provisions are recorded in a separate allowance account with the loss being recognized in comprehensive income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Ontario Municipal Insurance Exchange

Notes to Summary Financial Statements

December 31, 2015

2. Nature of Operations and Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

(b) Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Exchange manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Exchange's documented risk management or investment strategy.

The Exchange designates its debt securities that are backing its claims liabilities at fair value through profit or loss. This designation aims to reduce the volatility caused by the fluctuations in the carrying values of underlying claims liabilities due to changes in discount rates. The Exchange ensures that the weighted dollar duration of the debt securities designated at fair value through profit and loss is approximately equal to the weighted dollar duration of the claims liabilities. The rate used to discount claims liabilities is calculated based on a dollar match of investments backing these claims liabilities.

Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss. The fair value on initial recognition is the fair value of the consideration given. Subsequent to initial recognition, fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

(c) Other financial liabilities

Other financial liabilities include all financial liabilities and comprise accounts payable and accrued liabilities, and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the summary statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest while the liability is outstanding.

Income taxes

As the Exchange is exempt from income taxes, no provision for income taxes has been made in these summary financial statements.

Ontario Municipal Insurance Exchange

Notes to Summary Financial Statements

December 31, 2015

3. Critical Accounting Estimates and Judgments

The Exchange makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for unpaid claims and adjustment expenses

The estimation of the provision for unpaid claims and adjustment expenses and the related reinsurers' share are the Exchange's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Exchange in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, changes in interpretation of reinsurance contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Exchange's historical and industry experience.

4. Surplus and Capital Management

The Exchange maintains a subscribers' surplus account which is the sum of the surpluses and deficits of a large number of discrete underwriting groups, each containing different combinations of subscribers. Subscribers are not entitled to a proportionate share of the total surplus, but instead share in the results of the specific underwriting groups in which they have participated.

Under the terms of the Exchange's Reciprocal Agreement, excess funds from an underwriting period are to be shared amongst subscribers in the underwriting group in proportion to the subscribers' participation in that period. Excess funds are to be distributed upon the closure date of an underwriting period as determined by the Board of Directors. Distributions for all closed underwriting periods have been made.

Ontario Municipal Insurance Exchange

Notes to Summary Financial Statements

December 31, 2015

4. Surplus and Capital Management (continued)

The Exchange considers its capital to be the minimum surplus funds that are held in accordance with the Insurance Act of Ontario which requires the Exchange to maintain a minimum surplus or guarantee fund in excess of all liabilities, in cash or approved securities, of at least \$50,000. The Regulator also has the authority under the Insurance Act to impose additional capital requirements at its discretion.

5. Limits of Liability Reinsurance

The Exchange underwrites liability insurance policies with a maximum liability of \$50,000,000 except for Environmental Impairment Liability coverage which is \$5,000,000 subject to deductible amounts. The Exchange currently maintains reinsurance for certain losses of up to \$48,000,000 in excess of \$2,000,000 per occurrence, with an aggregate retention of \$12,500,000.

Property coverage is up to \$300,000,000 subject to a retention of \$100,000, boiler and machinery coverage is \$100,000,000 subject to a retention of \$0, and medical malpractice coverage is \$30,000,000 subject to a retention of \$1,000,000. Crime coverage is up to \$5,000,000 subject to a retention of \$10,000.

OMEX Board of Directors 2015

Shelby Askin Hager, Chair, *City of Windsor*
Jeffrey Abrams, *City of Vaughan*
Linda Leeds, *Town of Milton*
Karen Mills, *Town of Orangeville*
Doug Taylor, *Township of Tiny*
Amedeo Valentino, *Town of Caledon*
Jason Wills, *City of London*
Patty Robinet, *City of Thunder Bay*

OMEX Staff 2015

Nahla Hanna, *President and Attorney in Fact*
Bill Bishop, *Director of Finance and Administration*
Carol Bellamy, *Director of Claims and Litigation*
Shannon Devane, *Director of Risk*
Clarisse Lewis, *Senior Claims Examiner*
Gail Horner, *Accident Benefit Examiner*
Karen Kagayama, *Claims Administrator*
Tiffanie Tang-Tety, *Technical Underwriting Assistant*
Pamela Benson, *Administrative and Financial Assistant*
Rose Read, *Executive Assistant*
Maddie Sonny, *Senior Underwriter*
Chris Brohman, *IT Specialist*

2015 OMEX Members & Year Joined

City of Kawartha Lakes	2007	County of Dufferin	2003
City of London	2003	Municipality of Leamington	2003
City of Sarnia	2004	Town of Caledon	1998
City of Thorold	2006	Town of Milton	2002
City of Thunder Bay	2004	Town of Orangeville	2007
City of Vaughan	2012	Township of Tiny	2011
City of Windsor	2004		



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