2020 SGI CANADA Insurance Services Ltd. annual report

Responsibility for Financial Statements

The consolidated financial statements are the responsibility of Management and have been prepared in conformity with International Financial Reporting Standards. In the opinion of Management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of SGI CANADA Insurance Services Ltd. (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholder and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit, Finance and Conduct Review Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholder and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditor's Report outlines the scope of their examination and their opinion.

Andrew R. Cartmell
President and Chief Executive Officer

Jeff Stepan
Chief Financial Officer

February 25, 2021

Actuary’s Report

To the Shareholder of SGI CANADA Insurance Services Ltd.

I have valued the policy liabilities and reinsurance recoverables of SGI CANADA Insurance Services Ltd. for its consolidated statement of financial position at December 31, 2020 and their changes in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

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

Chris McCulloch

Chris McCulloch
SGI CANADA
Fellow, Canadian Institute of Actuaries
Fellow, Casualty Actuarial Society

February 25, 2021
Winnipeg, Manitoba

Independent Auditor’s Report

To the Shareholder of SGI CANADA Insurance Services Ltd.

Opinion

We have audited the consolidated financial statements of SGI CANADA Insurance Services Ltd. (the “Entity”), which comprise:

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in shareholder’s equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “Auditors’ Responsibilities for the Audit of the Financial Statements” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Entity’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Regina, Canada
February 25, 2021

Consolidated Statement of Financial Position

	(thousands of $)	
	December 31 2020	December 31 2019
Assets		
Cash and cash equivalents (note 4)	$ 23,136	$ 34,588
Accounts receivable (note 5)	132,607	121,918
Investments under securities lending program (note 6)	153,943	75,804
Investments (note 6)	519,075	456,701
Reinsurers' share of unearned premiums (note 11)	2,516	2,249
Unpaid claims recoverable from reinsurers (note 9)	28,946	27,120
Right-of-use assets (note 7)	5,988	5,466
Other assets (note 8)	1,756	2,058
Deferred policy acquisition costs (note 10)	54,424	45,066
Deferred income tax asset (note 14)	5,043	17,548
	$ 927,434	$ 788,518
Liabilities		
Accounts payable and accrued liabilities	$ 31,935	$ 28,122
Income taxes payable	967	4,800
Premium taxes payable	11,195	11,688
Amounts due to reinsurers	301	480
Unearned reinsurance commissions	2,968	2,793
Unearned premiums (note 11)	229,642	212,578
Provision for unpaid claims (note 9)	371,696	363,911
Lease liability (note 7)	6,444	5,586
Deferred income tax liability (note 14)	509	497
	655,657	630,455
Shareholder's equity		
Share capital (note 12)	27,254	27,254
Contributed surplus	152,498	92,487
Retained earnings	92,025	38,322
	271,777	158,063
	$ 927,434	$ 788,518

Contingencies (note 22)

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors and signed on their behalf on February 25, 2021

Arlene Wiks
Director

Denis Perrault
Director

Consolidated Statement of Operations

	(thousands of $)	
For the years ended December 31	**2020**	**2019**
Gross premiums written	$ 443,195	$ 411,802
Premiums ceded to reinsurers	(24,805)	(21,690)
Net premiums written	418,390	390,112
Change in net unearned premiums (note 11)	(16,797)	(28,292)
Net premiums earned	**401,593**	361,820
Gross claims incurred (note 9)	238,666	267,141
Ceded claims incurred (note 9)	(13,118)	(1,512)
Net claims incurred (note 9)	225,548	265,629
Commissions	82,930	78,086
Administrative expenses	46,597	42,924
Premium taxes	16,071	14,415
Total claims and expenses	**371,146**	401,054
Underwriting income (loss)	**30,447**	(39,234)
Net investment earnings (note 13)	41,016	32,185
Income (loss) before income taxes	**71,463**	(7,049)
Income tax expense (recovery) (note 14)	17,760	(806)
Net income (loss) and comprehensive income (loss)	**$ 53,703**	$ (6,243)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholder's Equity

For the years ended December 31	(thousands of $) 2020	2019
Share capital		
Balance, end of the year	**$ 27,254**	$ 27,254
Contributed surplus		
Balance, beginning of the year	$ 92,487	$ 62,487
Contribution from SGI CANADA	60,011	30,000
Balance, end of the year	**$ 152,498**	$ 92,487
Retained earnings		
Balance, beginning of the year	$ 38,322	$ 44,565
Net income (loss) and comprehensive income (loss)	53,703	(6,243)
Balance, end of the year	**$ 92,025**	$ 38,322
Total shareholder's equity	**$ 271,777**	$ 158,063

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended December 31	(thousands of $) 2020	2019
Cash provided by (used for):		
Operating activities		
Net income (loss) and comprehensive income (loss)	$ 53,703	$ (6,243)
Non-cash items:		
Bond amortization	2,445	1,035
Depreciation	1,173	753
Net realized gains on sale of investments (note 13)	(4,033)	(6,366)
Net unrealized gains on change in market value of investments (note 13)	(18,270)	(9,718)
Interest revenue from investments	(9,637)	(9,237)
Interest expense from right-of-use assets (note 7)	59	62
Income tax expense (recovery) (note 14)	17,760	(806)
Change in non-cash operating items (note 17)	6,029	78,707
Income taxes (paid) recovered	(9,209)	2,469
	40,020	50,656
Investing activities		
Interest received	9,702	9,258
Purchases of investments	(552,860)	(572,279)
Proceeds on sale of investments	492,216	493,588
Purchases of property and equipment	(41)	(939)
	(50,983)	(70,372)
Financing activities		
Contribution from SGI CANADA	–	30,000
Interest paid (note 7)	(59)	(62)
Lease liability payments (note 7)	(430)	(364)
	(489)	29,574
Decrease (increase) in cash and cash equivalents	**(11,452)**	9,858
Cash and cash equivalents, beginning of the year	34,588	24,730
Cash and cash equivalents, end of the year	**$ 23,136**	$ 34,588

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2020

1. Nature of Operations

SGI CANADA Insurance Services Ltd. (the Corporation) was incorporated on July 18, 1990, under *The Business Corporations Act* (Saskatchewan). The Corporation holds a Saskatchewan provincial insurers' licence under *The Saskatchewan Insurance Act* and is licensed and conducts business directly in Alberta, Manitoba, British Columbia and Ontario. The Corporation also has a wholly owned subsidiary, Coachman Insurance Company (Coachman), that operates in Ontario. The address of the Corporation's head office is 2260-11th Avenue, Regina, SK, Canada.

The Corporation's automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta and Ontario and represent approximately 44.5% (December 31, 2019 – 47.9%) of the Corporation's consolidated gross premiums written.

As a wholly-owned subsidiary of Saskatchewan Government Insurance (SGI CANADA), the consolidated financial results of the Corporation are included in its consolidated financial results and ultimately consolidated into the financial statements of Crown Investments Corporation of Saskatchewan.

2. Basis of Preparation

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian generally accepted accounting principles for publicly accountable enterprises as set out in Part 1 of the CPA Canada handbook. Part 1 of the CPA Canada handbook incorporates IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee.

Basis of measurement
The consolidated financial statements have been prepared using the historical cost basis, except for financial instruments and the provision for unpaid claims and unpaid claims recoverable from reinsurers. The methods used to measure the values of financial instruments are discussed further in note 3. The provision for unpaid claims and unpaid claims recoverable from reinsurers is measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value).

Statement of Financial Position classification
The Consolidated Statement of Financial Position has been prepared on a non-classified basis broadly in order of liquidity.

Functional and presentation currency
These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

Use of estimates and judgment
The preparation of the consolidated financial statements in accordance with IFRS 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 9) and unpaid claims recoverable from reinsurers (note 9), income taxes (note 14) and the valuation of investments classified as Level 3 (note 6).

COVID-19 pandemic
On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization, followed closely by state of emergency declarations in all provinces where the Corporation sells insurance.

The pandemic has created significant economic uncertainty around the world which has translated into unprecedented volatility in investment markets and commodities. This additional volatility and economic uncertainty has impacted the valuation of the Corporation's investments (note 6), provision for unpaid claims liabilities (note 9) and unpaid claims recoverable from reinsurers (note 9). The extent to which the COVID-19 pandemic may impact the Corporation's operations will depend on future developments and the effectiveness of actions taken by governments and the central bank in Canada. Consequently, the Corporation's financial results will be subject to volatility.

3. Significant Accounting Policies

Basis of consolidation
The consolidated financial statements include the accounts of the Corporation, and its 100%-owned subsidiary, Coachman. All inter-company accounts and transactions have been eliminated on consolidation. The financial accounting records of the subsidiary are prepared for the same reporting year as the Corporation, using consistent accounting policies.

Financial assets and liabilities
The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses on investments that show objective evidence of impairment are recognized as a decrease to net income. Financial assets designated as held to maturity, or loans and receivables, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities, and premium taxes payable are designated as other financial liabilities. Unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from the above requirement.

Financial assets and financial liabilities are offset, and the net amount reported in the Consolidated Statement of Financial Position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the Consolidated Statement of Operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Corporation. There are no financial assets and financial liabilities reported as offset in these consolidated financial statements.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All fair value measurements relate to recurring measurements. Fair value measurements for investments are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3).

The three levels are based on the priority of inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation.

The input levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

The Corporation defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the underlying investment and trading volumes. Assets measured at fair value and classified as Level 1 include equity investment funds. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Corporation does not adjust the quoted price for such investments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include short-term investments and bonds and debentures. Fair value for short-term investments and bonds and debentures is based on, or derived from, market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

Level 3 assets and liabilities include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. Assets classified as Level 3 include the Corporation's investment in the mortgage investment fund and real estate investment fund. The fair value of these investments is based on the Corporation's share of the net asset value of the respective fund, as determined by its investment manager, and used to value purchases and sales of units in the investments.

The primary valuation methods used by the investment managers are as follows:

- The fair value for the mortgage investment fund is determined based on market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages (using spread-based pricing over Government of Canada bonds with a similar term to maturity), subject to adjustments for liquidity and credit risk.
- The fair value of the real estate investment fund is determined based on the most recent appraisals of the underlying properties. Real estate properties are appraised semi-annually by external, independent professional real estate appraisers who are accredited through the Appraisal Institute of Canada. Real estate appraisals are performed in accordance with generally accepted appraisal standards and procedures and, are based primarily on the discounted cash flow and income capitalization methods.

The fair value of other financial assets and financial liabilities are considered to be the carrying value when they are of short duration or when the investment's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, premium taxes payable, and amounts due to reinsurers approximate their carrying values due to their short-term nature.

Investments
The Corporation records investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are de-recognized when the rights to receive cash flows from them have expired, or when the Corporation has transferred substantially all risks and rewards of ownership.

Investments under securities lending program
Securities lending transactions are entered into on a collateralized basis. The securities lent are not de-recognized on the Consolidated Statement of Financial Position given that the risks and rewards of ownership are not transferred from the Corporation to the counterparties in the course of such transactions. The securities are reported separately on the Consolidated Statement of Financial Position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the Consolidated Statement of Financial Position given that the risks and rewards of ownership are not transferred from the counterparties to the Corporation in the course of such transactions.

Investment earnings
The Corporation recognizes interest and premium financing as earned, investment fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold, and unrealized gains and losses based on changes in market value of the investments held at the year-end date. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base.

Interest revenue includes amortization of any premium or discount recognized at the date of purchase of the security. Amortization is calculated using the effective interest method. Interest is generally receivable on a semi-annual basis.

Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation
Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non-monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums written
The Corporation's policies have all been classified upon inception as insurance contracts. An insurance contract transfers significant risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of policies generates premiums written that are taken into income as net premiums earned over the terms of the related policies, no longer than 12 months. The portion of premiums relating to the unexpired term of each policy is recorded as an unearned premium liability on the Consolidated Statement of Financial Position.

A liability adequacy test is performed annually, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred policy acquisition costs (DPAC). A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of DPAC to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all DPAC and related insurance claims and expenses. If the premium deficiency is greater than the unamortized DPAC, a liability is accrued for the excess deficiency.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims and a provision for adverse deviation (PFAD) in accordance with Canadian Institute of Actuaries standards. The estimates are subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current year.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are deferred, to the extent they are recoverable, and charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months.

Reinsurance ceded

The Corporation uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities and their share of unearned premiums are recorded as reinsurance assets on a gross basis in the Consolidated Statement of Financial Position. Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and DPAC respectively. Insurance ceded does not relieve the Corporation of its primary obligation to policyholders.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Income taxes are comprised of both current and deferred taxes. Income taxes are recognized in the Consolidated Statement of Operations.

Current income taxes are recognized as estimated income taxes for the current year. Deferred income tax assets and liabilities consist of temporary differences between tax and accounting basis of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any deferred income tax asset if it is probable that the asset will not be realized, probable being defined as more likely than not.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand, less outstanding cheques.

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The Corporation has not incurred any borrowing costs attributable to property and equipment, and therefore no borrowing costs have been capitalized. Subsequent costs are included in the asset's carrying value when it is probable that future economic benefits associated with the item will flow to the Corporation, and the cost of the item can be reliably measured. Repairs and maintenance are charged to the Consolidated Statement of Operations in the period in which they have been incurred.

The depreciation method being used, the useful lives of the assets and the residual values of the assets are reviewed at each reporting date. Depreciation is recorded in operations on a straight-line basis, commencing in the year the asset is available to be placed in service, over its estimated useful life as follows:

Other equipment	5 years
Leasehold improvements	lease term

Impairment reviews are performed when there are indicators that the carrying value of an asset may exceed its recoverable amount.

Leases

The Corporation recognizes all leases to which it is a lessee in the Consolidated Statement of Financial Position as a lease liability with a corresponding right-of-use asset, subject to recognition exemptions for certain short-term and low value leases.

On the lease commencement date, a right-of-use asset and a lease liability are recognized. The lease liability is initially measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Corporation uses its incremental borrowing rate for similar terms at the start date of the lease term. The lease term includes the non-cancellable period of the lease along with any periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and any periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Lease payments included in the measurement of the lease liability comprise fixed payments, reduced by any incentives receivable, and exclude operational costs and variable lease payments. The lease liability is subsequently measured at amortized cost using the effective interest method.

The right-of-use asset is initially measured at cost, which corresponds to the value of the lease liability adjusted for any lease payments made or initial direct costs incurred at or before the commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term.

The Corporation does not recognize right-of-use assets and lease liabilities for leases of low value assets and short-term leases. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Provisions and contingent liabilities

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Structured settlements

In the normal course of claims adjudication, the Corporation settles certain long-term claim losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the Corporation does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in the Consolidated Statement of Operations at the date of the purchase and the related claim liabilities are de-recognized. However, the Corporation remains exposed to the credit risk that the life insurance companies may fail to fulfill their obligations.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

IFRS 9 – Financial Instruments

IFRS 9 will replace IAS 39, and requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Consolidated Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

The standard includes introduction of a fair value through other comprehensive income measurement category for simple debt instruments. In this measurement category, the Consolidated Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Consolidated Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

The standard introduces a forward looking impairment model. IFRS 9 replaces the incurred loss model under IAS 39 with an expected credit loss model. This standard is generally effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. The Corporation qualifies for the temporary exemption as the liabilities were predominately connected with insurance as at December 31, 2015, the prescribed date of assessment. Additionally, the Corporation has not previously applied any version of IFRS 9. Therefore, IFRS 9 is effective for annual periods beginning on or after January 1, 2023, which aligns with the effective date of IFRS 17.

IFRS 17 – Insurance Contracts

IFRS 17 was issued in May 2017 and will replace IFRS 4. The intent of the standard is to establish consistent recognition, measurement, presentation and disclosure principles to provide relevant and comparable reporting of insurance contracts across jurisdictions.

The standard requires entities to measure insurance contract liabilities as the risk-adjusted present value of the cash flows plus the contractual service margin, which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general model. Expedients are specified, provided the insurance contracts meet certain conditions. If, at initial recognition or subsequently, the contractual service margin becomes negative, the contract is considered onerous and the excess is recognized immediately in the Consolidated Statement of Operations. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

IFRS 17 applies to annual periods beginning on or after January 1, 2023. The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. The standard represents a comprehensive IFRS accounting model for insurance contracts and is expected to have a significant impact on financial reporting of insurers. The Corporation is evaluating the impact this standard will have on the consolidated financial statements.

4. Cash and Cash Equivalents

	(thousands of $)	
	2020	2019
Money market investments	$ 9,141	$ 28,828
Cash on hand, net of outstanding cheques	13,995	5,760
Total cash and cash equivalents	$ 23,136	$ 34,588

The average effective interest rate on the money market investments is 0.2% (2019 – 1.7%).

5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $)	
	2020	2019
Due from insureds	$ 101,745	$ 98,931
Due from brokers	11,543	9,944
Amounts recoverable on claims paid	10,011	8,939
Other receivables	7,869	4,786
Facility Association (note 20)	4,265	4,184
Due from reinsurers	3,056	1,706
Due from SGI CANADA (note 19)	2,339	963
Accrued investment income	1,819	1,885
Income taxes receivable	132	–
	142,779	131,338
Less: Allowance for doubtful accounts (note 15)	(10,172)	(9,420)
Total accounts receivable	$ 132,607	$ 121,918

Included in due from insureds is $95.3 million (2019 - $91.8 million) of financed premiums receivable, which represents the portion of the policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings using the effective interest method. The effective interest rate for Ontario automobile policies is 3.5% (2019 – 3.5%), all other premiums have an effective interest rate of 8.0% (2019 – 8.0%).

6. Investments

The carrying values of the Corporation's investments are as follows:

	(thousands of $)	
	2020	2019
Short-term investments	$ 96,611	$ 54,663
Bonds and debentures	210,750	238,469
Investment funds:		
Canadian equity	29,167	20,773
Global equity	64,968	53,610
Global small cap equity	12,694	10,585
Mortgage	77,496	59,017
Real estate	27,389	19,584
	519,075	456,701
Investments under securities lending program		
Bonds and debentures	153,943	75,804
Total investments	$ 673,018	$ 532,505

Details of significant terms and conditions are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 0.3% (2019 – 1.7%) and an average remaining term to maturity of 67 days (2019 – 130 days).

Bonds and debentures

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	(thousands of $)			
	2020		2019	
Term to maturity (years)	Carrying Value	Average Effective Rates (%)	Carrying Value	Average Effective Rates (%)
Government of Canada:				
After one through five	$ 103,170	0.4	$ 105,622	1.9
Canadian provincial:				
One or less	43,957	0.2	–	–
After one through five	36,311	0.5	50,837	1.9
Canadian corporate:				
One or less	20,769	0.7	5,161	2.0
After one through five	126,535	0.9	129,235	2.3
After five	33,951	1.8	23,418	2.7
Total bonds and debentures	$ 364,693		$ 314,273	

Investment funds

The Corporation owns units in equity investment funds, a mortgage investment fund and a real estate investment fund. These investment funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2020, the Corporation held collateral of $161.6 million (2019 – $79.6 million) for the loaned securities.

Fair value hierarchy

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

	(thousands of $) December 31, 2020			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 96,611	$ –	$ 96,611
Bonds and debentures	–	364,693	–	364,693
Investment funds:				
Canadian equity	29,167	–	–	29,167
Global equity	64,968	–	–	64,968
Global small cap equity	12,694	–	–	12,694
Mortgage	–	–	77,496	77,496
Real estate	–	–	27,389	27,389
Total investments	$ 106,829	$ 461,304	$ 104,885	$ 673,018

	(thousands of $) December 31, 2019			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 54,663	$ –	$ 54,663
Bonds and debentures	–	314,273	–	314,273
Investment funds:				
Canadian equity	20,773	–	–	20,773
Global equity	53,610	–	–	53,610
Global small cap equity	10,585	–	–	10,585
Mortgage	–	–	59,017	59,017
Real estate	–	–	19,584	19,584
Total investments	$ 84,968	$ 368,936	$ 78,601	$ 532,505

The Corporation's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

A reconciliation of Level 3 investments is as follows:

	(thousands of $)	
	2020	2019
Level 3 investments, beginning of the year	$ 78,601	$ 67,048
Add: Additions during the year		
Mortgage investment fund	20,797	16,212
Real estate investment fund	8,165	1,000
Less: Disposals during the year		
Mortgage investment fund	(3,492)	(4,585)
Real estate investment fund	–	(1,835)
Net unrealized gains	814	761
Level 3 investments, end of the year	$ 104,885	$ 78,601

Investment in the mortgage investment fund and the real estate investment fund are valued using the Corporation's share of the net asset value of the respective fund as at December 31, 2020.

During the year ended December 31, 2020 no investments were transferred between levels.

The impact of COVID-19 has been reflected in the valuation of Level 3 investments through adjustments to the discount rate and expected cash flows.

7. Leases

The Corporation has leases for office space in Winnipeg, Edmonton and Toronto. The Winnipeg lease expires in August 2028 and the Edmonton lease expires in January 2031. There are two leases in Toronto, the first expires in December 2023 and the second, which commenced in November 2020, expires in October 2030.

Information about the leases is presented below:

Right-of-use assets

	(thousands of $)	
	2020	2019
Balance, beginning of the year	$ 5,466	$ –
Additions to right-of-use assets	1,288	5,949
Depreciation charge for the year	(766)	(483)
Balance, end of the year	$ 5,988	$ 5,466

Lease liabilities

	(thousands of $)	
	2020	2019
Contractual undiscounted cash flows		
One year or less	$ 966	$ 467
Between one and five years	3,795	3,460
Greater than five years	2,312	2,243
Total undiscounted lease liabilities	$ 7,073	$ 6,170
Discounted lease liabilities included in the Consolidated Statement of Financial Position	$ 6,444	$ 5,586

Amounts recognized in income or loss

	(thousands of $)	
	2020	2019
Interest on lease liabilities	$ 59	$ 62
Variable lease payment expenses	799	864
Expenses related to low value leases	10	11
	$ 868	$ 937

Amounts recognized in the statement of cash flows

	(thousands of $)	
	2020	2019
Interest paid on lease liabilities	$ 59	$ 62
Lease liability principal payments	430	364
Total cash outflow for leases	$ 489	$ 426

The Corporation's leases contain extension options exercisable by the Corporation. Where practicable, the Corporation seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Corporation and not by the lessors. The Corporation assesses at lease commencement date whether it is reasonably certain to exercise extension options. The Corporation reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in the circumstances within its control.

8. Other Assets

Other assets are comprised of the following:

	(thousands of $)	
	2020	2019
Property and equipment	$ 1,648	$ 2,014
Prepaid expenses	108	44
Total	$ 1,756	$ 2,058

9. Claims Incurred and Provision for Unpaid Claims

Net claims incurred

	(thousands of $)					
	2020			2019		
	Current Year	Prior Years	Total	Current Year	Prior Years	Total
Gross claims incurred	$ 242,266	$ (3,600)	$ 238,666	$ 273,794	$ (6,653)	$ 267,141
Ceded claims incurred	(7,868)	(5,250)	(13,118)	(1,985)	473	(1,512)
Net claims incurred	$ 234,398	$ (8,850)	$ 225,548	$ 271,809	$ (6,180)	$ 265,629

Current year claims relate to events that occurred in the current financial year. Prior year claims incurred relate to adjustments for the reassessment of the estimated cost for claim events that occurred in all previous financial periods.

Ceded claims incurred represent an estimate of the recoverable cost of those claims transferred to the Corporation's various reinsurers pursuant to reinsurance contracts (note 15).

Net provision for unpaid claims

	(thousands of $)	
Beginning of the year:	2020	2019
Net unpaid claims - discounted	$ 336,791	$ 285,538
PFAD and discount	(20,050)	(14,148)
Net unpaid claims - undiscounted	316,741	271,390
Payments made during the year relating to:		
Prior year claims	(107,783)	(90,754)
Prior year Facility Association claims	(3,868)	(2,712)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(9,396)	(6,468)
Prior year estimated unpaid Facility Association claims	546	288
Net unpaid claims, prior years – undiscounted	196,240	171,744
Net unpaid claims, current year	112,310	139,926
Net unpaid Facility Association claims, current year	4,950	5,071
Net unpaid claims, end of the year – undiscounted	313,500	316,741
PFAD and discount, end of the year	29,250	20,050
Net unpaid claims, end of the year – discounted	$ 342,750	$ 336,791

The net provision for unpaid claims of $342.8 million (2019 – $336.8 million) consists of the gross provision for unpaid claims of $371.7 million (2019 – $363.9 million) less unpaid claims recoverable from reinsurers of $28.9 million (2019 – $27.1 million).

The net provision for unpaid claims is summarized as follows:

Net unpaid claims

	(thousands of $)					
	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2020	2019	2020	2019	2020	2019
Provision for reported claims, undiscounted	$ 240,380	$ 239,753	$ 25,426	$ 22,863	$ 214,954	$ 216,890
Provision for claims incurred but not reported	100,023	102,466	1,477	2,615	98,546	99,851
PFAD	37,908	37,705	2,467	2,796	35,441	34,909
Effects of discounting	(6,615)	(16,013)	(424)	(1,154)	(6,191)	(14,859)
	$ 371,696	$ 363,911	$ 28,946	$ 27,120	$ 342,750	$ 336,791

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses and expected salvage and subrogation, requires an assessment of future claims development. This assessment takes into account the consistency of the Corporation's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Corporation's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the Consolidated Statement of Operations for the period in which the change occurred.

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis to reflect the time value of money. In that respect, the Corporation determines the discount rate based upon the expected return of the bond investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 0.8% (2019 – 2.0%). The resulting carrying amounts are considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

In relation to COVID-19, the Corporation collected data currently available to estimate the potential impact. A set of assumptions were selected and applied to the actuarial methods in the determination of the claims liabilities reserve.

Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities for its claimants from various life insurers. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Consolidated Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the life insurers' default on the scheduled payments and is thus exposed to credit risk to the extent any of the life insurers fail to fulfil their obligations. As at December 31, 2020, no information has come to the Corporation's attention that would suggest any weakness or failure in the life insurers from which it has purchased annuities.

The net present value of the scheduled payments as of the year-end date is $0.6 million (2019 – $0.5 million). The net risk to the Corporation is the credit risk related to the life insurance companies that the annuities are purchased from. No defaults have occurred, and the Corporation considers the possibility of default to be remote.

10. Deferred Policy Acquisition Costs (DPAC)

	(thousands of $)	
	2020	2019
DPAC, beginning of the year	$ 45,066	$ 41,955
Acquisition costs deferred during the year	82,034	76,449
Amortization of deferred acquisition costs	(76,634)	(69,709)
Change in premium deficiency	3,958	(3,629)
DPAC, end of the year	$ 54,424	$ 45,066

11. Unearned Premiums

	(thousands of $)					
	Gross Unearned Premiums		Reinsurers' Share of Unearned Premiums		Net Unearned Premiums	
	2020	2019	2020	2019	2020	2019
Unearned premiums, beginning of the year	$ 212,578	$ 183,613	$ 2,249	$ 1,576	$ 210,329	$ 182,037
Premiums written	443,195	411,802	24,805	21,690	418,390	390,112
Premiums earned	(426,131)	(382,837)	(24,538)	(21,017)	(401,593)	(361,820)
Change in net unearned premiums	17,064	28,965	267	673	16,797	28,292
Unearned premiums, end of the year	$ 229,642	$ 212,578	$ 2,516	$ 2,249	$ 227,126	$ 210,329

12. Share Capital

Authorized:
Unlimited number of common shares with no par value. Unlimited number of non-voting first preferred shares.

	(thousands of $)	
Issued and fully paid	2020	2019
6,155,616 common shares	$ 27,254	$ 27,254

13. Net Investment Earnings

Components of net investment earnings are as follows:

	(thousands of $)	
	2020	2019
Net unrealized gains on change in market value of investments	$ 18,270	$ 9,718
Investment fund distributions	9,786	5,964
Interest and other	7,192	8,201
Net realized gains on sale of investments	4,033	6,366
Premium financing	2,838	2,932
Total investment earnings	42,119	33,181
Investment expenses	(1,103)	(996)
Net investment earnings	$ 41,016	$ 32,185

Details of the net unrealized gains on change in market value of investments are as follows:

	(thousands of $)	
	2020	2019
Bonds and debentures	$ 8,540	$ (508)
Investment funds:		
Canadian equity	(223)	2,257
Global equity	7,613	6,220
Global small cap equity	1,526	988
Mortgage	1,174	(161)
Real estate	(360)	922
Net unrealized gains	$ 18,270	$ 9,718

14. Income Taxes

The Corporation's provision for income taxes is as follows:

	(thousands of $)	
	2020	2019
Current	$ 5,243	$ 4,927
Deferred	12,517	(5,733)
Income tax expense (recovery)	$ 17,760	$ (806)

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes.

The reasons for the differences are as follows:

	(thousands of $)	
	2020	2019
Income (loss) before income taxes	$ 71,463	$ (7,049)
Combined federal and provincial tax rate	26.11%	26.62%
Computed tax expense (recovery) based on combined rate	$ 18,659	$ (1,876)
(Increase) decrease resulting from:		
Changes to enacted tax rates	(527)	1,044
Investment earnings not subject to taxation	(192)	(126)
Other	(180)	152
Total income tax expense (recovery)	$ 17,760	$ (806)

The combined federal and provincial tax rate is calculated by taking the federal tax rate added to the tax rate of the individual provinces on the basis of the pro rata share of premiums written from each jurisdiction.

All income taxes payable and/or receivable are due within one year.

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

Deferred tax asset

	(thousands of $)				
	Provision for Unpaid Claims	Other	Tax Loss Carryforward	DPAC	Total
At January 1, 2019	$ 4,513	$ 53	$ 7,481	$ –	$ 12,047
Credit (charge) reflected in income tax expense	221	(27)	4,356	951	5,501
At December 31, 2019	4,734	26	11,837	951	17,548
Credit (charge) reflected in income tax expense	211	72	(11,837)	(951)	(12,505)
At December 31, 2020	$ 4,945	$ 98	$ –	$ –	$ 5,043

Deferred tax liability

	(thousands of $)			
	Unpaid Claims Recoverable from Reinsurers	Investments	Other	Total
At January 1, 2019	$ 696	$ 33	$ –	$ 729
(Credit) charge reflected in income tax expense	(246)	(6)	20	(232)
At December 31, 2019	450	27	20	497
Charge (credit) reflected in income tax expense	28	(5)	(11)	12
At December 31, 2020	$ 478	$ 22	$ 9	$ 509

The Corporation expects that the deferred tax asset will be realized in the normal course of operations.

During 2020, the Corporation used up all loss carryforward balances.

15. Insurance and Financial Risk Management

Insurance risk arises with respect to the adequacy of the Corporation's insurance premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also results in significant financial risks, as the Corporation's Consolidated Statement of Financial Position consists primarily of financial instruments. Financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance Risk

Underwriting risk

The Corporation manages insurance risk through underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends. Exposures are managed by having documented underwriting limits and criteria, product and geographic diversification and reinsurance.

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from weather-related events, such as severe summer storms. The Corporation attempts to mitigate risk by conducting business in a number of provinces across Canada and by offering different lines of insurance products.

The concentration of insurance risk by region and line of business is summarized below by reference to gross premiums written:

	(thousands of $)				
December 31, 2020	Automobile	Personal Property	Commercial Property	Liability	Total
Manitoba	$ –	$ 29,099	$ 13,637	$ 5,371	$ 48,107
Alberta	100,040	68,011	13,454	10,584	192,089
British Columbia	–	58,330	8,337	3,275	69,942
Ontario	96,983	22,839	7,097	6,138	133,057
Total	$ 197,023	$ 178,279	$ 42,525	$ 25,368	$ 443,195

December 31, 2019	Automobile	Personal Property	Commercial Property	Liability	Total
	(thousands of $)				
Manitoba	$ –	$ 24,414	$ 11,488	$ 4,898	$ 40,800
Alberta	99,212	63,400	15,786	10,917	189,315
British Columbia	–	43,916	6,692	3,044	53,652
Ontario	98,167	19,440	5,551	4,877	128,035
Total	$ 197,379	$ 151,170	$ 39,517	$ 23,736	$ 411,802

The concentration of insurance risk by line of business is summarized below by reference to unpaid claim liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2020	2019	2020	2019	2020	2019
Automobile	$ 223,491	$ 240,770	$ 15,683	$ 18,541	$ 207,808	$ 222,229
Personal property	48,388	38,855	6,036	1,632	42,352	37,223
Commercial property	12,624	14,245	718	1,078	11,906	13,167
Liability	40,134	33,805	2,825	2,212	37,309	31,593
Assumed	1,641	2,015	1,641	2,015	–	–
PFAD and discounting	31,293	21,692	2,043	1,642	29,250	20,050
Facility Association	14,125	12,529	–	–	14,125	12,529
Total	$ 371,696	$ 363,911	$ 28,946	$ 27,120	$ 342,750	$ 336,791

The concentration of insurance risk by region is summarized below by reference to unpaid claim liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2020	2019	2020	2019	2020	2019
Alberta	$ 171,919	$ 166,436	$ 9,425	$ 5,821	$ 162,494	$ 160,615
Manitoba	23,576	17,299	3,094	1,267	20,482	16,032
Ontario	152,616	159,396	14,650	17,649	137,966	141,747
British Columbia	21,944	18,765	136	368	21,808	18,397
Maritimes	1,641	2,015	1,641	2,015	–	–
Total	$ 371,696	$ 363,911	$ 28,946	$ 27,120	$ 342,750	$ 336,791

Reinsurance

The Corporation also seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with SGI CANADA and other insurers.

The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $)	
	2020	**2019**
Property	$ 1,500	$ 1,500
Automobile and general liability	1,500	1,500

In addition, the Corporation carries property and auto physical damage catastrophe reinsurance limiting combined exposure to $5.0 million per event.

While the Corporation utilizes reinsurance, it is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. The Corporation evaluates and monitors financial condition of its reinsurers to minimize exposure to significant losses from reinsurer insolvency.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, and commissions, administrative expenses and premium taxes:

	(thousands of $)	
	2020	**2019**
Premiums earned	$ 24,538	$ 21,017
Claims incurred	13,118	1,512
Commissions, administrative expenses and premium taxes	1,373	1,257

Actuarial risk

Establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances, and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors, which necessarily involves risk that actual results may differ materially from the estimates.

The following tables show the development of the estimated net provision for unpaid claims relative to the current estimate of ultimate claim costs for the 10 most recent accident years as estimated at each reporting date.

	(thousands of $)									
Accident Year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Net ultimate loss										
End of accident year	$ 71,785	$ 65,990	$ 80,103	$ 90,086	$ 112,829	$ 135,381	$ 181,542	$ 203,572	$ 231,533	$ 197,145
One year later	65,976	63,728	76,425	81,672	105,456	130,510	174,463	205,261	225,976	
Two years later	62,629	58,002	71,747	77,770	105,663	128,709	170,180	204,539		
Three years later	59,876	55,938	68,860	76,517	109,155	129,316	168,220			
Four years later	58,880	54,894	67,284	76,984	107,597	129,594				
Five years later	57,341	54,348	66,942	74,949	108,310					
Six years later	57,093	55,558	65,927	74,424						
Seven years later	56,761	55,701	65,840							
Eight years later	56,713	55,529								
Nine years later	56,772									
Cumulative loss development	$ (15,013)	$ (10,461)	$ (14,263)	$ (15,662)	$ (4,519)	$ (5,787)	$ (13,322)	$ 967	$ (5,557)	n/a
Cumulative loss development as a % of original ultimate loss	(20.9%)	(15.9%)	(17.8%)	(17.4%)	(4.0%)	(4.3%)	(7.3%)	0.5%	(2.4%)	n/a

	(thousands of $)										
Accident Year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Current estimate of net ultimate loss	$ 56,772	$ 55,529	$ 65,840	$ 74,424	$ 108,310	$ 129,594	$ 168,220	$ 204,539	$ 225,976	$ 197,145	$1,286,349
Cumulative paid	(56,109)	(53,943)	(64,192)	(69,989)	(97,981)	(113,841)	(146,612)	(160,259)	(157,114)	(92,722)	(1,012,762)
Net provision for unpaid claims	$ 663	$ 1,586	$ 1,648	$ 4,435	$ 10,329	$ 15,753	$ 21,608	$ 44,280	$ 68,862	$ 104,423	273,587
Net undiscounted claims outstanding for accident years 2010 and prior											234
Loss adjusting expense reserve											11,678
Provision for adverse deviation and discounting											29,250
Facility Association											14,125
Retained risk sharing pool											69
Health levy											3,306
Subrogation											9,524
Other reconciling items											977
Net provision for unpaid claims											$ 342,750

The Corporation's estimated sensitivity of its provision for unpaid claims and net income to changes in best estimate assumptions in the unpaid claims liabilities is as follows:

		(thousands of $)			
		Change to Net Provision for Unpaid Claims		Change to Income before Income Taxes	
Assumption	Sensitivity	2020	2019	2020	2019
Discount rate	+100 bps	$ (8,935)	$ (8,420)	$ (1,258)	$ (1,242)
Discount rate	– 100 bps	8,935	8,420	1,258	1,242

The net provision for unpaid claims refers to the provision for unpaid claims net of unpaid claims recoverable from reinsurers. The method used for deriving this sensitivity information did not change from the prior period.

Financial Risk

The nature of the Corporation's operations results in a Consolidated Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market risk and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment managers for the asset mix of the portfolio regarding quality and quantity of debt and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Corporation receives regular reporting from the investment managers and custodian regarding compliance with the SIP&G. The investment managers' performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from customers, brokers and reinsurers) and certain investments.

The maximum credit risk to which the Corporation is exposed is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $)	
	2020	2019
Cash and cash equivalents	$ 23,136	$ 34,588
Accounts receivable	132,607	121,918
Fixed income investments [1]	538,800	427,953
Unpaid claims recoverable from reinsurers	28,946	27,120

[1] Includes short-term investments, bonds and debentures and the mortgage investment fund

In addition, the Corporation is exposed to credit risk associated with its structured settlements as described separately in the notes to the consolidated financial statements.

Cash and cash equivalents include money market investments of $9.1 million plus cash on hand, net of outstanding cheques of $14.0 million (2019 – $28.8 million of money market investments plus cash on hand, net of outstanding cheques of $5.8 million). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential, farm and commercial, along with amounts owing from the Facility Association (note 20) and from brokers across the provinces the Corporation operates in. Accounts receivable generally consist of balances outstanding for one year or less.

	(thousands of $)	
	2020	2019
Current	$ 130,954	$ 120,798
30 – 59 days	895	632
60 – 90 days	396	236
Greater than 90 days	10,534	9,672
Subtotal	142,779	131,338
Allowance for doubtful accounts	(10,172)	(9,420)
Total	$ 132,607	$ 121,918

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted. The allowance mainly relates to amounts outstanding greater than 90 days.

Details of the allowance account are as follows:

	(thousands of $)	
	2020	2019
Allowance for doubtful accounts, beginning of the year	$ 9,420	$ 4,044
Accounts written off	(1,913)	(1,572)
Current period provision	2,665	6,948
Allowance for doubtful accounts, end of the year	$ 10,172	$ 9,420

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the Corporation of its primary obligation to the policyholder. Reinsurers are typically required to have a minimum financial strength rating of A- at the inception of the treaty; rating agencies used are A.M. Best and Standard & Poor's. Guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer.

Credit risk within investments is related primarily to short-term investments, bonds and debentures and mortgage investment fund. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for the bond and debenture investments are as follows:

	(thousands of $)			
	2020		2019	
Credit Rating	Fair Value (thousands of $)	Makeup of Portfolio (%)	Fair Value (thousands of $)	Makeup of Portfolio (%)
AAA	$ 112,244	30.8	$ 108,619	34.6
AA	80,268	22.0	85,723	27.3
A	127,599	35.0	73,355	23.3
BBB	44,582	12.2	46,576	14.8
Total	$ 364,693	100.0	$ 314,273	100.0

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The unit value of the mortgage investment fund is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its own investment policy, which include single loan limits, diversification by property type and geographic regions within Canada. Each underlying mortgage is secured by real estate and related contracts.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures and mortgage investment fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impact:

	(thousands of $)			
	100 basis point increase		100 basis point decrease	
	2020	2019	2020	2019
Net investment earnings	$ (10,193)	$ (9,662)	$ 10,193	$ 9,662

Foreign exchange

The investment policy defines maximum limits to exchange rate sensitive assets within the investment portfolio. The following table indicates the exposure to exchange rate sensitive assets and provides the sensitivity to a 10% appreciation/depreciation in the Canadian dollar and the corresponding decrease/increase in net income and retained earnings:

	2020		
Asset Class	**Maximum Exposure (%)**	**Current Exposure (%)**	**10% Change in Exchange Rates (thousands of $)**
Global equities	15.0	9.7	$ 6,497
Global small cap equities	3.0	1.9	1,269

	2019		
Asset Class	**Maximum Exposure (%)**	**Current Exposure (%)**	**10% Change in Exchange Rates (thousands of $)**
Global equities	15.0	10.1	$ 5,361
Global small cap equities	3.0	2.0	1,058

As global equity funds are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income. There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers. The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian and global markets. Equities comprise 15.9% (2019 – 16.0%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. It is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

	(thousands of $)	
Asset Class	**2020**	**2019**
Canadian equities	$ +/- 5,600	$ +/- 4,030
Global equities	+/- 13,189	+/- 12,384
Global small cap equities	+/- 3,902	+/- 2,511

The Corporation's equity investments are classified as fair value through profit and loss and any unrealized changes in their fair value are recorded in the Consolidated Statement of Operations.

No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claim liabilities, are short-term in nature and due within one year. The Corporation generally maintains positive overall cash flow through cash generated from operations, as well as cash generated from investing activities.

The following tables summarize the estimated contractual timings of cash flows on an undiscounted basis arising from the Corporation's financial assets and liabilities:

	(thousands of $)							
	2020							
	Carrying Amount	Total	No stated maturity	0 – 6 months	7 – 12 months	1 – 2 years	3 – 5 years	More than 5 years
Financial assets								
Cash and cash equivalents	$ 23,136	$ 23,136	$ 23,136	$ –	$ –	$ –	$ –	$ –
Accounts receivable	132,607	132,607	–	106,013	26,594	–	–	–
Investments	673,018	673,018	211,714	125,724	35,613	172,784	93,232	33,951
Unpaid claims recoverable from reinsurers	28,946	26,903	–	7,051	4,500	5,221	7,640	2,491
	$ 857,707	$ 855,664	$ 234,850	$ 238,788	$ 66,707	$178,005	$ 100,872	$ 36,442
Financial liabilities								
Accounts payable and accrued liabilities	$ 31,935	$ 31,935	$ 23,727	$ 8,208	$ –	$ –	$ –	$ –
Premium taxes payable	11,195	11,195	–	11,195	–	–	–	–
Amounts due to reinsurers	301	301	–	301	–	–	–	–
Provision for unpaid claims	371,696	340,403	–	74,451	46,314	60,422	104,335	54,881
Lease liability	6,444	7,073	–	483	483	1,951	1,844	2,312
	$ 421,571	$ 390,907	$ 23,727	$ 94,638	$ 46,797	$ 62,373	$ 106,179	$ 57,193

	(thousands of $)							
	2019							
	Carrying Amount	Total	No stated maturity	0 – 6 months	7 – 12 months	1 – 2 years	3 – 5 years	More than 5 years
Financial assets								
Cash and cash equivalents	$ 34,588	$ 34,588	$ 34,588	$ –	$ –	$ –	$ –	$ –
Accounts receivable	121,918	121,918	–	96,039	25,879	–	–	–
Investments	532,505	532,505	163,569	43,109	16,715	166,657	119,037	23,418
Unpaid claims recoverable from reinsurers	27,120	25,478	–	5,311	3,577	4,977	8,251	3,362
	$ 716,131	$ 714,489	$ 198,157	$ 144,459	$ 46,171	$ 171,634	$ 127,288	$ 26,780
Financial liabilities								
Accounts payable and accrued liabilities	$ 32,922	$ 32,922	$ 25,729	$ 7,193	$ –	$ –	$ –	$ –
Premium taxes payable	11,688	11,688	–	11,688	–	–	–	–
Amounts due to reinsurers	480	480	–	480	–	–	–	–
Provision for unpaid claims	363,911	342,219	–	76,135	45,563	59,258	103,216	58,047
Lease liability	5,586	6,170	–	233	233	1,669	1,791	2,244
	$ 414,587	$ 393,479	$ 25,729	$ 95,729	$ 45,796	$ 60,927	$ 105,007	$ 60,291

The estimated contractual maturities related to lease liabilities excluded the net effect of the discounting of $0.6 million (2019 – $0.6 million) (note 7). The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFADs of $2.0 million (2019 – $1.6 million) (note 9). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFADs of $31.3 million (2019 – $21.7 million) (note 9).

16. Capital Management

The Corporation's primary objectives when managing capital are to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings, share capital and cash injections in the form of contributed surplus advanced from its parent, SGI CANADA.

During the year, the Corporation received a $60.0 million (2019 – $30.0 million) capital contribution from SGI CANADA.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

The Corporation is a provincially regulated insurer and, as such, is subject to rate regulation related to its automobile premiums. The Board of Directors approved Capital Management policies for the Corporation, and its subsidiary, prepared in accordance with Guideline A-4, *Regulatory Capital and Internal Capital Targets*, which the Office of the Superintendent of Financial Instituitions issued in January 2014. The policies establish internal MCT targets, in excess of 150%, which are used by the regulators as minimum targets for supervisory purposes. The policies also establish operating MCT targets that provide for an operating cushion above the internal targets. The Corporation's MCT as at December 31, 2020 was 301% relative to its internal target MCT of 215%.

17. Change in Non-Cash Operating Items

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2020	2019
Accounts receivable	$ (10,621)	$ (7,164)
Reinsurers' share of unearned premiums	(267)	(673)
Unpaid claims recoverable from reinsurers	(1,826)	11,301
Prepaid expenses	(64)	22
Deferred policy acquisition costs	(9,358)	(3,111)
Accounts payable and accrued liabilities	3,813	8,577
Premium taxes payable	(493)	372
Amounts due to reinsurers	(179)	412
Unearned reinsurance commissions	175	54
Unearned premiums	17,064	28,965
Provision for unpaid claims	7,785	39,952
	$ 6,029	$ 78,707

18. Employee Salaries and Benefits

The Corporation allocates its salaries and benefits expenses to its various operating functions, and as a result includes employee salaries and benefits expenses on the Consolidated Statement of Operations within claims incurred and administrative expenses. The total salaries and benefits expenses incurred during the year are as follows:

	(thousands of $)	
	2020	2019
Salaries	$ 19,469	$ 17,766
Benefits	3,674	3,064
Total salaries and benefits	$ 23,143	$ 20,830

19. Related Party Transactions

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). Routine operating transactions with related parties were conducted in the normal course of business and recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The Corporation has elected to take a partial exemption under IAS 24, *Related Party Disclosures*, which allows government-related entities to limit the extent of disclosures about related party transactions with government or other government-related entities.

SGI CANADA provides management and administrative services to the Corporation, as well as being one of its reinsurers (note 15). Expenses incurred by SGI CANADA and charged to the Corporation, and amounts outstanding at year-end, are as follows:

	(thousands of $)	
	2020	2019
Accounts receivable	$ 2,339	$ 963
Unpaid claims recoverable from reinsurers	12,912	12,286
Accounts payable and accrued liabilities	1,931	1,889
Administrative expenses	40,983	36,042

Reinsurance ceded to SGI CANADA has reduced premiums earned by $3.8 million (2019 – $3.6 million) and decreased claims incurred by $5.1 million (2019 – $0.6 million).

Key management personnel

Key management personnel are those persons having authority over the planning, directing and controlling activities of the Corporation, and include executive employees and Board members of the Corporation's parent, SGI CANADA. Compensation for these individuals is paid by SGI CANADA and a portion allocated to the Corporation on the basis of a cost allocation formula.

	(thousands of $)	
	2020	2019
Salaries and other short-term employee benefits	$ 1,534	$ 1,393
Post-employment benefits	101	80
	$ 1,635	$ 1,473

Other related party transactions are described separately in the notes to the consolidated financial statements.

20. Facility Association Participation

The Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2020	2019
Gross premiums written	$ 12,989	$ 11,804
Net premiums earned	$ 12,177	$ 10,069
Net claims incurred	9,771	8,643
Commissions	54	290
Premium taxes	468	391
Administrative expenses	3,175	2,893
Total claims and expenses	13,468	12,217
Underwriting loss	(1,291)	(2,148)
Net investment earnings	64	59
Net loss	$ (1,227)	$ (2,089)
Facility Association receivable	$ 4,265	$ 4,184
Unearned premiums	6,218	5,406
Facility Association payable	1,524	1,524
Provision for unpaid claims	14,125	12,529

21. Select Operating Information

The Corporation provides property and casualty insurance directly in Alberta, Manitoba, British Columbia and Ontario, and through its subsidiary, Coachman, operating in Ontario. The performance of Coachman is reported separately to the Corporation's Board of Directors.

The product offerings vary across the jurisdictions, but all products offered are considered property and casualty insurance.

	(thousands of $)			
	2020			
	SCISL	Coachman	Consolidation Adjustments	Total
Net premiums written	$ 394,351	$ 24,039	$ –	$ 418,390
Net premiums earned	376,595	24,998	–	401,593
Net claims incurred	217,528	8,020	–	225,548
Other expenses	138,067	7,531	–	145,598
Underwriting income	21,000	9,447	–	30,447
Net investment earnings	30,169	10,847	–	41,016
Income before income taxes	51,169	20,294	–	71,463
Income tax expense	12,611	5,149	–	17,760
Net income	$ 38,558	$ 15,145	–	$ 53,703
Total assets	$ 833,348	$ 194,086	$ (100,000)	$ 927,434
Total liabilities	$ 561,571	$ 122,219	$ (28,133)	$ 655,657
Shareholder's equity	$ 271,777	$ 71,867	$ (71,867)	$ 271,777

	(thousands of $)			
	2019			
	SCISL	Coachman	Consolidation Adjustments	Total
Net premiums written	$ 365,757	$ 24,355	$ –	$ 390,112
Net premiums earned	335,218	26,602	–	361,820
Net claims incurred	256,184	9,445	–	265,629
Other expenses	123,839	8,904	2,682	135,425
Underwriting (loss) income	(44,805)	8,253	(2,682)	(39,234)
Net investment earnings	20,339	11,846	–	32,185
(Loss) income before income taxes	(24,466)	20,099	(2,682)	(7,049)
Income tax (expense) recovery	(5,527)	5,431	(710)	(806)
Net (loss) income	$ (18,939)	$ 14,668	$ (1,972)	$ (6,243)
Total assets	$ 668,650	$ 207,186	$ (87,318)	$ 788,518
Total liabilities	$ 510,585	$ 130,464	$ (10,594)	$ 630,455
Shareholder's equity	$ 158,065	$ 76,722	$ (76,724)	$ 158,063

22. Contingencies

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that litigation will not have a significant effect on the financial position or results of operations.

23. Comparative Information

Certain comparative figures have been reclassified to conform to the current year's presentation.