

February 14, 2025

**TO POLICYHOLDERS OF
ALGOMA MUTUAL INSURANCE COMPANY &
DUFFERIN MUTUAL INSURANCE COMPANY**

The Boards of Directors of Algoma Mutual Insurance Company (“Algoma”) and Dufferin Mutual Insurance Company (“Dufferin”) have proposed an Amalgamation Agreement which provides for the amalgamation of the two companies under the name *Integrated Mutual Insurance Group (IMIG)*.

Having undergone the necessary due diligence, both Boards agree the amalgamation will benefit their policy holders, staff, broker partners and communities they serve.

The plan to amalgamate must be approved by the Financial Services Regulatory Authority (FSRA) of Ontario. Since both companies are Mutual insurers, approval must also be obtained by policy holders before *IMIG* can become operational. Policy holders will have the opportunity to vote on the proposal at each company’s Special General Meeting, as referenced in the related Notice.

The aim of this document is to give our policy holders further information regarding each Boards’ decision to pursue amalgamation.

Summary of the Business Plan / Key Points for Policy Holders

The *Synopsis of the Proposed Amalgamation* included with this information package confirms some of the steps taken to date to this end.

We are pleased to expand on the synopsis to help you as a policy holder better understand the reasons behind the plan to amalgamate.

Principles

Algoma and Dufferin were both founded on the principle of mutuality as it pertains to the business of insurance. The focus has always been on providing financial stability and security to our policy holders and by extension, brokers, communities, and employees. The *Integrated Mutual Insurance Group* will be built on the same foundation.

With shared values and similar business models, the proposed amalgamation will add to the past success of Algoma and Dufferin while enabling *IMIG* to better compete in the future.

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On a day-to-day basis, there will be no disruption of service to policy holders or broker partners. Both legacy brands, i.e. Algoma and Dufferin, will largely function as operating divisions of *IMIG*. In doing so, local brand recognition and presence in the communities of Thessalon and Shelburne will be preserved. There will be no job losses arising from the amalgamation. Some roles and responsibilities may be redefined to better fit with an updated organizational structure, with all staff continuing to have the opportunity to contribute.

Integrated Mutual Insurance Group will have a board of eight (8) Directors, consisting of four (4) from each of Algoma's and Dufferin's current Boards of Directors. Combining the resources and experience of both boards will help to ensure a breadth and depth of skills and knowledge in the oversight, governance and risk management of *IMIG* with an estimated starting surplus of approximately \$22M.

The new Board will operate as a policy board, rather than an operational one, as was more so the case with the legacy companies. The standing Board Committees will be:

- Audit and Finance
- Governance, Conduct Review & Nominating
- Risk Review
- Investment

Risks of Amalgamation

The proposed amalgamation exposes the following risks:

- 1. Integration Risk:** Although both companies have shared mutual values as members of the Ontario Mutual Insurance Association, internal cultures and practices inevitably vary, potentially leading to misunderstandings or confusion among and between employees. Recognizing the effect of such variances on morale, *IMIG* has retained ENGAGE HR for active guidance and support in this area. This includes helping effective internal communications, generating role clarity, updated employment and governance related policies and practices, the facilitation of recruitment and selection activities, performance and compensation related work, and support in generating integration planning content. Organizational culture work is also part of this engagement, leveraging tools and intellectual property under license from The Culture Factor Canada.
- 2. Operational Risk:** If the process of harmonizing operations is not managed effectively, with empathy and understanding of the disruption changes could have on traditional workflows, there is a risk of lower productivity and service levels while

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new procedures are implemented. This is being actively managed to avoid moving too quickly with too much change. The divisional model being undertaken actually helps mitigate these risks, as by design, much of what is in place stays in place, at least for the time being. As *IMIG* finds its new operational cadence, additional changes will be contemplated, carefully considered, and implemented if and when they make sense, to the advantage of policy holders. In the near term, policy holders will be able to reach *IMIG* personnel in the manner they always have, through their divisional contact(s). In respect of electronic communications, again, legacy emails and contact numbers will remain functional, as we transition to *IMIG* specific channels. We will also be upgrading our complaints handling process prior to amalgamation with designated accountabilities to ensure our policy holders know where to go for help should they ever need to.

- 3. Financial Risk:** Significant expenses will be incurred during the amalgamation process, negatively impacting financial results in the short term, until synergies are realized. This is a largely unavoidable outcome in the short term. In the medium to longer term, we expect to build the collective *IMIG* from a stronger, more resilient base given some of the current investments being made. We also see the financial risks being mitigated by more effectively spreading core insurance risks such as those outlined in our Benefits of Amalgamation section following.
- 4. Business Retention Risk:** Even though shortened versions of the legacy names will remain with the divisional structure, there is a risk of lower policy holder retention if amalgamation planning loses sight of impacts on customers. We are actively managing this through broker communications, policy holder communications, and more broadly communicating publicly. We also believe our increased offering capabilities reduce this risk, as does our focus on maintaining strong broker relationships throughout the combined trading areas.
- 5. Human Capital Risk:** With some roles and responsibilities being redefined, there is a risk of losing employees who may not be prepared to accept those changes or feel uncertain of the potential impact on their careers. We are monitoring this risk through an organizational culture survey, regular communications with staff members, and good old-fashioned management by walking around with most staff physically present in one of the two offices a minimum of three to five days per week.
- 6. Systems Risk:** Conversion of insurance operating systems is a complex and challenging process which could cause issues with data quality and accessibility. Staff resources during conversion could potentially become overwhelmed, resulting

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in service disruptions or frustrations for policy holders. This risk is being mitigated on a couple of fronts. First is the fact that Dufferin is already fully operational on the 'go-forward' insurance operating system for *IMIG*. Second is Algoma undertaking its own system conversion prior to the proposed amalgamation date and moving to the same system which Dufferin currently utilizes. Should this system conversion be delayed for any reason, Algoma will simply continue to use its existing system until such time as the new system is fully functional, tested, and ready for use.

Subsequent integration of the two parallel systems will occur later, once all are fully functional on the same underlying system. Again, this will be a planned, measured exercise, leveraging as yet to be improved processes aimed at improving the policy holder experience, and generating internal efficiencies for *IMIG*.

- 7. Distribution Channel Risk:** Any lack of clarity with respect to *IMIG*'s brand strategy, or delay in its execution, could potentially cause attrition among some broker partners. We are actively communicating with our valued broker partners and see this as an opportunity to explore additional policy holder growth. The good news here is that as the legacy brands move forward under *IMIG*, we are able to build on our strong and continuing work with these partners from the same locations, in the same communities, and with the same people. Essentially, not disrupting distribution channels is our best mitigation, while collaborating moving forward together.

Benefits of Amalgamation

The proposed amalgamation is intended to achieve the following benefits:

- 1. Strengthened Financial Position & Improved Investment Opportunities:** To achieve greater financial stability due to a better reserving capacity and a stronger policy holder surplus position. This bolstered position will improve our ability to cover claims and manage financial fluctuations from operations and investment returns. The larger, amalgamated entity will have access to a broader array of investment opportunities, at lower cost. This diversification provides us with the opportunity to improve returns on our reserves and surplus while reducing investment costs, thereby indirectly benefiting policy holders through enhanced overall financial health.
- 2. Geographic Spread of Risks:** The Algoma and Dufferin Mutual entities already enjoy relatively geographically dispersed spreads of risk, due to their significant and largely non-overlapping trading areas. By combining their distribution networks, a greater spread of exposures will be achieved, a positive factor in mitigating risk.

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- 3. Advanced Technological Capabilities:** The amalgamation will support incremental investments in technology over the longer term, aligning with the evolving needs of our policy holders and business partners. It is intended to move to a common operating platform, with access to enhanced system features.
- 4. Pricing:** The combined entity will benefit from economies of scale in several areas coupled with increased negotiating power, allowing *IMIG* to better manage some of its recurring costs. This is also true with respect to access to a significantly increased data set, which is becoming more important for property and casualty insurers.
- 5. Optimized Product Offerings:** Both Algoma and Dufferin offer niche products uniquely suited to specific consumer needs. The amalgamation will allow for these specialized products to be offered to each other's policy holders over time. This provides access to a wider range of tailored insurance solutions, increasing *IMIG*'s overall value proposition.
- 6. Specialized Expertise:** The creation of enhanced roles as a result of increased organizational offerings to policy holders will also drive the need for more specialized positions. The increased scale of the organization also gives *IMIG* the opportunity to better plan for succession and career development of its people.
- 7. Increased Capacity for Higher Exposures:** As property values typically rise over time, the amalgamated entity will be better equipped to handle higher exposures. In turn, this will help *IMIG* keep pace with increasing values, i.e. 'insure to value', thereby better protecting the financial security and stability of policy holders.
- 8. Broader Risk Pool:** Combining forces will create a larger, more diverse risk pool, leading to greater stability in terms of premiums once operational synergies can be achieved, and added to in the future. This expanded risk pool also enhances *IMIG*'s ability to manage large or unusual claims more effectively.
- 9. Increased Community Investments:** *IMIG* will be able to invest more in community initiatives and social responsibility programs over the longer term. This serves to enrich the value we provide to the broader communities we serve.
- 10. Growth Potential:** The combined *IMIG* entity will have greater resources to invest in responsible future growth. This expanded capacity will allow us to improve consumer access to our insurance products while enhancing service delivery via our broker partners to our policy holders.

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Summary

We hope this information gives you, as a policy holder, a better understanding of what the proposed amalgamation will mean to you going forward. Choosing a Mutual as your insurer of choice is a decision we have never taken for granted. We believe this proposed amalgamation is in the best interests of our members, giving us the resources needed to continue to offer the cost effective and localized insurance services you have been accustomed to as a member of either Algoma or Dufferin.

Combining our people, processes and financial resources will allow *IMIG* to better meet the challenges of an ever-changing insurance environment, led by increased risks associated with severe weather events. Our strategic priorities will be efficiencies, growth, and adaptability, including openness to further amalgamation partners with continued legacy mutual branding opportunities moving forward.

By using the abbreviated versions of the legacy names, i.e. *Algoma Mutual* and *Dufferin Mutual*, as operating divisions of the new *IMIG* entity, your interactions with us and your broker or agent will remain familiar to you. We shall replicate this in future amalgamations should such come to pass. We hope you appreciate our positive intentions and full transparency in this regard.

Thank you for taking the time to consider this specific amalgamation proposal. If you have any questions on what you are being asked to vote on, arising from a review of the documents included in the Policyholder Information Package, please email us:

- Algoma: info@amico.ca
- Dufferin: info@dufferinmutual.com

Your ongoing support as a Mutual policy holder is very much appreciated. We look forward to having the opportunity to enhance your policy holder experiences as a member of *Integrated Mutual Insurance Group*.

Thank you for your consideration.