The Guarantee Fund

The underlying principles of mutuals have not been of profit, but of cooperation and self help. This theme has endured for well over 100 years and continues to this day. In the beginning, the mutual policyholder was required to sign a premium note agreeing to assume certain liabilities of the company directly proportionate to the policyholder's limit of protection.

The general idea was to get a number of neighbours together for the purpose of sharing risk. Typically, buildings and chattels in those buildings were insured. When fire occurred, an assessment of whatever percentage was needed was levied, collected in due course, and paid over to the unfortunate one who had suffered the loss.

As the time passed, mutual companies were urged by regulators to adopt uniform methods to ensure safety of the company and justice to the individual policyholders. This gave rise to the adoption of a plan whereby companies would estimate future losses and cost of operation as a basis for rates. Under this system, levy on the premium note was only made when expenses exceeded the estimated cost for the year.

Gradually, mutual companies moved away from the assessment system in favour of collecting premiums in advance - however legislation required that the premium note remain in place for all policyholders of purely mutual companies until the formation of the Fire Mutuals Guarantee Fund in 1975.

The premium note was the financial backing of the mutual companies and served as a vital

factor in their establishment and development. However, by the early 1970's it had become apparent that it would be better to develop an alternative. The result was the formation of the **Fire Mutuals Guarantee Fund**.

Again, through the theories of "strength in unity" and "neighbour helping neighbour" the mutuals entered an agreement whereby an open-ended fund was set up for the purpose of guaranteeing that all policyholders' outstanding claims and unearned premiums would be honoured in the event that any one of the mutuals could not honour its claims or outstanding policies. This fund is backed by each of the mutuals and Farm Mutual Re, thereby placing the surplus of all member mutuals behind any one.

Farm Mutual Re

Collaborate. Empower. Succeed.

Mutual companies began sharing risks with each other in the 1930's through inter-company agreements. Any one company could share portions of risks in excess of its retention with neighbouring mutual companies.

In the mid-40's, this system was augmented by what was referred to as "The Supplemental Reinsurance Pool." This pool was operated by the secretary of the Mutual Fire Underwriters' Association and was a pooling arrangement that allowed a company to cede excess amounts of insurance to the pool for a pro-rata share of the premium.

After the Second World War, the mutuals were faced with the post-war boom. Property values were rapidly increasing and construction and development was at a record level in Ontario. The demand for higher limits of coverage was a challenge for the mutuals as the maximum amount of insurance they could retain on any risk was limited, depending on the size of the company.

By the mid-50's, the amount of time and money involved in the transaction of reinsurance led the mutuals to explore a more efficient alternative. This led to the formation of **Farm Mutual Re**. It commenced operations in 1959 - the first Canadian-owned reinsurance company.

Under this new agreement, the mutuals were required to cede all of their reinsurance to Farm Mutual Re and were not permitted to assume business from any other company. The new reinsurance mechanism allowed the mutuals to eliminate much of the routine paperwork involved in reinsuring individual risks of the day.

In the subsequent years Farm Mutual Re, a mutual company itself that is wholly owned by the pure mutuals within its membership and guided by directors elected from those mutuals, has developed into a highly sophisticated financial institution. Since 1959, through the protection provided by Farm Mutual Re, the policyholder-owned mutuals have been able to expand their product base to virtually any line of insurance required by mutual policyholders.