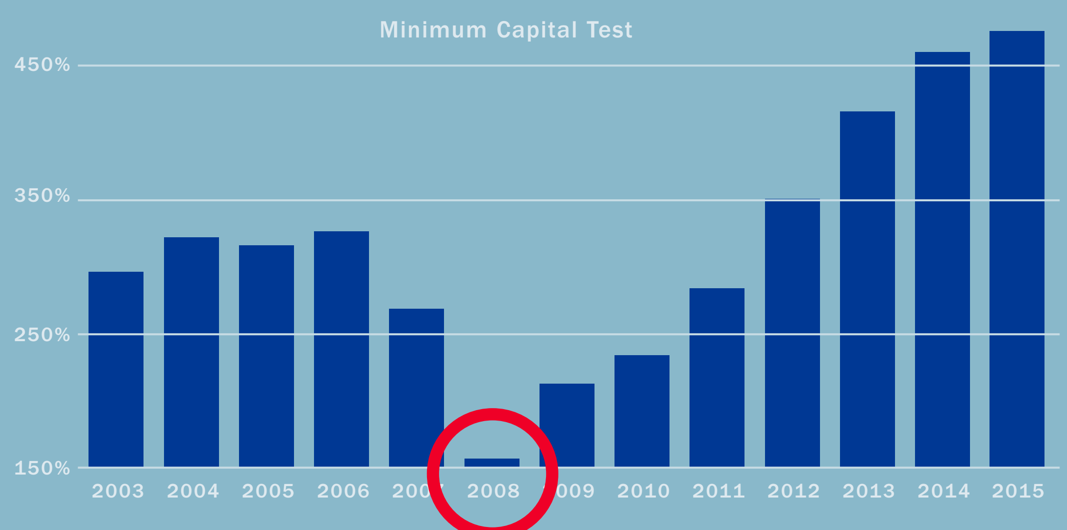
PACICC

Property and Casualty Insurance Compensation Corporation
Société d'indemnisation en matière d'assurances IARD

Why insurers fail

Lessons learned from the financial challenges – and the successful recovery – of the Farm Mutual Reinsurance Plan



By

Jim Harries

2016

Why insurers fail

Lessons learned from the financial challenges – and the successful recovery – of the Farm Mutual Reinsurance Plan

By
Jim Harries

2016

PACICC's mission and principles

Mission Statement

The mission of the Property and Casualty Insurance Compensation Corporation (PACICC) is to protect eligible policyholders from undue financial loss in the event that a member insurer becomes insolvent. We work to minimize the costs of insurer insolvencies and seek to maintain a high level of consumer and business confidence in Canada's property and casualty (P&C) insurance industry through the financial protection we provide to policyholders.

Principles

- In the unlikely event that an insurance company becomes insolvent, policyholders should be protected from undue financial loss through prompt payment of covered claims.
- Financial preparedness is fundamental to PACICC's successful management support of insurance company liquidations, requiring both adequate financial capacity and prudently managed compensation funds.
- Good corporate governance, well-informed stakeholders and cost-effective delivery of member services are foundations for success.
- Frequent and open consultations with members, regulators, liquidators and other stakeholders will strengthen PACICC's performance.
- In-depth P&C insurance industry knowledge – based on applied research and analysis – is essential for effective monitoring of insolvency risk.

Contents

Acknowledgements
The author would like to acknowledge information provided to PACICC for this study by the Farm Mutual Reinsurance Plan and by the Financial Services Commission of Ontario. In addition, thanks to Grant Kelly, PACICC's V.P. of Financial Analysis and Regulatory Affairs, for technical assistance.

PACICC is responsible for the observations and conclusions of the study, and for any errors or omissions.

Introduction

THE FARM MUTUAL REINSURANCE PLAN (FMRP) was established in 1959. The organization was established by members of The Mutual Fire Underwriters' Association, which later evolved to become the present-day Ontario Mutual Insurance Association.

Prior to the creation of FMRP, there were early forms of reinsurance that existed among the farm mutuals – for example, intercompany agreements during the 1930s, and in the 1940s, arrangements where individual risks could be ceded to a Supplemental Reinsurance Pool. As economic growth accelerated after World War II and insurance products became more sophisticated, these earlier forms of reinsurance proved cumbersome and difficult to administer. This led to the establishment of FMRP in 1959 by the farm mutual insurance companies.

During its 56-year history, FMRP has greatly expanded the range of coverages and the financial support it offers to member insurers. The business model requires mutual insurer members to place their entire reinsurance program with FMRP. In return, members receive benefits not generally or widely available in the reinsurance market – including guaranteed renewals, unlimited catastrophe coverage, stop-loss cover, and free, unlimited reinstatements.

These advantages to FMRP members are reflected in the organization's present-day mission statement:

> "…to provide our community of members with scale for capital, capacity, capability and cost through leadership, strong financial backing, enhanced reinsurance solutions, and effective delivery of support services."

Despite its long history of success, though, FMRP encountered some serious financial challenges during 2007 and 2008 – challenges that threatened the organization's ability to fulfill its mission. Due to a combination of factors, FMRP's Minimum Capital Test (MCT) ratio fell sharply in 2008 to a level of 153%. (Two years earlier, the MCT ratio had been at a much more comfortable level of 315%).

Fortunately, through actions taken by FMRP – with financial support from its 54 mutual insurance company members, and with the involvement of the Financial Services Commission of Ontario (FSCO), FMRP's insurance regulator – the organization was able to achieve a successful recovery. Indeed, FMRP today is a stronger, better capitalized reinsurer as a result of its successful post-2008 recovery.

This case study examines key steps in the recovery and lessons learned, including:

- Investment policy revisions that shortened maturities and reduced reliance on equities
- Stronger pricing and claims reserving practices
- Reduction in FMRP's net catastrophe retention; and
- By-law and Board policy changes that helped strengthen and maintain FMRP's future capital position – including stricter criteria for when premium refunds could be granted; and provisions to obtain additional capital from members if needed.

FMRP today – quick facts (2015)

Head Office: Cambridge, Ontario, Canada

Employees: 85

Member insurance companies: 54

($ thousands)

Total assets: $783,651

Total capital & surplus: $365,618 (MCT = 530%)

Net premiums written: $132,008

Underwriting performance

Loss ratio:	63.1%
Expense ratio:	16.5%
Combined ratio:	79.6%

Major business lines

(percent of net premiums written)

Automobile:	30.7%
Property:	57.1%
Liability:	12.2%

Financial performance

IN THIS SECTION we examine FMRP's performance over the past 15 years, and in particular, during the critical few years leading up to the large financial loss of 2008.

	FMRP	Canadian P&C Insurance Industry
Combined ratio	**137.7**	**99.3**
ROE	**–45.7**	**8.1**
ROI	**–5.1**	**3.6**

At the outset, it's important to note that FMRP's financial performance in 2008 deviated significantly from the industry as a whole, as illustrated by three key numbers.

It's true that P&C insurance industry performance in Canada was weakened in 2008 by investment market volatility. But FMRP's results were being adversely affected by additional factors. This can be seen more fully in the accompanying charts showing FMRP and all-industry performance for the combined ratio, ROE and ROI.

The table below highlights FMRP's financial performance for the five-year period up to and including 2008. (All figures in $ thousands). Looking back at the numbers, some important conclusions can be drawn.

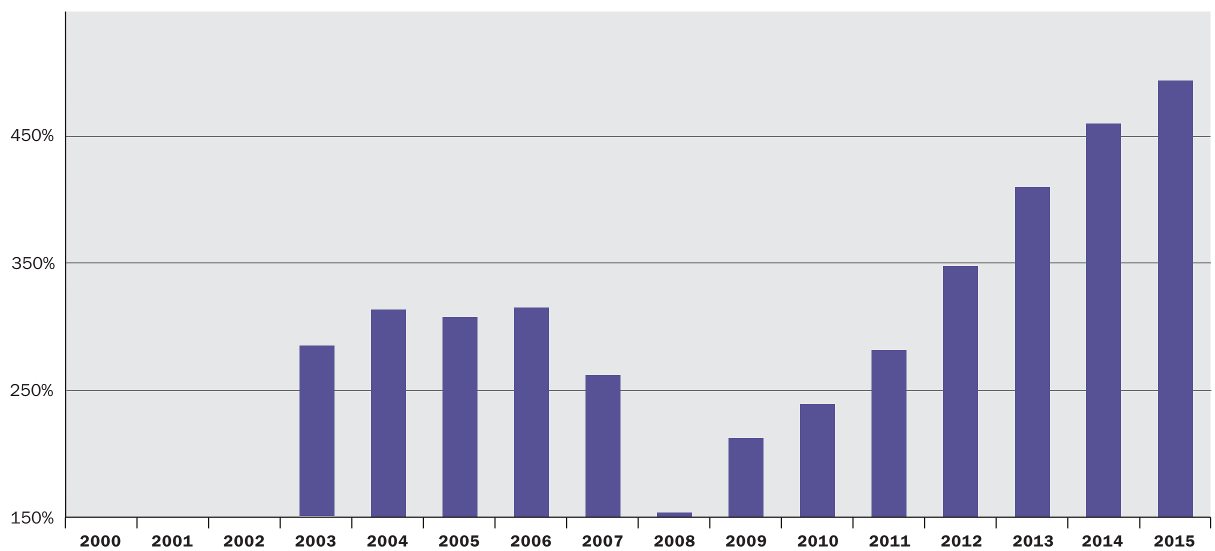
	2008	2007	2006	2005	2004
Revenue					
Premiums earned	$168,735	$156,859	$157,317	$149,354	$152,891
Commission earned	342	371	321	274	271
Total revenue	**169,077**	**157,230**	**157,638**	**149,628**	**153,162**
Expenditures					
Gross claims incurred	206,384	176,319	136,884	133,878	111,044
Reinsurance recovery	(19,159)	(22,415)	(16,987)	(13,581)	(5,811)
Premiums ceded	22,286	20,740	19,608	18,859	18,686
Commission expense	16,392	14,167	16,919	17,409	19,050
Operating expense	9,528	8,041	8,009	6,807	7,097
Total expenditures	**235,431**	**196,852**	**164,433**	**163,372**	**150,066**
Underwriting gain (loss)	(66,354)	(39,622)	(6,795)	(13,744)	3,096
Investment income	(26,245)	22,832	26,215	44,170	20,318
Refund of premium	-	(4,622)	-	-	-
Taxes	17,806	5,092	(3,495)	(5,813)	(4,010)
Net earnings (loss) for the year	**$(74,793)**	**$(16,320)**	**$15,925**	**$24,613**	**$19,404**
Surplus and reserves (retained earnings)	**$126,188**	**$200,981**	**$190,819**	**$174,894**	**$150,281**

Source: FMRP Annual Report, 2008 (page 7)

Although FMRP's underwriting performance deteriorated in 2007, reasonably healthy investment income allowed the organization to continue building its total surplus and reserves – despite posting a net earnings loss for the year. However, this proved to be short-lived when underwriting results deteriorated further in 2008, and investment income swung sharply negative, declining by $26.2 million for the full year. While FMRP hadn't intended to pursue cash-flow underwriting, the Board and management were nonetheless confronted with that financial outcome in the short term.

The most urgent problem facing FMRP as 2008 drew to a close was the precipitous decline in capitalization – as the organization's MCT ratio fell to 153%, a drop of more than 100 points from the previous year (see Chart 1, below). As many insurance industry readers of this report will know, an MCT score of 150% is widely considered to be the regulatory minimum. FMRP was now dangerously close to breaching the minimum capital required for an insurance company to carry on business with what regulators consider to be a safe margin of solvency. Urgent action was clearly needed. Before we get to that part of the story, though, it will be helpful to probe more deeply into what caused FMRP's results to deteriorate so quickly.

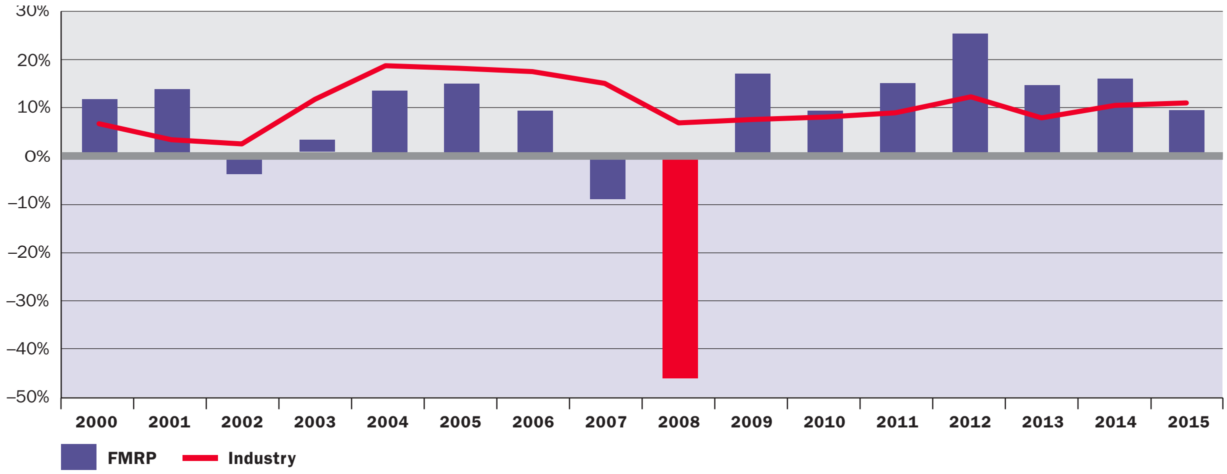
Chart 1 – Minimum capital test*



*Note: MCT was not reported prior to 2003; the measure of insurer capital at that time was the Minimum Asset Test.

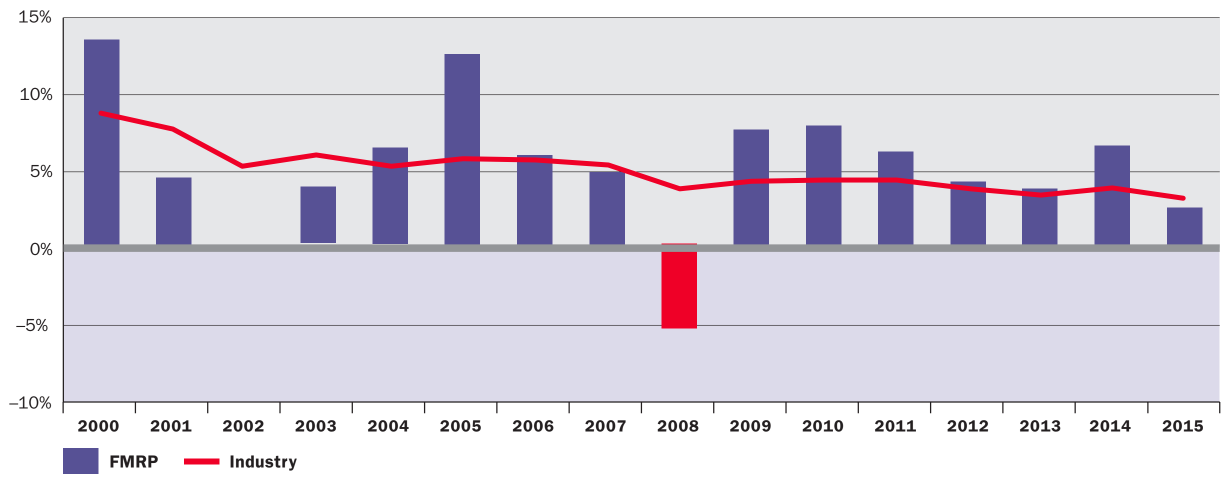
Source: PACICC based on data from MSA Research

Chart 2 – Return on equity



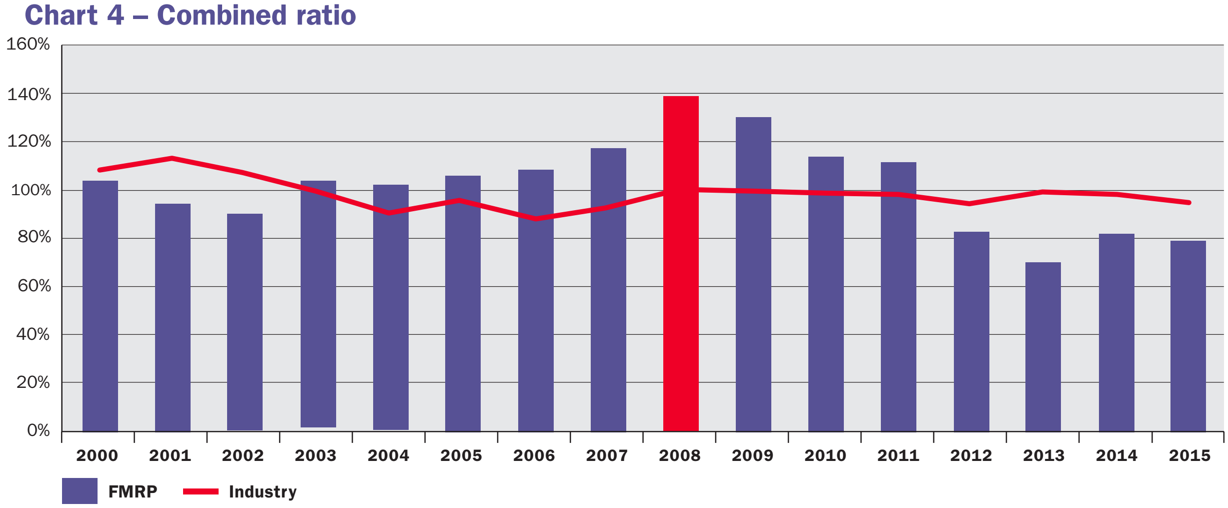
Source: PACICC based on data from MSA Research

Chart 3 – Return on investment



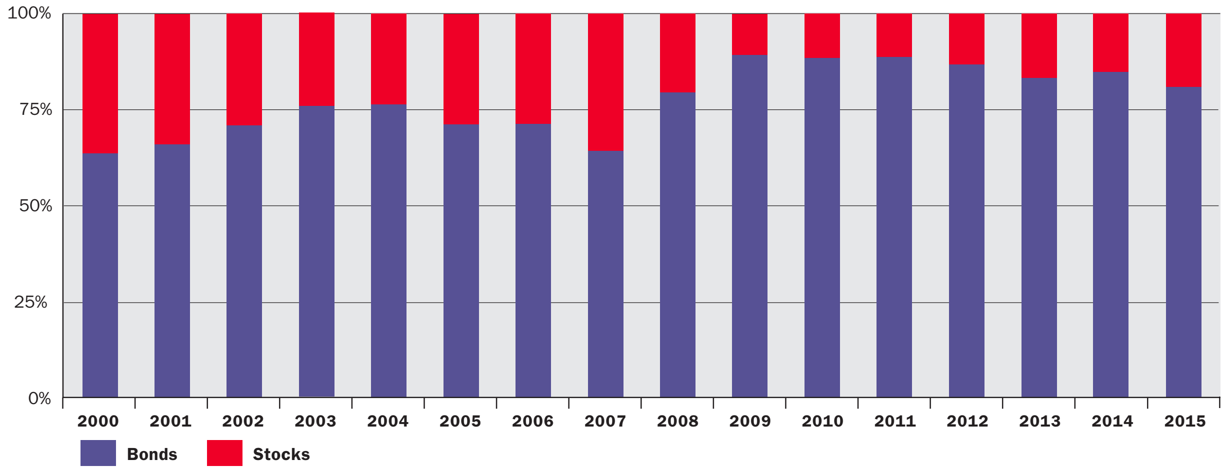
Source: PACICC based on data from MSA Research

Chart 4 – Combined ratio



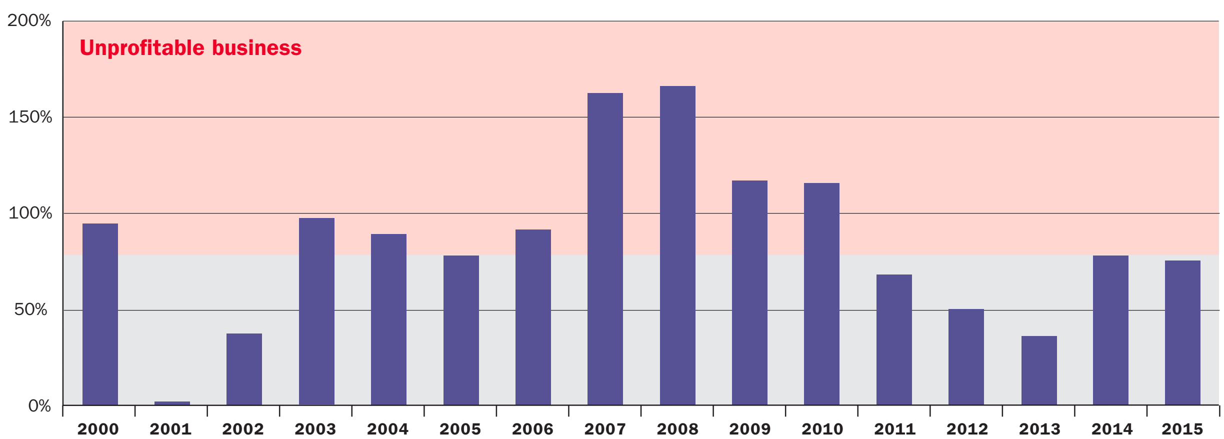
Source: PACICC based on data from MSA Research

Chart 5 – Investment allocation



Source: PACICC based on data from MSA Research

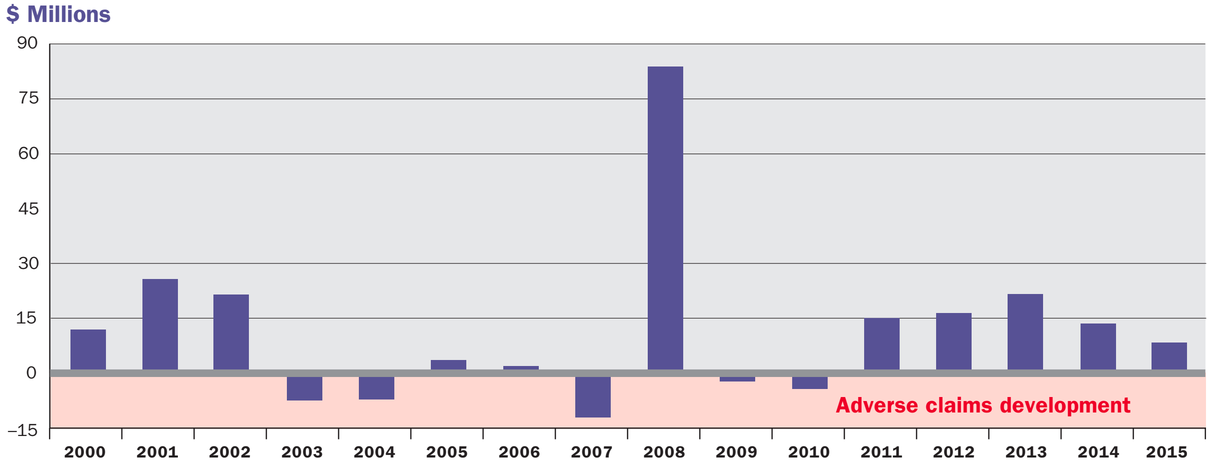
Chart 6 – Auto loss ratio



Source: PACICC based on data from MSA Research

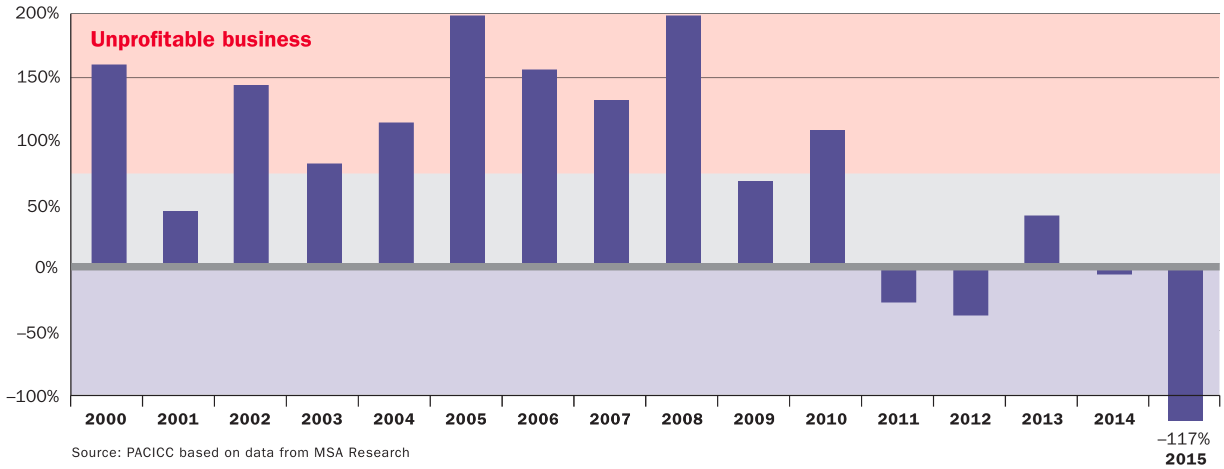
Chart 7 – Auto reserves

$ Millions



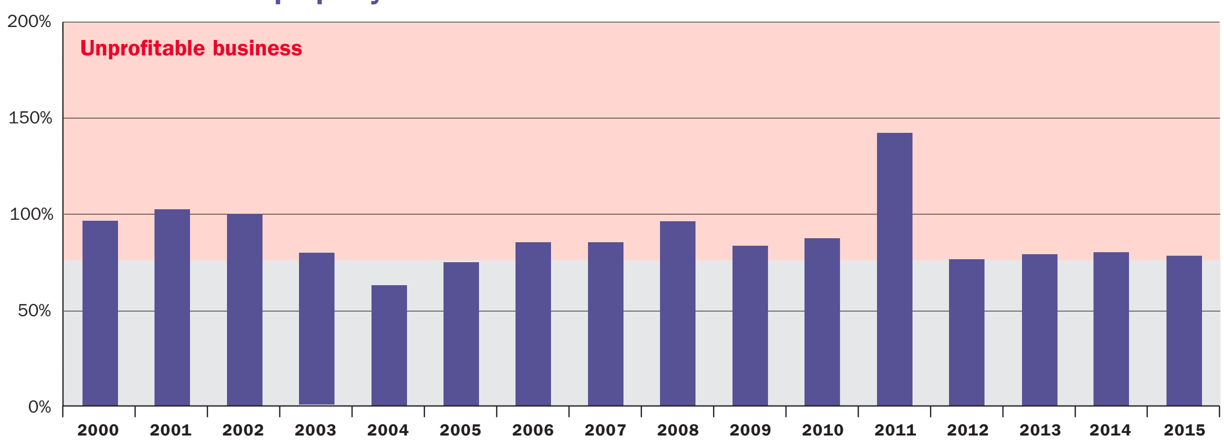
Source: PACICC based on data from MSA Research

Chart 8 – Liability loss ratio



Source: PACICC based on data from MSA Research

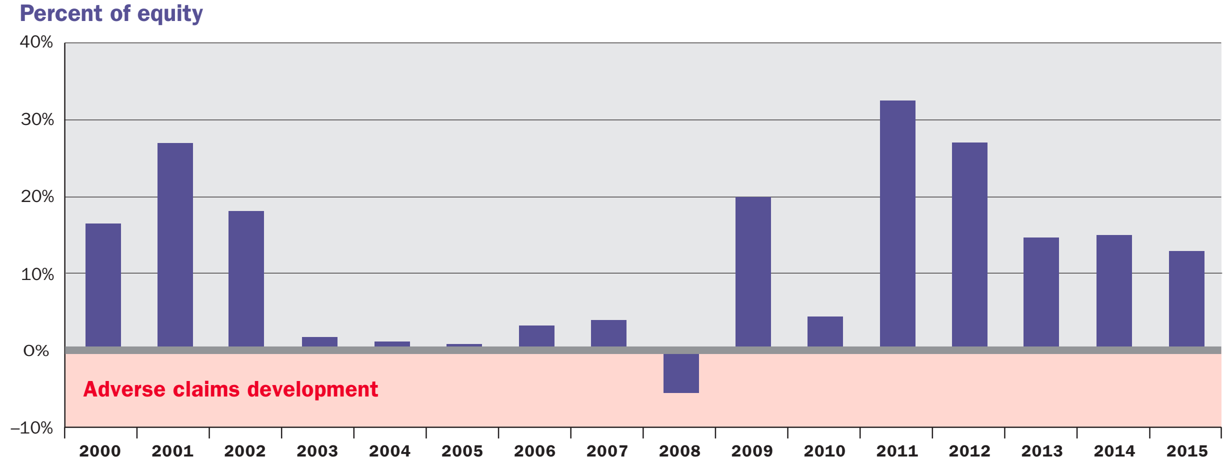
Chart 9 – Personal property loss ratio



Source: PACICC based on data from MSA Research

Chart 10 – One-year development on unpaid claims relative to equity

Percent of equity



Source: PACICC based on data from MSA Research

Causes of distress

AS JUST REVIEWED, FMRP's total surplus and reserves fell 37% in 2008 from the previous year, and its MCT score was hovering just above the regulatory minimum. This was a very significant decline for a mutual insurer. Being a mutual incorporated without share capital, there was no source of capital readily available other than the accumulated surplus (which is basically retained earnings). What was behind the rapid deterioration?

PACICC's research and discussion with FMRP has identified four main factors:

- large loss claims incurred
- the cumulative effects of "judicial" inflation
- the cumulative effects of underpricing; and
- a sharp decline in the value of capital (which was intensified by having too large a share of capital invested in equities).

It is worth elaborating on each of these factors.

In the automobile and liability insurance business lines, FMRP was hit with some unusually large loss claims in 2007 and 2008 (see Charts 6, 7 and 8). This was the main cause of the widening underwriting losses experienced in these two years. The accompanying charts illustrate the spike in auto and liability loss ratios at the time. (The trend was evident earlier for liability – as early as 2005 – although this was a smaller business line for FMRP, so the overall impact was muted until automobile loss claims also worsened). For auto insurance, several key court decisions went against the industry at this time. This "judicial" inflation drove up FMRP's claims costs and necessitated a strengthening of reserves. A similar claims trend was occurring for liability insurance, but there the driving force was the cost of responding to fuel oil spills on insured farm properties. (Interestingly, FMRP would later be successful in recovering some of these costs through subrogation against insurers of fuel oil companies, whose deficient practices contributed to the problem).

The need for FMRP to strengthen its reserves around 2008 can be seen in Chart 10, showing one-year development on unpaid claims relative to equity. After several flat years of either modest adverse development or minimal releases, reserve increases in 2008 alone "consumed" more than 5% of FMRP's capital. While the development was necessary, it came at an inopportune time.

Underpricing was also identified as an important contributor to FMRP's widening underwriting losses in 2007 and 2008. The problem was twofold, involving both inadequate primary insurance rates charged by FMRP member companies, as well as the premiums charged by FMRP for its reinsurance coverages. But this conclusion is much clearer in retrospect than it was at the time the coverages were being written. Given the lags inherent in implementing price increases (and obtaining regulatory approvals in the case of auto insurance), significant changes in rates only become effective in the second half of 2009.

The sharp decline in FMRP's capital (and its investment income) in 2008 was attributable to several factors. First, as shown in Chart 5, in the period up until 2008, FMRP had allocated a relatively large share of its capital to equities (relative to P&C insurance industry averages). The share of capital invested in equities actually peaked for FMRP at 31.9% in 2007 and was steadily reduced in subsequent years, as seen in the accompanying chart on investment allocation. Second, equity markets in North America recorded large losses in 2008 due to the credit crisis (the TSX index, for example, fell 33% that year). The impact of the market decline was intensified by the relatively large share of capital allocated to equities – and by the additional capital charge imposed by insurance regulators on equity investments. Finally, as FMRP's claims costs mounted, it became clear to management and to the Board of Directors that the organization's assets and liabilities were not properly matched. This problem would eventually be solved by shortening maturities for fixed-income investments. However, it took the sharp spike in claims to reveal asset-liability mismatch as a deficiency in FMRP's investment policy.

Looking back on 2008, it is no exaggeration to say that FMRP encountered a "perfect storm" of underwriting, reserving, pricing and investment factors that combined significantly to weaken its financial health. And as the year drew to a close, the "perfect storm" analogy would literally assert itself. As FMRP President & CEO Steve Smith was at home for the Christmas holiday, he recalls watching (with understandable anxiety) as an intense windstorm felled trees in his neighbourhood on the 28th of December. That windstorm alone would hit FMRP with net losses of $12.1 million, plus a further, unprecedented $8 million in stop-loss claims. The cumulative effect was large. It wasn't a great way to end an already difficult year.

Actions taken

IT WAS CLEAR to FMRP's management and to its Board of Directors that the financial results of 2008 called for urgent action. In fact, the record shows that some important actions got under way soon after FMRP's regulator, the Financial Services Commission of Ontario (FSCO), first formally expressed its concerns about the organization's financial health in August-September 2008 – and again in March 2009 when senior officials from FSCO met with FMRP's President and Board Chair at the company's offices. The trigger for that meeting was stated in a letter dated March 11, 2009 from Grant Swanson, Executive Director of FSCO's Licensing & Market Division, to Brian Bessey, FMRP's Board Chair: "We met with you because FMRP's minimum capital test (MCT) was reported to FSCO as 161% as at January 31, 2009. This is significantly below the company's own minimum internal capital target level of 265% to 285%." While FSCO was appropriately concerned, Mr. Swanson's letter also indicated why the regulator was motivated to find solutions, stating that: "*FMRP is a key plank in the Ontario farm mutual system.*" (emphasis added).

In response to FSCO, FMRP Board Chair Brian Bessey was able to confirm, in his own letter dated March 30, 2009, that FMRP had undertaken the following initiatives:

- Liquidating $25 million of equities and transferring those investments to fixed-income securities (see Chart 5). This figure would increase to $73 million by 2010 – guided by a new, Board-approved investment policy – and ultimately reducing FMRP's capital required under the MCT by $10 million
- Negotiating a quota-share reinsurance agreement, effective January 1, 2009, designed to help strengthen FMRP's capital. (The quota-share agreement was intended to be a short-term arrangement. It would ultimately be in place for three years – from 2009 to 2011 – during which time, by FMRP estimates, it boosted the MCT ratio by 22 percentage points)
- A combination of primary and reinsurance rate increases, with effective dates ranging from January 1 to July 1, 2009
- Establishing a claims-settlement process involving FMRP members to help accelerate the closing of files and reserve releases, with an effective start date of April 30, 2009
- DCAT analysis completed by FMRP's actuaries by May 31, 2009.

While these measures would eventually help FMRP successfully restore its financial health, FSCO wanted to see capital restored to the internal target at a faster pace. This led to a further initiative, at the urging of the regulator, to obtain additional funds from member companies. After communicating the problem, Board approval was given in July 2009 for

FMRP to send emergency-loan invoices totaling $8 million to its members. (This loan would be fully repaid four years later when FMRP's recovery was complete). And later in 2009, this provision for a "capital call" on members would be formally approved by members as part of FMRP's By-Laws. Once so approved, the capital call provision specifically allowed the Board to authorize borrowing capital from member companies should FMRP's MCT ratio fall below 160%.

The capital call provision was an important change for FMRP. While the organization may have been able to recover successfully from the events of 2008 without the emergency loan, the additional capital accelerated the pace of recovery as the regulator had intended. Moreover, the provision mitigated a potential problem faced by all mutual insurance organizations: identifying another reliable source of capital in the event that the current surplus (retained earnings) was depleted by losses. As FMRP's regulator, FSCO deserves credit for helping bring about the change.

Investing in loss prevention

SOON AFTER FMRP President & CEO Steve Smith joined the organization in 2003, he became aware of a problem with property loss claims. There were too many large losses occurring for agricultural risks – and they were mainly fire-related. He was convinced that FMRP needed to "up its game" in loss prevention. Looking back, he remembers his proposal to create a loss-prevention services group within FMRP being greeted with skepticism. "That'll never succeed," was a comment made by one of his Board members.

But sometimes it's worth persevering when the vision is correct. Fast-forward more than a decade, and FMRP's Loss Control Services Group now has 12 employees, professionals who performed more than 1,000 physical risk inspections for member companies in 2015 (up 22% from the previous year) – mainly of dwellings and buildings linked to a wide range of agricultural risks. State-of-the-art techniques employed by the Group – including infra-red thermography and thermal imaging – have identified and corrected numerous problems with overheated electrical switches and panels, and oil-tank corrosion, that if left unchecked and undetected, would very likely have resulted in barn fires and fuel spills.

Loss Control is now considered by FMRP and its members as a core service. While it is difficult to make a precise link between specific risk inspections and improved loss results in the aggregate, the strong demand for FMRP's Loss Control Services has been impressive. It seems reasonable to conclude that better loss control has contributed to lowering property insurance loss ratios for FMRP and its members.

In addition to the changes outlined above, FMRP conducted an independent review of its reserving practices in May 2009. The review was conducted by Cameron & Associates and concluded that FMRP's reserving approach was "conservative" or "ultra conservative" in all business lines other than liability – the only line where reserve increases were recommended. The review also identified that one of FMRP's biggest challenges was getting members to recognize their claims exposure. That specific challenge would be addressed over the period 2009 to 2012 by assigning a full-time resource at FMRP to assist member companies with proactive and timely settlement of open automobile and liability claims. (This was the claims-settlement process noted in the fourth bullet above).

Beginning in 2009, FMRP also introduced changes to its rating methodology to give member insurers greater credit for higher retentions. Surplus for a number of member companies was growing at this time, increasing their ability to assume more risk. By providing appropriate credits, FMRP gave members an incentive to cede less risk to their reinsurer. The shift was enhanced when FMRP incorporated a further rating credit recognizing individual members' favourable loss results. These changes, in turn, encouraged FMRP members to step up their own loss prevention initiatives, and to manage claims more assertively.

To strengthen its governance, FMRP adopted OSFI's Corporate Governance Guideline in 2009. And, in June 2009, the Board moved to clarify the independence of the actuary's role, designating Mr. Liam McFarlane of Ernst & Young as FMRP's Appointed Actuary.

FSCO would continue its close monitoring of FMRP – primarily through monthly reporting of financial results – for another two years or so. By 2011, the normal pattern of reporting results on a quarterly basis had been restored. Looking back, FSCO appeared to take some comfort when FMRP reported its full results for 2009, stating that:

> "FMRP's financial condition is improving. FMRP reported net income of $22.6 million for the year ended December 31, 2009. Its MCT as at December 31, 2009 was 210%, which is above the 150% MCT ratio but still below its internal target of 265-285%. FMRP continues to be on FSCO's internal Watchlist and will remain under enhanced monitoring until such time as its MCT reaches the internal target range and the company demonstrates that it continues to have positive net earnings and surplus has reached sustainable levels."

While the regulator was clearly looking to see more than a single year of improved financial results, the actions taken had put FMRP on the path to a successful recovery.

One further action taken by FMRP deserves to be highlighted: changing the company's policy with respect to premium refunds to members. A bit of background will help readers understand why this change was so important.

Between 1991 and 2007, FMRP refunded a total of $42.7 million in premiums to its members. During this period, management and the Board of Directors viewed the refunds as a return of "excess capital" to members. The events of 2008 altered the company's thinking about premium refunds, and specifically, about what could safely be considered as excess capital. It was difficult to escape the conclusion that had the $42.7 million in refunds (or a significant portion of it) been retained as surplus, FMRP would have been better positioned to weather the large underwriting losses incurred in 2008.

To help mitigate this risk, FMRP's Board implemented a new policy in 2010: it would only consider future premium refunds when FMRP's MCT ratio exceeded 300%. The Board policy was subsequently amended in 2012 to state that future premium refunds would be "at the Board's discretion," rather than tied to a specific MCT level. (Unofficially, however, FMRP's Board and management now regard the threshold to consider a premium refund as MCT > 500%). It's hard to exaggerate the operational and strategic significance of this change in policy – along with the capital call provision – in ensuring that FMRP would continue to have adequate sources of capital available.

As we've seen, the capital call provision was enacted largely at the regulator's urging. But placing stricter and more prudent limits on future premium refunds was largely a matter of sound risk management and effective corporate governance – for which FMRP's Board and management deserve credit.

A perspective on prudential supervision

WHEN FMRP's RECOVERY was well under way, FSCO, as the company's insurance regulator, put together a case study intended as an internal briefing note. The document was recently shared, in confidence, with PACICC as background information for this study.

It is instructive to quote a concluding paragraph from the FSCO case study. In PACICC's opinion, this offers a valuable perspective and lesson that has relevance for all P&C insurers:

> "As we told the FMRP Board in September 2009, the insurance market's cyclicality is known and though in the past such a combination of events that occurred at FMRP in 2008 may have been considered one-in-a-100-year events, recent history has shown that the company's financial condition must always be such that it can withstand such events. Today, although the trigger event may not be known, it is very likely that these situations should be considered one-in-10-year events, and thus the financial condition of the company can never be put at risk, particularly when FMRP is a major plank in the operational and solvency platform of the farm mutual system. The success of the farm mutual system depends on FMRP, and if FMRP were to fail, the entire farm mutual system could collapse."

Put another way, it is essential for an insurance company to have a good understanding of its own risks – of their likely frequency and severity – and to ensure adequate capital strength to remain solvent when large losses occur.

Lessons learned

AS EVIDENCE OF a successful recovery, FMRP has recorded solid financial results since 2009 – for seven consecutive years at the time of this study's release. The organization's capital has been steadily rebuilt, with the MCT ratio currently at 530% (see Chart 1). Over the past seven years to 2015, ROE has averaged a respectable 16.1% (Chart 2).

What lessons can be learned from the serious financial challenges FMRP faced in 2008, and from its successful recovery? In PACICC's view, seven important lessons stand out:

1. Having too much capital invested in equities is a risky strategy for an insurer. (In 2007, FMRP's equities share of total capital peaked at 31.9%).

2. Underwriting results matter greatly – and investment income cannot be counted on to make up for poor underwriting.

3. Adequate pricing and reserving are essential to sustain profitability and to ensure solvency. (PACICC's first *Why insurers fail* publication in 2007 documented inadequate pricing and reserving as the single most important cause of failure for the sample of 35 insolvent insurers studied).

4. Maintaining capital strength is important for the success of any insurer, but *especially* so for mutual insurers since there is generally no other source of capital available beyond retained earnings.

5. Considering FMRP's systemic importance to the Ontario farm mutual insurance system, the company and its regulator were both forward-thinking in learning and applying two key lessons from the events of 2008:
   - to ensure that a supplemental source of capital would be available in future from members on an emergency-loan basis if needed (this was the "capital call" provision); and
   - to ensure that future premium refunds would only be considered by FMRP's Board of Directors when capitalization was unquestionably strong. (Unofficially, the Board now considers this threshold as requiring an MCT ratio > 500%).

   The first of these two provisions was incorporated in FMRP's By-Laws in 2009; the second provision was adopted as a Board policy of FMRP.

   It is worth considering whether these two policies would have wider applicability among mutual insurance companies as effective practices.

Continues on next page …

6. As FSCO observed, it may be prudent for insurers today to be prepared for more "frequent" clustering of large loss events than tended to occur in the past – especially for insurers whose failure could have wider, possibly systemic, consequences.

7. FMRP's post-2008 experience demonstrates that it is possible for a troubled insurance company to achieve a successful recovery in an environment of regulatory support and close monitoring, rather than by regulatory orders and compulsion. However, this outcome also required the supervisor to have trust and confidence in the ability of management and the Board of Directors to *take appropriate actions*. While this is an important lesson, it needs to be acknowledged that in the absence of such trust and confidence, a "point-of-no-return" is often passed – resulting in liquidation. Fortunately, both FMRP and FSCO were willing to put in the patient hard work needed to bring about a successful recovery. Canada's mutual insurance sector – and indeed, the P&C insurance industry as a whole – has been well-served by the outcome.

Timeline of key events

August-September, 2008	FMRP is added to the Financial Services Commission of Ontario (FSCO) watchlist. FSCO meets with FMRP officials on September 16, 2008 after the MCT ratio falls below the internal target. This is the first "official" concern expressed by FSCO about FMRP's deteriorating financials.
November 2008	FMRP begins monthly reporting to the regulator at this point.
December 9, 2008	FMRP's President and the company's Actuary meet with officials from FSCO.
December 28, 2008	A severe windstorm in Ontario hits FMRP with approximately $20 million in losses – at the tail end of an already challenging year.
December 31, 2008	FMRP reports a net loss of $74.8 million for the 2008 financial year. The MCT ratio at year-end 2008 hits a low of 153%.
January 1, 2009	FMRP negotiates a three-year quota-share reinsurance agreement that becomes effective on this date; the agreement is intended to help FMRP rebuild its capital.
March 30, 2009	FMRP's Board Chair provides FSCO with a list of undertakings and corrective measures designed to restore FMRP's financial health – including the quota-share treaty; shifting investments from equities to bonds; increases in primary and reinsurance rates; establishing an enhanced claims-settlement process; and implementing DCAT analysis for the company.
May 2009	FMRP commissions an independent review of its reserving practices, conducted by Cameron & Associates.
June 15, 2009	FMRP, at FSCO's urging, obtains $8 million in emergency funding from members to help restore capital adequacy. A formal "capital call" provision is incorporated into FMRP's By-Laws.
June 17, 2009	FMRP's Board of Directors confirms Mr. Liam McFarlane as its appointed actuary, clarifying the independence of the actuary's role.
June 30, 2009	FMRP reports year-to-date net income of $19 million. The company's MCT ratio improves to 209%.

Continues on next page …

December 31, 2009	FMRP reports net income of $22.6 million for the 2009 financial year. The MCT ratio at year end is 210% and ROE is 16.5%.
2010	FMRP amends its Board policy, clarifying that the Corporation will only consider future premium refunds to members when the MCT ratio exceeds 300%.
December 31, 2011	FMRP has fully restored its financial health, as the MCT ratio finishes the year at 282.8% – right in line with the company's internal target.
2012	Reference to a specific MCT level was removed from the Board's policy governing premium refunds, and replaced with "at the Board's discretion." (Unofficially, FMRP's Board and management now regard the threshold to consider a premium refund as MCT > 500%).

References

Suela Dibra and Darrell Leadbetter, *Why insurers fail – The dynamics of property and casualty insurance insolvency in Canada*, PACICC, 2007.

Financial Services Commission of Ontario, various internal memoranda, 2009-10.

Farm Mutual Reinsurance Plan, Annual Reports, 2008, 2010, 2014.

Farm Mutual Reinsurance Plan Inc., *History*, 1988.

MSA Report – *Property & Casualty, Canada*. MSA Research Inc., 2004 to 2015

Publications in PACICC's *Why insurers fail* series

The dynamics of P&C insurance solvency in Canada (2007)

Lessons learned from the failure of Maplex General Insurance Company (2008)

Inadequately pricing the promise of insurance (2009)

Lessons learned from the failure of Advocate General Insurance Company (2010)

Determinants of survivability of new entrants to the P&C industry (2011)

Lessons learned from the failure of Markham General Insurance Company (2012)

Natural disasters and catastrophes (2013)

Lessons learned from the failure of Canadian Millers' Mutual Insurance Company (2014)

The role of capital in weathering crises (2015)

Lessons learned from the financial challenges – and the successful recovery – of the Farm Mutual Reinsurance Plan (2016)

Property and Casualty Insurance
Compensation Corporation
20 Richmond Street East
Suite 210
Toronto, Ontario M5C 2R9
Phone (416) 364-8677
Fax (416) 364-5889
www.pacicc.ca