# CURIE

# 2010 Annual Report

Protecting Our Universities

2010

## Message To Subscribers

We are pleased to report to you the highlights of our 2010 results.

As of the year ending December 31, 2010 CURIE attained an annual net income of over $11 million.

The $11 million is attributable to the following:

- A favourable return on our investment portfolio of $2.6 million and $2 million in unrealized gains and other income
- A favourable liability claims experience
- A favourable underwriting profit of $6.5 million

Our 2010 operating expense ratio was 14% which remains unchanged over 2009.

This combination of favourable liability underwriting and investment results led to a 35% percent growth in subscribers' surplus.

As was the case last year while our overall results for 2010 were favourable, property claims continue to be a challenge. Following our 2009 property results we increased our 2010 property aggregate retention from $7.5 million to $10 million and late in 2010 we reached that threshold.

Last year, the CURIE Board approved the implementation of a long term premium strategy to deal with our regulatory minimum capital requirements (Minimum Capital Test). We are happy to report that this year's surplus has moved us well above our minimum capital requirement target into a position of financial strength. We are now in a solid position to deal with market fluctuations and insurance program changes and have the capacity to make premium stabilization contributions should the need arise in the future.

This year, the Board renewed and approved the CURIE Strategic Plan. Starting in 2011, we will be implementing the plan with initial emphasis on a strengthened targeted communication strategy.

Over the years CURIE has developed long-term partnerships with its subscribers to support risk management objectives through a unique combination of insurance coverages, risk control consulting and claim services. As an example of these services, CURIE, working in conjunction with a national loss prevention company – Risk Management Services, has developed training on the use of the Risk Register which began in the last quarter of 2010 and will continue throughout 2011. The Risk Register will allow members easy access to their recommendations and allow them to develop and input action plans.

Since CURIE's inception in 1988, we have provided a unique form of subscriber centered insurance and risk management services. Over the past few years we have successfully weathered a 'once-in-a- lifetime' financial market meltdown and some of our largest property losses ever.

We can attribute our success to the loyal support of our member universities, our staff along with the CURIE Board and subcommittee members.

**CHIEF OPERATING OFFICER**
Keith Shakespeare
CURIE

K Shakespeare

**CHAIR**
Gabrielle Morrison
Vice-President, Administration
Saint Mary's University

Gabrielle Morrison

# Who we are

CURIE is a reciprocal insurance exchange whose member universities across Canada have contractually agreed to share losses arising from their operating risks. These risks include physical damage to assets, injuries or property damage in respect of third parties, and liability for errors and omissions.

Today, CURIE's 58 members represent almost 610,000 students from all provinces with the exception of Quebec. CURIE has grown to become the largest higher education property and liability insurer in Canada, providing stable, cost-effective insurance and comprehensive risk management programs.

# The CURIE Advantage

**1. CURIE members enjoy insurance premiums substantially below market prices**
CURIE provides wholesale-priced property and liability insurance at rates 30 to 50 percent lower than those available commercially. By joining CURIE, universities pay significantly less for insurance than they would on their own.

CURIE helps keep premiums down by eliminating or reducing intermediaries' fees and minimizing operating expenses. In 2010, CURIE's operating expense ratio was 14.4 percent, well below the Canadian insurance industry average of 30 percent. It should be noted that while on an income statement basis CURIE's expense ratio is 14.4 percent, we do not include the excess program premiums (these premiums do not flow through CURIE's financials, but the expenses associated with them do). If we did include them, CURIE's expense ratio would drop to 9.6 percent.

**2. CURIE members experience stable premiums**
The commercial insurance market is notoriously cyclical. When competition drives underwriting below costs, one major event can cause insurance rates to skyrocket. CURIE protects its members from these kinds of drastic and costly swings in premiums.

**3. CURIE members receive insurance tailored to their needs**
CURIE provides subscribers with broad and appropriate coverage and offers higher policy limits than individual subscribers can achieve by purchasing coverage on their own. Examples include professional liability, student medical malpractice liability and sports and recreational activity liability coverage.

**4. CURIE members benefit from a wide breadth of risk management services**

The key to reducing insurance claims is mitigating risks. For this reason, CURIE has renewed its focus on helping universities manage their risks and control their costs. The organization recently hired a Manager of Risk Reduction and Loss Control to oversee this important function. CURIE risk management services include:

- Developing uniform guidelines for all universities
- Establishing safety programs
- Inspecting property to highlight potential hazards
- Hosting seminars and distributing bulletins
- Helping universities deal with risk-related issues

**5. CURIE members can rely on an accessible, experienced team**

No organization has better specialized knowledge of the unique, complex and evolving property and liability insurance needs of universities than CURIE does. Because CURIE serves only universities, it fully understands the dynamics of the university insurance business. This experience allows CURIE to tailor insurance and loss control products to meet the diverse and special needs of its members.

CURIE members also benefit from the organization's shared knowledge base.

**6. CURIE members enjoy special tax advantages**

Tax-free status allows investment income and underwriting profit to accrue directly to members to assist in paying claims.

**7. CURIE members have their claims processed fairly and efficiently**

CURIE administers claims quickly and properly. This efficiency reflects well on universities because it allows them to respond promptly to their clients.

# CURIE Facts

Membership

- Membership in CURIE is available only to Canadian universities. Institutions that did not subscribe to CURIE in 2008 will next have an opportunity to subscribe in 2012.
- Subscribers commit to participate in CURIE for a minimum of five years—one underwriting period. This multi-year participation helps stabilize prices and generate consistent coverage. Membership is automatically renewed every five years unless universities opt out in writing. The current period, CURIE 5, runs from 2008 to 2012.

Premiums

- CURIE establishes premiums sufficient to pay anticipated liabilities based on actuarial advice and actual losses. In the long run, CURIE intends all participants to pay their fair share of total claims and expenses.

Governance

- A board of directors oversees CURIE's insurance professionals and ensures that subscribers are treated fairly. The Board includes three university representatives each from Ontario, the West, and the Atlantic provinces, plus the executive director of the Canadian Association of University Business Officers.

## What Is a Reciprocal?

A reciprocal is an unincorporated group of organizations that contract with each other to share losses on a not-for-profit basis. Because the reciprocal is owned and operated by its members, they input directly into the reciprocal's operation, and they share any profit and investment income. As with commercial insurers, reciprocals are regulated and monitored to ensure that their investments and operations keep the organizations financially stable. Because a reciprocal is owned by its members, its sole motivation is to serve those members.

# Mission Vision Values

In 2009, the Board approved the following Mission, Vision and Values Statement

**Mission:**

CURIE is dedicated to addressing the common and unique insurance needs of its members by:

i. Securing long-term, stable and cost-effective insurance coverage.
ii. Managing claims effecting and in a way that recognize the long-term interests of its members.
iii. Providing a range of risk management and loss protection services.
iv. Sharing information and communicating best practices in risk management to its members.

**Vision:**

To be the insurer of choice and key partner in risk management for Canadian universities.

**Values:**

i. Integrity and Accountability.
ii. Financial Stability and Responsibility.
iii. Service Excellence
iv. Respect in all interactions.
v. Our staff, our members and our volunteers

# Strategic Plan

Three strategic themes form the basis of the renewed strategic plan:

**Mission:**

Three strategic themes form the basis of the renewed strategic plan:

i. Deliver CURIE's value proposition: Stable, competitively-priced insurance premiums, optimal coverage and risk management services tailored to Universities.
ii. Strengthen targeted communication to ensure that CURIE's value proposition is understood and fully subscribed to by its members.
iii. Build an effective and efficient organization to ensure that member interests and needs are appropriately and consistently addressed.

# PROPERTY CLAIMS SUMMARY

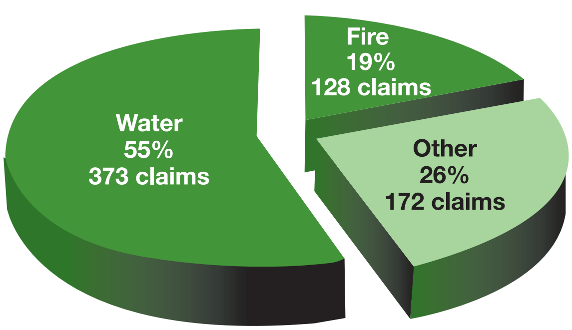
The charts below depict the frequency of claims reported as percentages and the incurred damages on all property claims reported since CURIE began operation in 1988.

Fire losses represent 58% of total property claims costs incurred. Slightly less than half of that 58% is attributable to one solitary claim which shows the potential volatility of fire losses despite relatively lower frequency.

With water claims steadily on the rise, they comprise 55% of all property claims reported. Water losses include burst/frozen pipes, storm related losses, pipe connections letting go, sprinkler heads letting go, sewer backups and flooding. The water losses give us cause for concern. While they do happen in old buildings, a surprising number are occurring in brand new buildings damaging new and expensive equipment. The majority of the money spent pertains to repairing and replacing damaged equipment.

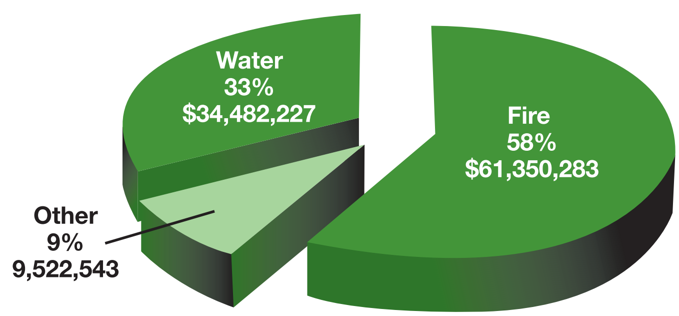
A new service now being provided by CURIE is inspections on substantially completed buildings. Risk Management Services are now capable of doing these inspections looking for deficiencies. We are hopeful this will assist in reducing the number of losses involving new construction.

**CURIE Property Claims**
**Total number of reported claims January 1, 1988 - December 31, 2010**




**Total number of property claims - 673**

**CURIE Property Claims**
**Total claims costs January 1, 1988 - December 31, 2010**




**Total property claims incurred - $105,355,053**

Financial Statements of

# CANADIAN UNIVERSITIES RECIPROCAL INSURANCE EXCHANGE

Year ended December 31, 2010

## Auditors' Report

To the Subscribers of Canadian Universities
Reciprocal Insurance Exchange

We have audited the accompanying financial statements of Canadian Universities Reciprocal Insurance Exchange, which comprise the balance sheet as at December 31, 2010, the statements of income and accumulated excess of income over expenses, comprehensive income and accumulated other comprehensive income and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Universities Reciprocal Insurance Exchange as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 12, 2010

Report of the Actuary

# DESCRIPTION OF THE ACTUARY'S ROLE

The actuary is appointed by the Advisory Board of the Canadian Universities Reciprocal Insurance Exchange pursuant to the Insurance Act. The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Exchange. Examination of supporting data for accuracy and completeness and consideration of the Exchange's assets are important elements of the work required to form this opinion.

Policy liabilities include unearned premiums, unpaid claims and adjustment expenses, the reinsurers' share of unearned premiums and unpaid claims and adjustment expenses, deferred premium acquisition costs, premium deficiency and retrospective adjustments. The actuary uses the work of the external auditors in verifying data used for valuation purposes.

# APPOINTED ACTUARY'S REPORT

To the Subscribers of the Canadian Universities Reciprocal Insurance Exchange

I have valued the policy liabilities of the Canadian Universities Reciprocal Insurance Exchange for its balance sheet at December 31, 2010 and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Toronto, Ontario
February 23, 2011

Sylvain Dion
Fellow, Canadian Institute of Actuaries

# CANADIAN UNIVERSITIES RECIPROCAL INSURANCE EXCHANGE

Balance Sheet

December 31, 2010, with comparative figures for 2009

| | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Investments (notes 4 and 10): | | |
| Cash | $ 42,216,196 | $ 36,896,009 |
| Short-term investments | 185,967 | 87,865 |
| Long-term investments | 69,218,278 | 57,501,041 |
| | 111,620,441 | 94,484,915 |
| Investment income due and accrued | 269,190 | 327,589 |
| Due from subscribers | 412,194 | 380,732 |
| Recoverable from reinsurers on unpaid claims (note 5) | 1,759,824 | 1,909,190 |
| Due from reinsurers on paid claims | 1,591,361 | 882,414 |
| Due from reinsurers on excess program (note 8) | 4,416,819 | 350,493 |
| Prepaid expenses and other accounts receivable | 648,520 | 602,744 |
| Capital assets | 20,322 | 31,664 |
| | $120,738,671 | $ 98,969,741 |
| **Liabilities and Subscribers' Equity** | | |
| Premiums received in advance | $ 21,604,100 | $ 20,145,380 |
| Unpaid claims and adjustment expenses (note 5) | 46,361,241 | 38,106,103 |
| Payable to reinsurers on excess program (note 8) | 8,572,188 | 7,869,329 |
| Accounts payable and accrued expenses | 191,738 | 323,485 |
| Premium taxes payable | 721,439 | 493,180 |
| | 77,450,706 | 66,937,477 |
| Subscribers' equity (note 6): | | |
| Accumulated excess of income over expenses | 40,939,908 | 31,714,880 |
| Accumulated other comprehensive income | 2,348,057 | 317,384 |
| | 43,287,965 | 32,032,264 |
| Commitment (note 9) | | |
| | $120,738,671 | $ 98,969,741 |

See accompanying notes to financial statements.

# CANADIAN UNIVERSITIES RECIPROCAL INSURANCE EXCHANGE

Statement of Income and Accumulated Excess of Income Over Expenses

Year ended December 31, 2010, with comparative figures for 2009

| | 2010 | 2009 |
|---|---|---|
| Underwriting revenue: | | |
| Gross earned premiums | $ 25,817,797 | $ 22,643,437 |
| Reinsurance ceded | (1,216,494) | (1,304,108) |
| | 24,601,303 | 21,339,329 |
| Expenses: | | |
| Claims and adjustment (note 5) | 14,483,061 | 7,740,664 |
| Operating (note 7) | 2,622,877 | 2,446,610 |
| Premium taxes | 927,221 | 791,882 |
| | 18,033,159 | 10,979,156 |
| Underwriting income | 6,568,144 | 10,360,173 |
| Other income (expense): | | |
| Investment | 3,006,302 | 2,520,921 |
| Amortization of bond premiums | (579,441) | (437,242) |
| Other income and realized gains (losses) on investments (note 4) | 230,023 | (1,452,101) |
| | 2,656,884 | 631,578 |
| Excess of income over expenses | 9,225,028 | 10,991,751 |
| Accumulated excess of income over expenses, beginning of year | 31,714,880 | 20,723,129 |
| Accumulated excess of income over expenses, end of year (note 6) | $ 40,939,908 | $ 31,714,880 |

See accompanying notes to financial statements.

# CANADIAN UNIVERSITIES RECIPROCAL INSURANCE EXCHANGE

Statement of Comprehensive Income and Accumulated Other Comprehensive Income

Year ended December 31, 2010, with comparative figures for 2009

| | 2010 | 2009 |
|---|---|---|
| Excess of income over expenses | $ 9,225,028 | $ 10,991,751 |
| Other comprehensive income (loss): | | |
| Change in unrealized gain on available-for-sale assets | 2,260,696 | 1,839,619 |
| Reclassification of realized gains and losses from other-than-temporary declines in value on available-for-sale assets to statement of income | (230,023) | 1,452,657 |
| | 2,030,673 | 3,292,276 |
| Comprehensive income | $ 11,255,701 | $ 14,284,027 |
| Accumulated other comprehensive income (loss), beginning of year | $ 317,384 | $ (2,974,892) |
| Other comprehensive income | 2,030,673 | 3,292,276 |
| Accumulated other comprehensive income, end of year | $ 2,348,057 | $ 317,384 |

Accumulated other comprehensive income at end of year is composed of net unrealized gains and losses on available-for-sale securities.
See accompanying notes to financial statements.

# CANADIAN UNIVERSITIES RECIPROCAL INSURANCE EXCHANGE

Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

| | 2010 | 2009 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess of income over expenses | $ 9,225,028 | $ 10,991,751 |
| Items not affecting cash: | | |
| Amortization of capital assets | 17,684 | 22,000 |
| Amortization of bond premiums | 579,441 | 437,242 |
| Loss (gain) on sale of investments | (230,023) | 1,452,657 |
| Change in non-cash operating items: | | |
| Decrease (increase) in investment income due and accrued | 58,399 | (9,210) |
| Increase in due from subscribers, prepaid expenses and other accounts receivable | (77,238) | (427,591) |
| Decrease (increase) in recoverable from reinsurers on unpaid claims | 149,366 | (996,190) |
| Decrease (increase) in due from reinsurers on paid claims | (708,947) | 1,141,012 |
| Increase (decrease) in due from reinsurers on excess program | (4,066,326) | 1,234,521 |
| Increase in premiums received in advance | 1,458,720 | 4,164,718 |
| Increase (decrease) in unpaid claims and adjustment expenses | 8,255,138 | (7,534,710) |
| Increase in payable to reinsurers on excess program | 702,859 | 2,002,835 |
| Increase in accounts payable and accrued expenses and premium taxes payable | 96,512 | 57,450 |
| | 15,460,613 | 12,536,485 |
| Investing activities: | | |
| Investment purchases | (33,588,817) | (31,982,942) |
| Proceeds from maturities/sales of investments | 23,552,834 | 28,731,348 |
| Canada treasury bill purchases | (1,685,486) | (3,519,695) |
| Proceeds from maturities/sales of Canada treasury bills | 1,770,431 | 3,926,984 |
| Capital asset purchases | (6,342) | (9,240) |
| | (9,957,380) | (2,853,545) |
| Increase in cash | 5,503,233 | 9,682,940 |
| Cash, beginning of year | 36,898,930 | 27,215,990 |
| Cash, end of year | $ 42,402,163 | $ 36,898,930 |
| Represented by: | | |
| Cash | $ 42,216,196 | $ 36,896,009 |
| Term deposits and money market holdings with original maturities of less than 90 days | 185,967 | 2,921 |
| | $ 42,402,163 | $ 36,898,930 |

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS
## Year ended December 31, 2010

The Canadian Universities Reciprocal Insurance Exchange (the "Reciprocal") was formed by an agreement dated August 17, 1987. The Reciprocal is licensed to write Property and Liability classes of insurance in all provinces in Canada, with the exception of Quebec.

## 1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and comply with the requirements for filing with the Superintendents of Insurance of the various provinces in which the Reciprocal is licensed.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

The Reciprocal's significant accounting policies are as follows:

**(a) Future changes in accounting policies - International Financial Reporting Standards:**

In February 2008, the Canadian Accounting Standards Board confirmed that profit oriented publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS"). IFRS will replace current GAAP for these enterprises. For the Reciprocal, IFRS will be effective for interim and annual periods commencing January 1, 2011, including the preparation and reporting of one year of comparative figures.

**(b) Investments:**

Investments are classified as available-for-sale ("AFS") and are recorded at fair value (note 10) with changes in the fair value recorded in unrealized gains and losses, which are included in other comprehensive income ("OCI"). Realized gains and losses on sale, as well as losses from other-than-temporary declines in value of AFS investments, are reclassified from accumulated other comprehensive income ("AOCI") and recorded in investment income in the statement of income and accumulated excess of income over expenses.

**(c) Earned premiums:**

Premiums earned are calculated on a monthly pro rata basis over the life of the policies. All policies issued by the Reciprocal expire at year end and have a term not exceeding one year. As such, there is no unearned premium reserve at year end.

**(d) Unpaid claims and adjustment expenses:**

The provision for unpaid claims represents the amounts required to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. The provision for adjustment expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions using, for the liabilities, discount rates based on projected investment income from the assets supporting the liabilities, and for reinsurance recoveries, rates based on current market-related interest rates.
These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current year.

**(e) Reinsurance ceded:**

In the normal course of business, the Reciprocal seeks to reduce the loss that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers.
Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense amounts. Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses are recorded separately from estimated amounts payable to subscribers. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

# NOTES TO FINANCIAL STATEMENTS
## Year ended December 31, 2010

**(f) Capital assets:**

Capital assets, which consist primarily of computer equipment and furniture and fixtures, are stated at amortized cost. Amortization is provided on a straight-line basis over four years for computer equipment and five years for furniture and fixtures.

**(g) Income taxes:**

No provision for income taxes has been made in these financial statements as the Reciprocal is not subject to such income taxes.

## 2. Role of the actuary and auditors:

The actuary has been appointed by the Board of the Reciprocal. The actuary's responsibility with respect to the preparation of the financial statements is to carry out an annual valuation of the policy liabilities, which include the unpaid claims and adjustment expenses, in accordance with accepted actuarial practice and regulatory requirements and report thereon to the Reciprocal. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, reinsurance recoveries and expenses, taking into consideration the circumstances of the Reciprocal and the insurance policies in force. The actuary, in his verification of the data used in the valuation, uses the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the Board of the Reciprocal. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the subscribers of the Reciprocal. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the unpaid claims and adjustment expenses. The auditors' report outlines the scope of their audit and their opinion.

## 3. Underwriting policy:

During 2010 and 2009, the Reciprocal wrote Property policies with a limit of $5,000,000 per occurrence and placed on behalf of subscribers an excess policy for $995,000,000 (2009 - $995,000,000) above the Reciprocal's $5,000,000 limit.

In respect of General Liability policies, the Reciprocal's limit of liability per occurrence was $5,000,000 in 2010 (2009 - $5,000,000). The Reciprocal purchased excess policies above these limits on behalf of subscribers in the amount of $25,000,000 in 2010 (2009 - $25,000,000).

In respect of Errors and Omissions Liability policies, the Reciprocal's limit of liability per occurrence for the claim made coverage was $5,000,000 in 2010 (2009 - $5,000,000). The Reciprocal purchased excess policies on behalf of subscribers through a combined excess program with General Liability in the amount of $25,000,000 in 2010 (2009 - $25,000,000).

As the originating insurer, the Reciprocal has a contingent liability in the event that a reinsurer is unable to meet its obligations. To mitigate this risk, all reinsurance is placed with insurers registered in Canada and subject to supervision by the Office of the Superintendent of Financial Institutions Canada.

# NOTES TO FINANCIAL STATEMENTS
## Year ended December 31, 2010

### 4. Investments:

The fair values of investments are summarized as follows:

| | 2010 | 2009 |
|---|---|---|
| Cash and short-term investments | $ 42,402,163 | $ 36,983,874 |
| Long-term investments | 69,218,278 | 57,501,041 |
| | $ 111,620,441 | $ 94,484,915 |

Fair values have been determined on the basis described in note 10 and are considered to approximate market values.

The Reciprocal has recognized other-than-temporary impairments on available-for-sale equity pooled funds of nil (2009 - $1,685,564).

Details of significant terms and conditions, exposures to interest rate and credit risks on investments are as follows:

(a) Term deposits and money market holdings:

These investments have an aggregate principal amount of nil (2009 - $84,945). At December 31, 2010, the effective annualized yield of these short-term investments was nil (2009 - 2.00%).

(b) Bonds and debentures - interest rate risk:

| | | 2010 | | 2009 | |
|---|---|---|---|---|---|
| | Interest receivable basis | Effective rates (% range) | Coupon rates (% range) | Effective rates (% range) | Coupon rates (% range) |
| Government guaranteed | Semi-annual | 1.40% to 3.60% | 3.60% to 7.50% | 0.60% to 4.20% | 3.55% to 7.50% |
| Canadian corporate | Semi-annual | 1.50% to 4.60% | 4.33% to 6.40% | 0.70% to 5.50% | 4.33% to 6.40% |

# NOTES TO FINANCIAL STATEMENTS
## Year ended December 31, 2010

(c) Long-term investments:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Term to maturity | Amortized cost | Fair value | Amortized cost | Fair value |
| **Bonds and debentures - government guaranteed:** | | | | |
| Due in one year or less | $ 4,076,329 | $ 4,084,425 | $ 4,914,078 | $ 4,947,923 |
| After one through five years | 15,383,127 | 15,530,389 | 12,970,101 | 13,126,485 |
| After five years | 9,895,347 | 10,153,535 | 11,373,738 | 11,433,198 |
| **Bonds and debentures - Canadian corporate:** | | | | |
| Due in one year or less | 814,984 | 827,290 | 673,079 | 691,976 |
| After one through five years | 4,227,343 | 4,271,028 | 4,218,208 | 4,315,400 |
| After five years | 1,722,187 | 1,850,446 | 1,831,363 | 1,909,993 |
| **Pooled funds:** | | | | |
| Fixed income | 15,270,414 | 15,188,735 | 10,239,923 | 10,112,899 |
| Canadian | 7,641,047 | 8,847,435 | 5,737,055 | 5,737,055 |
| United States | 3,714,045 | 4,142,794 | 2,729,408 | 2,729,408 |
| Other global equity | 4,126,215 | 4,322,201 | 2,496,704 | 2,496,704 |
| | $ 66,871,038 | $ 69,218,278 | $ 57,183,657 | $ 57,501,041 |

## 5. Unpaid claims and adjustment expenses:

### (a) Nature of unpaid claims and adjustment expenses:

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and is, therefore, a complex and dynamic process influenced by a large variety of factors. These factors include the Reciprocal's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns, such as those caused by natural disasters or accidents.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Reciprocal's claims department personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices, including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short-tailed claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general liability and professional liability claims.

Consequently, the establishment of the provision for unpaid claims and adjustment expenses process relies on the judgement and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

# NOTES TO FINANCIAL STATEMENTS
## Year ended December 31, 2010

(b) The Reciprocal's appointed actuary completes an annual evaluation of the adequacy of the claim liabilities at the end of each financial year. This evaluation includes a re-estimation of the liability for unpaid claims relating to each preceding fiscal year compared to the liability that was originally established. The results of this comparison and the changes in the provision for unpaid claims and claims adjustment expenses for the years ended December 31, 2010 and 2009 are as follows:

| | 2010 | 2009 |
|---|---|---|
| Provision for unpaid claims and adjustment expenses, beginning of year: | | |
| Gross | $ 38,106,103 | $ 45,640,813 |
| Reinsurance ceded | (1,909,190) | (913,000) |
| | 36,196,913 | 44,727,813 |
| Net incurred claims and claim adjustment expenses: | | |
| Provision for insured events of current year | 16,696,666 | 12,207,142 |
| Decrease in provision for insured events of prior years | (2,213,605) | (4,466,478) |
| | 14,483,061 | 7,740,664 |
| Net payments attributable to: | | |
| Current year events | (805,089) | (13,020,818) |
| Prior year events | (5,273,468) | (3,250,746) |
| | (6,078,557) | (16,271,564) |
| Net provision for unpaid claims and adjustment expenses, end of year | 44,601,417 | 36,196,913 |
| Reinsurance ceded, end of year | 1,759,824 | 1,909,190 |
| Gross provision for unpaid claims and adjustment expenses, end of year | $ 46,361,241 | $ 38,106,103 |

(c) The provision for unpaid claims and adjustment expenses is calculated on a discounted basis with an appropriate explicit provision for adverse deviation in accordance with the standards of the Canadian Institute of Actuaries, using a discount rate of 3.00% (2009–3.00%).

### 6. Accumulated excess of income over expenses:

In accordance with the Reciprocal Insurance Exchange Agreement, subscribers may be required to contribute any amounts to the Reciprocal in the form of capital contributions. Section 12 of the Reciprocal Insurance Exchange Agreement dated August 17, 1987 provides that additional assessments may be required of the subscribers to the extent that premiums collected are not sufficient to cover the expenses of the Reciprocal. There were no such assessments made in 2010 or 2009.

The Board of the Reciprocal may, from time to time, direct that the accumulated excess of income over expenses be distributed back to subscribers. There were no such distributions made in 2010 or 2009.

# NOTES TO FINANCIAL STATEMENTS
## Year ended December 31, 2010

### 7. Operating expenses:

The operating expenses of the Reciprocal are summarized as follows:

| | 2010 | 2009 |
|---|---|---|
| Insurance program expenses | $ 307,879 | $ 307,997 |
| Professional fees | 291,367 | 346,460 |
| Risk management expenses | 721,165 | 356,541 |
| Administrative and general expenses | 1,302,466 | 1,435,612 |
| | $ 2,622,877 | $ 2,446,610 |

### 8. Excess program:

The Reciprocal's annual assessment includes a provision for the excess program premium costs. These amounts are payable to reinsurers for the upcoming policy year. Unlike reinsurance ceded, these amounts are not recorded as premium income and ceded premium expenses as the Reciprocal only provides the administrative services of collecting the premiums from the subscribers and remitting the premiums to the insurer. In 2010 and 2009, the Reciprocal fronted a portion of each layer of the excess property program, 100% of which is reinsured, and the related premiums are reported as premium income and ceded premium expenses.

Property claims in 2005 pierced the excess insurance program for the first time in the history of the Reciprocal. In order to facilitate the claims handling process, the Reciprocal, at its option, will continue to make claims payments on those claims that fall within the excess program directly to the subscriber. Upon payment by the Reciprocal, these amounts are reported as due from reinsurers on excess program.

### 9. Commitment:

The Reciprocal is committed to minimum lease payments in respect of an operating office lease as follows:

| | |
|---|---|
| 2011 | $97,000 |
| 2012 | 97,000 |

### 10. Fair value disclosures:

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

The fair value of pooled funds is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers for those or similar investments, less estimated broker fees. The fair values of bonds and debentures are determined using a pricing model that reflects recent public trading activity and observable market information on market yields and credit risk spreads.

The liability for unpaid claims and adjustment expenses is based on the present value of expected cash flows plus provision for adverse deviation and is considered an indicator of fair value as there is no ready market for trading of insurance policy liabilities.

The fair values of financial instruments other than investments and unpaid claims and adjustment expenses approximate their carrying amounts due to the immediate or short term to maturity of these financial instruments.

# NOTES TO FINANCIAL STATEMENTS
## Year ended December 31, 2010

(c) Fair value hierarchy:

The Reciprocal uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Reciprocal's use of quoted market prices (Level 1), models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of bond and equity investments, were as follows:

| | AFS | Total |
|---|---|---|
| Level 2:<br>Valued using market information as<br>models with observable inputs | $69,218,278 | $69,218,278 |

(b) Significant transfers:

The Reciprocal did not have any significant transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy.

## 11. Surplus management and adequacy:

Subscribers' equity is comprised of surplus and AOCI. At December 31, 2010, the subscribers' equity was $43,287,965 (2009 - $32,032,264). The Reciprocal's objectives for the management of surplus are for the prudent operation of the Reciprocal and to provide relatively predictable premium costs for its members over time.

As a reciprocal insurance exchange, the requirement for surplus is lower than that of an incorporated insurance company. A reciprocal may rely on the contractual agreement among its members to contribute to the losses incurred by other members and to make assessments for additional contributions to surplus, if required and, accordingly, can rely on the creditworthiness of its subscribers.

The Reciprocal is regulated by the Financial Services Commission of Ontario, which expects insurance organizations to meet a Minimum Capital Test ratio of capital available to capital required of at least 150%. The Reciprocal's practice is to maintain a surplus level which is higher than this regulatory minimum. At December 31, 2010, the Reciprocal's Minimum Capital Test ratio was 439.34 % (2009 - 388.12%). The Reciprocal's surplus adequacy is evaluated regularly and this evaluation takes into account the gross exposure to risk, the level and nature of reinsurance purchased and the resulting net exposure to members. Input from the appointed actuary, which includes an assessment of loss volatility, is factored into this evaluation.

## 12. Financial instrument risk management:

The Reciprocal has policies related to the identification, monitoring and mitigating of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (interest rate, equity and currency). The following describes how the Reciprocal manages each of these risks:

### (a) Credit risk:

Credit risk is the risk of loss due to the failure of debtors to make payments when due. Credit risks are primarily associated with invested assets and amounts due from policyholders and reinsurance counterparties. The investment portfolio's exposure to credit risk is managed through policies and procedures, including a credit evaluation by the investment manager and investment guidelines which specify investment quality and exposure limits. The portfolio is monitored and reviewed regularly by the Board. Premiums due for policyholders present minimal risk due to the historic and financial relationship as a reciprocal insurance exchange. Reinsurance is placed with counterparties with good credit ratings and concentration of credit risk is managed by utilizing an appropriate mix of reinsurers.

# NOTES TO FINANCIAL STATEMENTS
## Year ended December 31, 2010

(i) Maximum exposure to credit risk:

The following table summarizes the maximum exposure to credit risk related to financial instruments:

| | 2010 | 2009 |
|---|---|---|
| Short-term investments | $ 185,967 | $ 87,865 |
| Investments in bonds and debentures | 36,717,114 | 36,424,975 |
| Investment income due and accrued | 269,190 | 327,589 |
| Premiums receivable from subscribers | 412,194 | 380,732 |
| Due from other insurance companies | 6,008,180 | 1,232,907 |
| Unpaid claims and adjustment expenses recoverable from reinsurers | 1,759,824 | 1,909,190 |
| Total balance sheet maximum credit exposure | $ 45,352,469 | $ 40,363,258 |

(ii) Concentration of credit risk:

The Reciprocal utilizes an investment policy to minimize the concentration of credit risk by ensuring diversification across asset classes. A summary of the fair value of investments by asset class and term to maturity is in note 4.

The Reciprocal's risk management strategy is to invest primarily in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer. The Reciprocal attempts to limit credit exposure by imposing portfolio limits on individual corporate issuers as well as limits based on credit quality and may, from time to time, invest in credit default swaps to further mitigate credit risk exposure. The breakdown of the Reciprocal's fixed income portfolio, by the higher of Standard & Poor's and Moody's credit ratings, is presented below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Credit rating | Fair value | | Fair value | |
| AAA | $21,667,935 | 59.01% | $18,635,176 | 51.16% |
| AA | 6,281,636 | 17.11% | 7,528,182 | 20.67% |
| A | 8,767,543 | 23.88% | 10,261,617 | 28.17% |
| Total | $36,717,114 | 100.00% | $36,424,975 | 100.00% |

**(b) Liquidity risk:**

Liquidity risk is the risk that the Reciprocal will not be able to meet all cash outflow obligations as they come due. Liquidity risk arises from the general business activities and the management of assets and liabilities.

The primary potential cash outflow is the payment of insurance claims and is represented by the provision for unpaid claims and adjustment expenses liability on the balance sheet. In order to manage the liquidity risk associated with this liability, an investment policy is in place, which requires that a material portion of the investment portfolio be maintained in short-term investments. A summary of the invested assets by term to maturity is in note 4.

# NOTES TO FINANCIAL STATEMENTS
## Year ended December 31, 2010

The following table shows the expected payout pattern of the Reciprocal's net unpaid claim liabilities:

| | 2010 | 2009 |
|---|---|---|
| Within 1 year | $ 13,754,854 | $ 8,232,483 |
| 1 to 5 years | 22,419,205 | 19,485,738 |
| Over 5 years | 8,015,164 | 8,097,957 |
| | $ 44,189,223 | $ 35,816,178 |

**(c) Market risk:**

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations and foreign currency rates. The primary market risk exposures are discussed below:

(i) Interest rate risk:

Interest rate risk is the risk of financial loss arising from changes in interest rates. Fluctuations in interest rates will impact the market value of the fixed income portion of the investment portfolio and the liability values. Generally, investment income will move with interest rates and interest rate fluctuations will create unrealized gains or losses. The Reciprocal's investments are designated as available-for-sale with changes in fair value recorded as OCI. These assets support the estimated actuarial liabilities represented by the provision for unpaid claims and adjustment expenses on the balance sheet which is calculated, in part, using a discount rate based on the rate of return of the investment portfolio.

The Reciprocal is exposed to interest rate risk if the cash flows from the investments are not matched to the liabilities that they support. This risk is mitigated by the investment policy which is based on the duration of invested assets with the actuarial estimation of the timing of unpaid claims.

The estimated impact of a 1% increase in interest rates would decrease the market value of the fixed income portion of the investment portfolio by $1,110,789 (2009 - $1,135,708), which would be partially offset by a decrease in the estimated unpaid claims and adjustment expense of $1,151,024 (2009 - $1,071,609). Conversely, a 1% decrease in interest rates would increase the market value of the fixed income portion of the investment portfolio by $1,458,544 (2009 - $1,544,238), which would be partially offset by an increase in the estimated unpaid claims and adjustment expense of $1,223,583 (2009 - $1,141,422).

(ii) Equity risk:

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate this risk, the Reciprocal's investment policy specifies limits to the exposure from equity markets. Equities held in the investment portfolio as at December 31, 2010 consist of Canadian equity funds which are designated as AFS with changes in fair value recorded as OCI.

The estimated impact of a 10% increase in equity markets would increase OCI by $3,250,116 (2009 - $2,107,588). A 10% decrease in equity markets would have the corresponding opposite effect decreasing OCI by the same amount.

(iii) Currency risk:

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. As at December 31, 2010, the Reciprocal did not have any material currency exposure.

## 13. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

# CURIE's 58 Subscribers

- Acadia Divinity College
- Acadia University
- University of Alberta
- Algoma University College
- Athabasca University
- Atlantic School of Theology
- Brandon University
- University of British Columbia
- Brock University
- University of Calgary
- Cape Breton University
- Carleton University
- Collège universitaire de Saint Boniface
- Dalhousie University
- University of Guelph
- Huntington University
- University of King's College
- Lakehead University
- University of Lethbridge
- Laurentian University
- McMaster University
- University of Manitoba
- Memorial University of Newfoundland
- Université de Moncton
- Mount Allison University
- Mount Saint Vincent University
- University of New Brunswick
- Ontario College of Art & Design
- University of Ontario Institute of Technology
- Northern Ontario School of Medicine
- Nova Scotia College of Art & Design
- University of Ottawa
- University of Prince Edward Island
- Queen's Theological College
- Queen's University
- Redeemer University College
- University of Regina
- Ryerson University
- Université Sainte-Anne
- Saint Mary's University
- Saint Thomas University
- St. Joseph's College
- University of St. Michael's College
- University of Saskatchewan
- Simon Fraser University
- St. Francis Xavier University
- Thorneloe University
- Trent University
- University of Trinity College
- Trinity Western University
- Victoria University
- University of Victoria
- University of Waterloo
- University of Western Ontario
- Wilfrid Laurier University
- University of Windsor
- University of Winnipeg
- York University

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University of Lethbridge

## CURIE Staff

Keith Shakespeare
Chief Operating Officer and Attorney-in-Fact
kshakespeare@curie.org

John Breen
Manager, Risk Reduction & Loss Control
jbreen@curie.org

Carrie Green
Manager, Finance & Administration
cgreen@curie.org

Judy Knox
Administrative Assistant
jknox@curie.org

Stewart Roberts
Claims Manager
sroberts@curie.org

Karen Six
Claims & Administration Assistant
ksix@curie.org

CURIE Protecting Our Universities

**Canadian Universities Reciprocal Insurance Exchange**
5500 North Service Road, Suite 901
Burlington, Ontario
Canada L7L 6W6

Tel: 905-336-3366
Tel: 888-462-8743

Fax: 905-336-3373
Fax: 888-844-5773

General Email: inquiry@curie.org