



# 2003 Annual Report



## YOUR OWN COMPANY

---

### Prince Edward Island

#### Mutual Insurance Company

201 Water Street

Summerside, P.E.I.

C1N 1B4

E-mail: [protect@peimutual.com](mailto:protect@peimutual.com)

[www.peimutual.com](http://www.peimutual.com)

Phone 1-800-565-5441

Local 436-2185

Fax 436-0148

### DIRECTORS

#### Percy Affleck

Bedeque, P.E.I.

887-2507

#### Claude Dorgan

Tignish, P.E.I.

882-3452

#### John Furness

Vernon Bridge, P.E.I.

651-2402

#### Allison Johnson

Belmont, Lot 16, P.E.I.

436-5200

#### Stewart MacRae

Ebenezer, P.E.I.

964-2979

#### Brian MacKinley

Cornwall, P.E.I.

566-4163

#### George Matheson

Albion Cross, P.E.I.

583-2340

#### Gordon Vessey

York, P.E.I.

629-1332

#### Blair Wood

Montague, P.E.I.

838-4689

### OFFICERS

#### President

Allison Johnson

Belmont, Lot 16, P.E.I.

#### Secretary/Legal Counsel

Blair Campbell

Summerside, P.E.I.

#### Vice-President

Claude Dorgan

Tignish, P.E.I.

#### Treasurer

Rudy Smith

Summerside, P.E.I.

#### General Manager

Terrence Shea

Summerside, P.E.I.

## NOTICE OF ANNUAL MEETING

---

P.E.I. Mutual Insurance Company will be holding its annual meeting on Tuesday, April 13, 2004, at 2:00 P.M. at the Royal Canadian Legion, 340 Notre Dame Street, Summerside, P.E.I.

The purpose of the meeting is to receive the financial statements and auditors report for 2003; to elect directors; to appoint auditors and to transact other business which may properly be brought before the meeting.

Blair Campbell  
Corporate Secretary



## PRESIDENT'S REPORT

---

Wow, what a year! 2003 started out very well for PEI Mutual, however in the early fall we were hit with a number of large claims, including the catastrophe of Hurricane Juan, all of which had a significant impact on our bottom line. Even so, I am proud to say that our Company was in a position whereby we were able to handle these claims and still finish with a very respectful net profit for the year.

I would like to make special mention of PEI Mutual's claim's department and claim's adjusters for the extra effort that they put forward as a result of Hurricane Juan. Many extra hours were required to properly service our customer base during this time and my sincere thanks goes out to all those who worked so hard on behalf of the Company during this time.

PEI Mutual's investment portfolio continued to perform well this year and I would like to thank our investment team for successfully managing this portfolio in the midst of the challenging market conditions that continued to prevail over the past year.

The agents and staff of PEI Mutual have continued to provide exceptional service to our customer base throughout the year. I recognize that it is through these people that our customers judge the quality of our insurance product and service, and I would like to personally thank all of the agents and staff for their continued hard work and dedication to our Company. Also, with the retirement of our agent Wayne Newson this year, I would like to welcome PEI Mutual's newest service agent, Sandra MacDonald, who resides with her family in Crapaud, PEI.

PEI Mutual has continued to work hard at reducing and preventing oil escape losses during the past year. Protecting our environment and reducing expensive clean up procedures have been our main focus of attention. We appreciate our policyholders' response in working with us to achieve these goals.

Once again, this has been a very rewarding, yet challenging year for myself and the rest of the Board of Directors. Along with the regular challenges of successfully operating in the insurance industry, there was the additional challenge of Hurricane Juan this year. I would like to thank my fellow Board members for their hard work and support throughout this past year and I would also like to offer my best wishes to Claude Dorgan, this year's incoming President.

Allison Johnson,  
President



## MANAGER'S REPORT 2003

---

This past year has been a very busy and successful year for PEI Mutual. Throughout the year we implemented the changes that were outlined in last year's Annual Report and in September we were faced with the devastation caused by Hurricane Juan. Even with Hurricane Juan we ended the year with very good financial results.

### **Growth**

PEI Mutual continued to grow in 2003 with an increase in our written premiums of 13% (\$1,236,000). Approximately 6% of this increase resulted from the addition of 1,000 new members to PEI Mutual, with 75% of these new members citing the reason for joining PEI Mutual as being referrals based on good service and the excellent reputation that PEI Mutual has.

### **Claims**

Hurricane Juan claim payments have amounted to approximately \$2,750,000 with \$1,470,000 of this payout being recovered from our reinsurer. Our objective in the days following the hurricane was to respond to our policyholders as quickly as possible. We had approximately 750 insurable claims reported and to date have settled 75% of these claims.

The ongoing problem of oil spills continued in 2003 with an estimated \$900,000 in claims resulting from accidental oil spills. The new oil installation guidelines which were announced last year are still being implemented. It is our hope that we will see the benefit of these changes by reducing oil spills in years to come.

Claims resulting from Hurricane Juan and oil spills accounted for 57% of all claims incurred in 2003.

### **Investments**

In 2003 we realized a 9% return on our investments. The equity of PEI Mutual is invested in secure government bonds and blue chip common stock.

### **Staff and Agents**

In January 2004, Wayne Newson retired after 23 years of service to PEI Mutual. Wayne was a Service Agent who serviced policyholders in Central Queens County. I congratulate Wayne on his retirement and thank him for the excellent service he has given our policyholders. I am pleased to advise that Sandra MacDonald from MacDonald Road in Crapaud was hired to replace Wayne.

I thank all our staff and service agents for their dedicated service to policyholders of PEI Mutual.

### **Privacy Act**

In January 2004, the new Federal Privacy Act was enacted. At PEI Mutual we voluntarily adopted a code of conduct in 1996 which dealt with many of the issues outlined in the new privacy act and standardized our method of obtaining and securing policyholder's personal information. A brochure explaining the new act was recently mailed to our policyholders.

### **Claims Free Discount**

Last year we implemented a 5 year claims free discount of 10% and in the past year 3,030 policyholders qualified for this discount. We also have 3,656 policyholders on a 10 year claims free discount of 20% and 5,034 policyholders on a 15 year claims free discount of 25%. This gives us a total of 11,720 policyholders receiving a residential claims free discount which represents 51% of our total residential policyholders.



### **Oil Escapes**

In 2003, \$900,000 and in 2002, \$950,000 was spent on claims involving oil spills. Oil spills damage our environment and ruin our property and it is in everyone's best interest to improve their oil tank installation. By September 2006, all heating oil tank installations must be inspected and tagged under our provincial regulations. Starting in 2003 and going forward we have implemented a number of new guidelines and incentives that will encourage our policyholders to have their oil installation inspected and tagged sooner.

### **Mutual Rebate**

I am pleased to advise that we will be giving a "Mutual Rebate" of 10% in 2004. One of the benefits of being a policyholder of PEI Mutual is that members participate in sharing our profits. In years when we have good financial results we pay a "Mutual Rebate". This "Mutual Rebate" will be given as a discount at time of renewal.

Thank you for choosing PEI Mutual as your insurance provider. It is our goal to provide you with first rate service.

Terrence Shea  
General Manager

---

## **AUDITOR'S REPORT**

---

To the Policyholders of Prince Edward Island Mutual Insurance Company. We have audited the balance sheet of Prince Edward Island Mutual Insurance Company as at December 31, 2003, and the statements of earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Summerside, P.E.I.  
January 28, 2004

*Grant Thornton LLP*  
Chartered Accountants



## STATEMENT OF EARNINGS

*Year Ended December 31*

<b>Underwriting Income</b>	<b><u>2003</u></b>	<b><u>2002</u></b>
Gross premiums written	\$ 10,548,258	\$ 9,312,329
Reinsurance premiums assumed (Note 8)	37,607	20,245
Reinsurance premiums ceded (Note 8)	<u>(1,201,996)</u>	<u>(1,048,725)</u>
Net premiums written	9,383,869	8,283,849
Less: increase in unearned premiums	<u>732,051</u>	<u>476,380</u>
Net premiums earned	<u>8,651,818</u>	<u>7,807,469</u>
<b>Claims and expenses</b>		
Gross claims incurred	6,410,974	7,347,223
Adjusting, legal and appraisals	788,002	662,490
Less: reinsurance recoveries	<u>1,885,626</u>	<u>2,009,560</u>
Net claims and adjusting	5,313,350	6,000,153
Advertising	132,827	85,163
Canada pension plan	62,471	61,978
Conventions, courses and travel	51,200	57,016
Depreciation	60,497	67,480
Directors fee	155,064	154,998
Donations	59,800	51,150
Employment insurance	38,038	40,365
Fire prevention tax	105,483	93,123
Group insurance	126,793	96,850
Loss prevention	106,721	110,181
Office supplies	67,808	92,871
Other administration costs	130,501	109,754
Postage	79,958	71,422
Premium acquisition expenses	1,331,489	1,226,536
Professional fees	25,762	20,143
Salaries	858,048	847,015
Taxes, dues and licences	42,062	44,711
Telephone	<u>44,261</u>	<u>43,290</u>
	<u>8,792,133</u>	<u>9,274,199</u>
Net underwriting loss	<u>(140,315)</u>	<u>(1,466,730)</u>
<b>Other income</b>		
Net investment income (Note 6)	2,502,417	2,420,674
Loss on sale of fixed assets	(9,519)	(1,580)
Refund from surplus from reinsurer (Note 9)	-	176,853
Miscellaneous	<u>37,431</u>	<u>24,054</u>
	<u>2,530,329</u>	<u>2,620,001</u>
Earnings before income taxes	2,390,014	1,153,271
Income taxes (Note 10) - Current	668,363	99,630
- Future	<u>7,023</u>	<u>158,353</u>
Net earnings	<u>\$ 1,714,628</u>	<u>\$ 895,288</u>

*See accompanying notes to the financial statements.*



## BALANCE SHEET

December 31

<b>Assets</b>	<b>2003</b>	<b>2002</b>
Cash and short term deposits	\$ 1,049,284	\$ 859,593
Receivables (Note 3)	991,549	773,143
Prepaid items	11,443	10,261
Deferred premium acquisition expenses	746,870	643,691
Reinsurers' share of provision for unpaid claims and adjustment expenses	3,070,013	2,561,105
Investments (Note 4)	29,027,405	27,706,684
Property and equipment (Note 5)	479,235	528,800
Future income taxes	125,858	132,881
	<u>\$35,501,657</u>	<u>\$33,216,158</u>

### Liabilities

Payables and accruals	\$ 271,829	\$ 160,668
Income tax payable	383,742	66,110
Provision for unpaid claims and adjusting expenses	5,321,368	5,911,341
Unearned premiums	5,858,926	5,126,875
	<u>11,835,865</u>	<u>11,264,994</u>

### Equity

Policyholders' security fund, beginning of year	21,951,164	21,055,876
Net earnings	1,714,628	895,288
Policyholders' security fund, end of year	23,665,792	21,951,164
	<u>\$35,501,657</u>	<u>\$33,216,158</u>

*See accompanying notes to the financial statements.*



PROTECTING EACH OTHER  
SINCE 1885



**STATEMENT OF  
CASH FLOWS**  
*Year ended December 31*

	<u>2003</u>	<u>2002</u>
Increase (decrease) in cash and cash equivalents		
<b>Operating</b>		
Net earnings	\$ 1,714,628	\$ 895,288
Depreciation	59,284	73,831
Bond premium amortized	71,733	48,287
Gain on sale of investments	(633,699)	(694,158)
Loss on sale of equipment	9,519	9,075
Future income taxes	7,023	158,353
	<u>1,228,488</u>	<u>490,676</u>
 Change in non-cash operating working capital (Note 7)	 (260,804)	 1,121,895
	<u>967,684</u>	<u>1,612,571</u>
 <b>Investing</b>		
Purchase of property and equipment	(19,538)	(73,268)
Proceeds on disposal of bonds & equities	5,548,896	4,722,324
Purchase of bonds and equities	(6,307,651)	(5,877,931)
Proceeds on disposal of property and equipment	300	23,225
	<u>(777,993)</u>	<u>(1,205,650)</u>
 Net increase in cash and cash equivalents	 189,691	 406,921
Cash and cash equivalents, beginning of year	<u>859,593</u>	<u>452,672</u>
Cash and cash equivalents, end of year	<u>\$ 1,049,284</u>	<u>\$ 859,593</u>

*See accompanying notes to the financial statements.*

**NOTES TO THE FINANCIAL STATEMENTS**  
*December 31, 2003*

**1. Nature of operations**

The Company is incorporated without share capital under the laws of Prince Edward Island and is subject to the Prince Edward Island Insurance Act. It is licensed to write property and casualty insurance in Prince Edward Island.

**2. Summary of significant accounting policies**

**Depreciation**

Depreciation of fixed assets is recorded on the diminishing balance method at the rates indicated in Note 5.

**Unearned premiums**

The unearned premium reserve is based on the unexpired term of all policies of the Company in force as at December 31.





### **Deferred premium acquisition expenses**

Deferred premium acquisition expenses are those expenses such as agents' commissions, which relate directly to the acquisition of premiums. These expenses, to the extent that they are considered recoverable, are deferred and amortized over the terms of the related premiums.

### **Investments**

Investments in bonds and debentures are carried at amortized cost. Premiums or discounts incurred on the purchase of bonds and debentures are amortized over the remaining life of the investment. Equities are carried at cost. Gains or losses arising from the disposition of bonds and debentures sold prior to maturity are recognized at the time of sale.

### **Provision for unpaid claims and adjusting expenses**

The provision for unpaid claims represents an estimate for the full amount of all costs including investigation and the projected final settlements of reported claims and for claims incurred but not reported prior to the balance sheet date. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. These provisions are adjusted up or down as additional information affecting the estimated amounts become known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

### **Income taxes accounting policy**

The Company uses the tax liability method for determining income taxes. Under this method, future tax assets and liabilities are determined according to differences between their respective carrying amounts and tax basis. Future tax assets and liabilities are measured based on enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which these temporary differences are expected to reverse. Adjustments to these balances are recognized in earnings as they occur.

### **Reinsurance**

The Company reflects reinsurance balances on the balance sheet on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of one year or less.

## **3. Receivables**

	<u>2003</u>	<u>2002</u>
Policyholders for premiums	\$ 567,225	\$ 411,106
Accrued interest	407,364	333,387
Other	16,960	28,650
	<u>\$ 991,549</u>	<u>\$ 773,143</u>



#### 4. Investments

	2003		2002	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
P.E.I. Credit Union term deposits	<u>\$1,026,138</u>	<u>\$1,026,138</u>	<u>\$1,026,138</u>	<u>\$1,026,138</u>
Bonds at par less unamortized purchase discounts and premiums				
Federal	<u>1,926,556</u>	<u>2,096,202</u>	<u>2,066,885</u>	<u>2,291,637</u>
Provincial	<u>15,177,189</u>	<u>17,004,579</u>	<u>14,461,791</u>	<u>16,346,835</u>
Municipal	<u>2,180,485</u>	<u>2,329,903</u>	<u>1,157,804</u>	<u>1,305,863</u>
Corporate	<u>3,941,747</u>	<u>4,230,873</u>	<u>4,038,691</u>	<u>4,239,713</u>
Total bonds	<u>23,225,977</u>	<u>25,661,557</u>	<u>21,725,171</u>	<u>24,184,048</u>
Equities - Canadian Common stock	<u>3,534,166</u>	<u>4,229,071</u>	<u>3,926,512</u>	<u>4,503,422</u>
Equities - US Common stock	<u>1,241,124</u>	<u>1,115,481</u>	<u>1,028,863</u>	<u>987,179</u>
Total	<u>\$29,027,405</u>	<u>\$32,032,247</u>	<u>\$27,706,684</u>	<u>\$30,700,787</u>

#### Bonds and term deposits - maturity profile

	Within 1 Year	1 to 5 Years	5 to 10 Years	10 to 20 Years	Over 20 Years	Book Value
Bonds	\$ 1,919,788	\$6,186,140	\$9,131,539	\$5,889,264	\$ 99,246	\$23,225,977
Term deposits	<u>120,000</u>	<u>906,138</u>				<u>1,026,138</u>
Total	<u>\$2,039,788</u>	<u>\$7,092,278</u>	<u>\$9,131,539</u>	<u>\$5,889,264</u>	<u>\$ 99,246</u>	<u>\$24,252,115</u>
Percent of total	8%	29%	38%	24%	1%	100%

#### 5. Property and equipment

	<u>Rate</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>2003 Net Book Value</u>	<u>2002 Net Book Value</u>
Land		\$132,097		<u>\$132,097</u>	<u>\$132,097</u>
Building	5%	438,537	\$225,754	<u>212,783</u>	<u>223,982</u>
Office equipment	20%	142,458	99,989	<u>42,469</u>	<u>55,459</u>
Computer equipment	30%, 100%	199,562	132,837	<u>66,725</u>	<u>83,230</u>
Motor vehicle	30%	94,567	75,002	<u>19,565</u>	<u>27,950</u>
Parking lot	8%	13,715	8,119	<u>5,596</u>	<u>6,082</u>
		<u>\$1,020,936</u>	<u>\$541,701</u>	<u>\$479,235</u>	<u>\$528,800</u>

#### 6. Investment income

	<u>2003</u>	<u>2002</u>
Interest from bonds and short term deposits	<u>\$1,685,817</u>	<u>\$1,547,790</u>
Dividends received	<u>182,901</u>	<u>178,726</u>
Gain on sale of investments	<u>633,699</u>	<u>694,158</u>
	<u>\$2,502,417</u>	<u>\$2,420,674</u>

#### 7. Change in non-cash operating working capital

	<u>2003</u>	<u>2002</u>
Receivables	<u>\$ (218,406)</u>	<u>\$ (19,737)</u>
Prepaid expenses	<u>(1,182)</u>	<u>(939)</u>
Deferred premium acquisition expenses	<u>(103,179)</u>	<u>(48,679)</u>
Reinsurers' share of provision for unpaid claims	<u>(508,908)</u>	<u>(1,054,620)</u>
Payables and accruals	<u>111,161</u>	<u>(27,218)</u>
Income tax receivable/payable	<u>317,632</u>	<u>905,517</u>
Unpaid claims	<u>(589,973)</u>	<u>891,191</u>
Unearned premiums	<u>732,051</u>	<u>476,380</u>
	<u>\$ (260,804)</u>	<u>\$ 1,121,895</u>
Income taxes paid	<u>\$ 350,731</u>	<u>\$ 23,298</u>

#### 8. Reinsurance

All reinsurance is ceded and assumed from Farm Mutual Reinsurance Plan Inc., a mutual reinsurer incorporated without share capital, of which the Company is a member.

#### Reinsurance ceded

The Company follows the policy of underwriting and reinsuring contracts of insurance which, in the main limits the liability



of the Company to a maximum amount on any one property loss to \$415,000 and liability loss to \$199,000. The reinsurance contracts also limit the Company's liability on the sum of all individual losses arising out of one event to \$1,200,000. In addition, the Company has obtained reinsurance which limits the Company's overall liability on losses to a maximum of 100% of the Company's earned premium.

### **Reinsurance assumed**

The Company is participating as a reinsurer of losses from catastrophe suffered by members of the Farm Mutual Reinsurance Plan Inc. to the extent of \$150,000 for a single catastrophe loss. The Company's participation commences if a catastrophe loss exceeds \$10 million and reaches the limit of \$150,000 if the loss is \$100 million or greater.

The Company is also participating with a group of Canadian mutual insurance companies as a reinsurer of Agricorp, a crown corporation in Ontario that provides crop insurance to Ontario farmers. The Company's maximum exposure in any one year is \$150,000.

## **9. Refund from surplus from reinsurer**

The Board of Directors of Farm Mutual Reinsurance Plan Inc., the Company's reinsurers, declare refunds from surplus payable to qualifying member companies. There was no refund declared in the year 2003. In 2002, the company's proportionate share of the refunds was \$176,853.

## **10. Income Taxes**

Forty-seven percent (47%) of premiums are from farming and fishing producers. The Company is taxable on the portion of its income that is attributed to non-farming/fishing premiums.

## **11. Pensions**

The Company has a defined contribution plan providing pension, to all of its employees. The total plan expense for the Company's defined contribution plan for all of 2003 was \$56,581 (2002: \$55,083).

---

### **CLAIMS MANAGER**

---

**Blair Campbell**

Summerside

---

### **SAFETY SURVEYOR**

---

**Franklin Sanderson**

North Wiltshire

---

### **AGENTS**

---

**Cam Trail**

Tignish

**Jane MacLaurin**

Grand River

**Philip MacDonald**

Margate

**Myles Grady**

South Freetown

**Bruce Simpson**

Stanley Bridge

**Sandra MacDonald**

Crapaud

**Tom Kickham**

Souris

**Dave MacAdam**

Morell

**Peter Johnston**

Kinlock

**David Walsh**

Summerville

**Janice Taylor**

Gaspereaux

Now is the time to act! Oil Escapes ruin our property and our environment. By Sept 2006 all Heating Oil Tank Installations must be inspected and labeled under Provincial Regulations. There are over 45,000 tanks on PEI - Don't get caught in the rush. Contact your Oil Supplier or Independent Installer early to arrange this.

**4 draws of  
\$1,000  
remaining!**

**Draw Dates  
for 2004:**

**March 31  
June 30  
Sept 30  
Dec 31**

**Contest Rules:**

- The tank must service a property insured with PEI Mutual.
- Maximum 1 prize per policyholder.
- Get your name in early since it stays in for all draws.
- Policyholders submit a valid Provincial ID Label # and Expiry.
- Information confirmed when name is drawn.

**OIL TANK CONTEST - ENTRY FORM**

**Policyholder(s) Name:** \_\_\_\_\_

**Phone Number:** \_\_\_\_\_

**Policy Number:** \_\_\_\_\_

**Oil Tank Provincial Label ID:** \_\_\_\_\_

**Label Expiry Date:** \_\_\_\_\_

The Provincial ID label is a small brass tag installed on the Vent pipe. see picture =====>  
It is not the Manufacturers tag on the Tank.  
If you don't have an ID Label contact your oil supplier or independent installer to arrange.

