

# THE Reciprocal



A MEARIE PUBLICATION FOR INSURANCE MEMBERS

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EDITION  
2006

## The Power of Reciprocals

### 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](http://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

**With over 20 Reciprocal Insurance Exchanges across Canada, The MEARIE Group is one of the leaders with the most comprehensive policies available on the market today.**

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 distributors of electricity on January 1, 1987, has emerged as one of the most successful examples of a reciprocal. In 1992, fleet/vehicle insurance

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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 retro-assessment 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 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.

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

# A Year in Review - 2005

**“The advantages of a reciprocal insurance exchange were never clearer than in 2005”**

*The MEARIE Group  
Annual Report 2005, Joint Message  
from the Chair & CEO*

2005 marked the conclusion of MEARIE's 19th year of operation and another successful year in terms of underwriting, management and organizational activity. Facing new challenges and a changing regulatory and business environment, MEARIE attained new heights as one of the most successful reciprocals in Canada.

During 2005, MEARIE continued to follow up on a number of strategic initiatives to improve operational efficiencies and management strategies. These efforts resulted in a benchmark year overall.

One important initiative was the issuing of a \$1 million Premium Rebate to all renewing Subscribers. This milestone represented the ninth time in MEARIE's history that such an amount was returned to its Subscribers. Today, the combined amount is over \$10 million.

MEARIE's overall performance in 2005 was bolstered by a lower than

expected number of weather related claims as well as our ability to settle several outstanding claims within established reserves.

As Subscribers enter the third and final year of this current underwriting cycle, MEARIE's portfolio of products and services and their knowledge of the industry continue to provide their customers with tailored solutions that are unparalleled in the market place. Subscribers will automatically be renewed for the 2007 - 2009 underwriting cycle on July 1, 2006.

In November 2005, MEARIE conducted its first ever Client Survey and the

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**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 unlikelyhood 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 lia-

bility 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.

## 2005 Highlights

- ▽ A \$1 million premium reduction for 2006 to all renewing Members
- ▽ A decline in operating expenses of \$1.4 million
- ▽ An increase of the Claims Fluctuation Reserve (CFR) to just over \$20 million
- ▽ The lowering of claims volumes due to enhanced risk management practices by both MEARIE and Members
- ▽ An increase in the number of Members participating in the Property and Boiler & Machinery Insurance Program
- ▽ Continued isolation from ongoing global insecurity issues

results were extremely encouraging. Subscribers in large numbers told MEARIE that the insurance related products were highly valued and that MEARIE was on the right track in providing superior coverage and claims service.

Like its Subscribers, MEARIE has continued to evolve at a rapid pace to meet the ever changing needs of its members. With an intimate understanding of the electricity distribution sector, ability to offer stabilized pricing and access to the latest risk analysis prevention technologies, The MEARIE Group is positioned to achieve strong results in 2006.

## Upcoming Events at The MEARIE Group

Leadership for Results	Phase 2	May 30 - 31
	Phase 3	June 13 - 14
	Phase 4	October 3 - 4
	Phase 1	September 12 - 13

Insurance, Financial and Business Solutions Conference - Deerhurst	June 27 - 29
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HR Conference	September 27-28
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Powerline Technician Training  
Underground Power Cable Technician Training  
Meter Technician Training  
Substation Electrician Training  
Electrical Operator Technician



Download the complete 2006 training calendar from [www.mearie.ca](http://www.mearie.ca)

**Charlie Macaluso**  
Chief Executive Officer

**Nicky Koichopolos**  
Executive Assistant

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**Al Friesen**  
Director, Claims

**Larry Luby**  
Director, Client Services

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