

# 78<sup>th</sup> ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2016



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# REPORT FROM THE CHAIRMAN OF THE BOARD

In my remarks to you last year at this time, I mentioned that the board of directors had three significant concerns. I also said that I would report back to you on those concerns, so I will do so now.

The first concern was that the company had incurred underwriting losses of \$1.2m in the previous 7 years. Clearly, this was unsustainable because it meant that the company was paying more in claims and expenses than it received in premiums. Well, did that ever get fixed. This year the company reported an underwriting profit of \$1,236,620 which enabled the company to recover all the underwriting losses it incurred over the previous 7 years. We are very pleased with that exceptional performance.

The second concern was the company's extremely high expense ratio. Lowering the expenses of the company is important because it means the company will have more funds available to pay claims and it enables the company to charge lower premiums. I am pleased to report that in 2016 the company reduced its expense ratio from 55% to 45.2%, a decrease of 9.8 points or 17.8%. This is a very significant achievement, and I believe the ratio will fall further in 2017. So we are definitely on the right track.

The third concern that the board had last year, was that the growth in the company's capital was not sufficient to enable the company to grow and make the investments needed to continually modernize the company. However, by fixing problems 1 and 2, this issue is much less of a concern today.

So why did all this happen? It is important that you know.

Certainly, you may thank Mother Nature. She gave us relatively favourable weather conditions in 2016, which reduced our losses significantly. That was a big help.

But the real reason for our success was that the employees made it happen. Despite the uncertainty caused by the turnover of the company's entire management team within 18 months and the on-boarding of a new management team with new ways of doing things, the employees really came through for us. They worked really hard, they took on new responsibilities, they questioned, they analyzed, they collaborated, they innovated, they adapted and they trusted. So, if you are speaking to one of our employees, you should thank them for the great 2016 results.

But our employees could not have been successful if they did not operate in an enlightened environment. Our new management team is providing that environment. The current management team leads and engages its people by demonstrating in so many practical ways that everyone matters regardless of their role. They use teamwork and openness to share and support others. They provide the conditions for continuous improvement by testing, learning and discussing problems with an open mind. Our leaders reinforce our culture by living it in the way they interact with those they lead. We are very fortunate to have the leadership we have, so thank you to our managers -- you have exceeded all expectations.

I would like to express my heartfelt thanks to the directors of the company. As we worked through the many changes of the last two years, the directors worked tirelessly for the company. I am also pleased that they contributed meaningfully to the cost reduction efforts of the company, for instances by drastically cutting travel and entertainment expenses. You can expect this to continue.

I look forward to the challenges ahead of us in 2017. There are many, but we have the team to deal with them.



Peter Wright, Chairman



# REPORT FROM THE PRESIDENT

Good afternoon everyone. It hardly seems a year ago that I stood in front of you and shared our plans for 2016. At that point, I'd had a few months to get to know our team, and that is why I ended my comments that day saying "I am confident that at this time next year, we will look back with pride on what we have achieved together in 2016." I knew we had the team to get the job done, and we are now at this time next year, and as Peter has so clearly pointed out, our team has delivered beyond even our expectations.

Let's look back at 2016. It was a year of change for the Agents and Staff of SouthEastern. We asked them to be open minded, creative and innovative as we explored together what must happen to change our recent history and help us create the positive energy needed to turn our underwriting results around. We knew the net losses of almost \$1 million over the past 7 years was not acceptable and we knew we needed significant change. After much thought and discussion, we decided to go back to square one and review all that we were doing and why we were doing it, and see if that would take us in the direction we needed to go. In retrospect, I think the entire team sensed intuitively that it would.

Our staff and our agents very quickly understood the need for this work, they embraced the opportunity, and the journey began. It wasn't always easy and we didn't always agree on what was needed, but it was always productive, always respectful, always collaborative and always done in solidarity and commitment to the ultimate goal, protecting the interests of the policyholders of SouthEastern Mutual.

The Symplicity Designs model we followed was a simple but profound exercise. We questioned, we discussed and we rethought all that we do at SEM. There were no sacred processes. We could not allow ourselves to be attached to anything. Before long, everyone was asking themselves and each other "why do we do this?" and "why do we do that?" and far too often found themselves answering "because we always have".

Sometimes there would be a discussion when something was deemed to be absolutely necessary, but as the conversation moved, so did the minds of the people, and pretty soon staff were explaining to each other why something wasn't necessary. We learned to distinguish between value-added activity and non-value added activity, and soon this lingo was common language in our office. And everything we did was at the mercy of this question...does this work bring value to our clients?

While all of this was happening, despite much distraction and change, our agent team remained focused and driven on their goals, writing 969 new policies and growing our premium by over \$300,000. The combination of increased sales results, decreased costs, increased efficiencies, and a high energy team have all blended to bring about the positive results we are seeing for 2016.

As we push forward into 2017, we will be working on many efficiency projects that arose out of our Symplicity experience. In fact, we have about 20 separate projects in our hopper that will further add to our gains and our effectiveness. We will be undertaking a major IT initiative, expecting to launch a new system in early 2018. This new policy and claims system will streamline a great deal of our current work processes, moving more transactional work to a technology platform and freeing up our team to turn their minds to improving and growing the business. Our intention is to grow by engaging our team, tapping into their best thinking, their best creativity and their best potential, and to employ technology to do the routine, repetitive but necessary transactions of the business.

I hope that gives you a good picture of what your team at SouthEastern has been doing in 2016, and what the next stage of our journey will look like in 2017. I want to offer my appreciation and congratulations to the Board, staff and agent's for their success in 2016 and reassert my confidence in their ability to continue to build on the legacy of our founders.



Claire Fanning, CEO

**SOUTHEASTERN**  
MUTUAL INSURANCE





# INDEPENDENT AUDITORS' REPORT ON SUMMARY FINANCIAL STATEMENTS

## To the Policyholders of SouthEastern Mutual Insurance Company:

The accompanying summary financial statements, which comprise the summary statement of financial position and summary statements of changes in equity, operations, comprehensive income, cash flows, and related notes, are derived from the audited financial statements of SouthEastern Mutual Insurance Company for the year ended December 31, 2016. We expressed an unmodified audit opinion on those financial statements in our report dated March 16, 2017.

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of SouthEastern Mutual Insurance Company.

## Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with International Financial Reporting Standards.

## Auditors' Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

## Opinion

In our opinion, the summary financial statements derived from the audited financial statements of SouthEastern Mutual Insurance Company for the year ended December 31, 2016 are a fair summary of those financial statements, in accordance with International Financial Reporting Standards.

Riverview, NB  
March 16, 2017

**STEVENSON & PARTNERS**  
Chartered Professional Accountants

## SOUTHEASTERN MUTUAL INSURANCE COMPANY SUMMARY STATEMENT FINANCIAL POSITION - Statement 1

	December 31, 2016	
	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,805,510	\$ 328,346
Accrued investment interest	57,200	35,907
Premiums receivable	1,661,569	1,561,670
Income taxes recoverable	-	85,952
Prepaid expenses	22,542	15,575
Deferred premium acquisition costs	816,602	723,369
Investments	11,833,711	11,598,788
Investment in associate	4,242,054	4,136,540
Property, equipment, investment property and intangible assets	1,918,751	2,048,675
	<b>\$22,357,939</b>	<b>\$20,534,822</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 374,107	\$ 577,716
Reserve for unpaid claims, net of reinsurance	696,802	871,094
Income taxes payable	442,681	-
Unearned premiums	4,436,267	4,106,522
	<b>5,949,857</b>	<b>5,555,332</b>
<b>EQUITY</b>		
General Reserve - Statement 2	15,200,757	14,159,544
Accumulated other comprehensive income - Statement 2	1,207,325	819,946
	<b>16,408,082</b>	<b>14,979,490</b>
	<b>\$22,357,939</b>	<b>\$20,534,822</b>

APPROVED ON BEHALF OF THE BOARD:

Peter Wright- Chairman

Jack Low - Chair of Audit Finance Committee

## SUMMARY STATEMENT OF EQUITY - Statement 2

For the year ended December 31, 2016

	2016	2015
<b>General Reserve</b>		
General reserve, beginning of year	\$ 14,159,544	\$ 14,090,859
Net income for the year - Statement 3	1,041,213	68,685
<b>General Reserve, end of year - Statement 1</b>	<b>\$ 15,200,757</b>	<b>\$ 14,159,544</b>
<b>Accumulated other comprehensive income</b>		
Accumulated other comprehensive income, beginning of year	\$ 819,946	\$ 1,119,856
Total other comprehensive income (loss) - Statement 4	387,379	(299,910)
<b>Accumulated other comprehensive income, end of year - Statement 1</b>	<b>\$ 1,207,325</b>	<b>\$ 819,946</b>

## SUMMARY STATEMENT OF OPERATIONS - Statement 3

For the year ended December 31, 2016

	2016	2015
<b>Income</b>		
Premiums written	\$ 8,384,933	\$ 7,713,496
Reinsurance premiums	(947,505)	(1,087,713)
Change in unearned premiums	(329,745)	(282,549)
<b>Net premiums earned</b>	<b>7,107,683</b>	<b>6,343,234</b>
<b>Expenses</b>		
Net claims incurred	2,652,527	3,329,038
Premium acquisition expenses	1,499,186	1,400,751
Operating expenses	1,719,350	2,044,333
Claims, acquisition and other operating expenses	5,871,063	6,774,122
Underwriting income (loss)	1,236,620	(430,888)
<b>Investment and other items</b>		
Equity income (loss) from associate	(104,664)	(14,385)
Service charge revenue	121,940	105,527
Investment income	207,778	387,411
Rental income (loss) net of expenses	(24,158)	10,320
Impairment of tangible assets	(17,730)	-
	<b>183,166</b>	<b>488,873</b>

## SUMMARY STATEMENT OF OPERATIONS - Statement 3 continued

For the year ended December 31, 2016

	2016	2015
Income before income taxes	1,419,786	57,985
Recovery of (provision for) income taxes	(378,573)	10,700
<b>Net income for the year</b>	<b>1,041,213</b>	<b>68,685</b>

## SUMMARY STATEMENT OF COMPREHENSIVE INCOME - Statement 4

For the year ended December 31, 2016

	2016	2015
Net income for the year	1,041,213	68,685
Other comprehensive income (loss):		
Share of other comprehensive income (loss) from associate	210,179	(252,299)
Unrealized gains (losses) on available-for-sale financial instruments, net of income taxes	177,200	(47,611)
	<b>387,379</b>	<b>(299,910)</b>
<b>Comprehensive income (loss)</b>	<b>\$ 1,428,592</b>	<b>\$ (231,225)</b>

## SUMMARY STATEMENT OF CASH FLOWS - Statement 5

For the year ended December 31, 2016

	2016	2015
<b>Cash flows from operating activities:</b>		
Net income for the year - Statement 2	1,041,213	68,685
Items not requiring an outlay of cash	281,258	100,768
Changes in non-cash working capital balances	259,085	402,935
<b>Cash flows from operating activities</b>	<b>1,581,556</b>	<b>572,388</b>
<b>Cash flows from investing activities:</b>		
Additions to property, equipment, investment property and intangible assets	(17,954)	(1,385,385)
Investments matured/sold	4,436,128	2,832,795
Purchase of investments	(4,522,566)	(1,839,274)
<b>Cash flows used for investing activities</b>	<b>(104,392)</b>	<b>(391,864)</b>
Increase in cash and cash equivalents	1,477,164	180,524
Cash and cash equivalents, beginning of year	328,346	147,822
<b>Cash and cash equivalents, end of year - Statement 1</b>	<b>1,805,510</b>	<b>328,346</b>

# OUR EFFICIENCY JOURNEY WITH Symplicity Designs



Our efficiency journey began with a 2-day strategy session attended by the board and management. The session lead us through a discovery of our "as-is", our "to-be" and what actions were required to bridge the two. We realized that to improve, innovate and grow SEM we would have to evaluate all areas of our business. We developed a large portfolio of projects which we prioritized based on certain criteria.

The second part of our journey was Enterprise Value Stream Mapping (EVSM). This was a 3-day session attended by management, agents, a director and claims, underwriting and inspection staff. We learned the significance of focusing on value-added work versus non-value added work. We recognized that we have to continually question processes to determine if they still add value for our policyholders. We documented seven of SEM's main processes, starting from finding a new client and following through to claims and client reviews. The photos above show how this was documented using a large chart and numerous post-it notes. This activity enabled us to identify many problems, challenges and opportunities.

The third part of our journey was a 5-day Introduction to Performance Excellence course attended by management, claims and underwriting staff. This course solidified the concepts that had been explored during the previous sessions and provided tools for making strategic choices, daily management and leading change.

Now our journey continues daily as we evaluate, identify and implement changes to increase our efficiency. Our focus is to bring added value to our policyholders and to grow SEM.



## SouthEastern Mutual Is Proud to Acknowledge

### Service Awards

Michelle Bourque, Underwriter	5 years
Garry Evans, Agent	15 years
Gary Lounsbury, Agent	20 years
Brenda Ryder, Policy Processing Clerk	15 years
Peter Wright, Director	20 years

### Sales Awards

Home Producer of the Year	Jeff MacDougall
Farm Producer of the Year	Gary Lounsbury
Commercial Producer of the Year	Jeff MacDougall
Highest Policy Growth	Jeff MacDougall
Most New Policies	Renée Doiron
Highest Return on Book	Christine Wenarchuk

### Educational Achievements

Claire Fanning  
 Shaun MacPhee  
 Sandra Batten  
 Donnie Saunders  
 Michelle Bourque  
*Symplicity Designs: Introduction to Performance Excellence*

Sandra Batten  
*UNB Human Resource Management Certificate*

Amy Glenn  
*CIP Courses:*

- Essential Skills for the Insurance Broker & Agent
- Essentials of Loss Adjusting
- Bodily Injury Claims

Chantal Gaudet  
*CIP Courses:*

- Essential Skills for the Insurance Broker & Agent

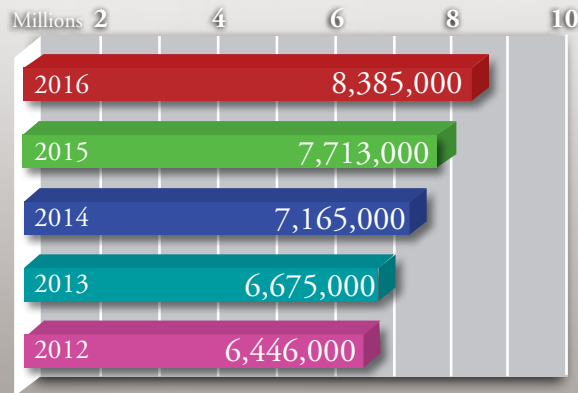
Peter Wright  
 Kevin Burdett  
*CEO & Board Evaluation*



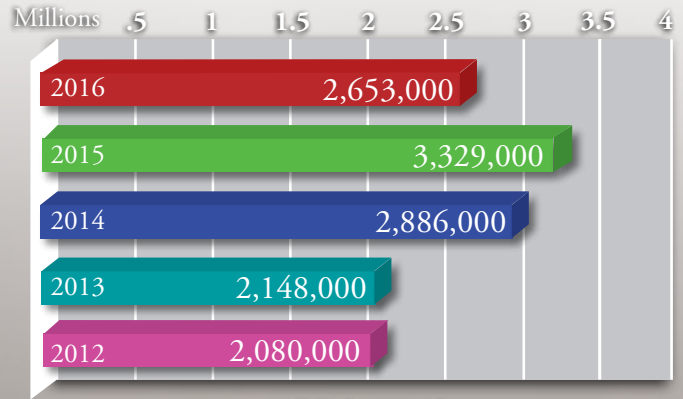
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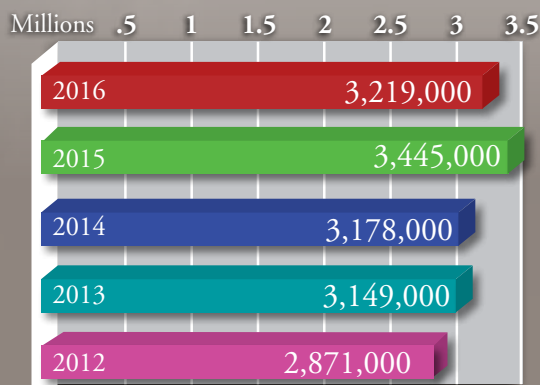
# OUR FINANCIAL PERFORMANCE 2012-2016



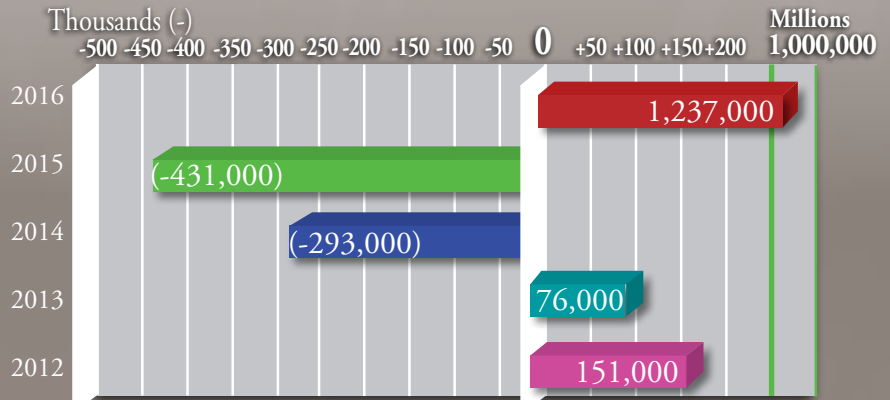
**PREMIUMS WRITTEN**



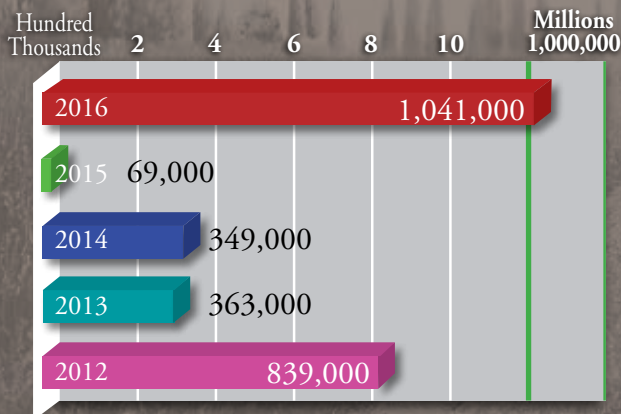
**NET CLAIMS**



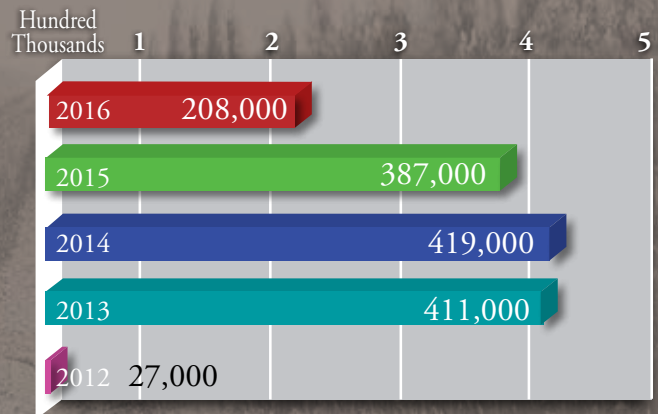
**OPERATING EXPENSES**



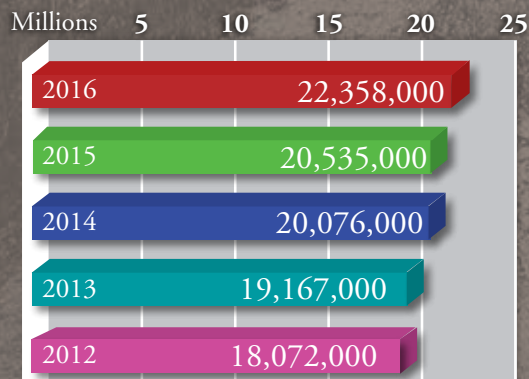
**UNDERWRITING INCOME**



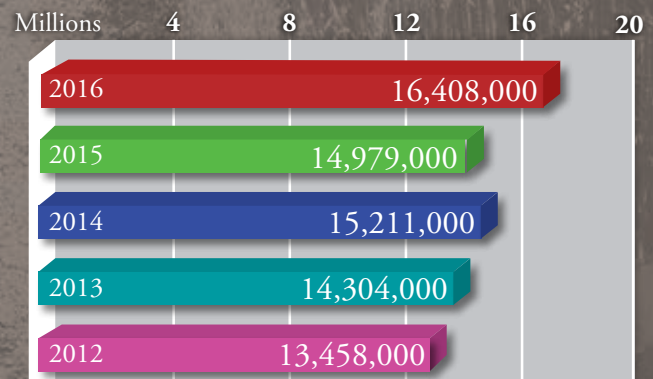
**NET INCOME**



**INVESTMENT INCOME**



**ASSETS**



**TOTAL EQUITY**

# SOUTHEASTERN MUTUAL'S 2016 BOARD AND STAFF

## Agents

Andy Bransfield	204-7173	Moncton
Christine Wenarchuk	384-5185	Riverview
Daryl Grotegut	871-1966	Petitcodiac
Eugene Bastarache	743-6700	Bouctouche
Garry Evans, CIP	859-1811	Moncton
Gary Lounsbury, CIP	756-1102	Petitcodiac
Jeff MacDougall, CIP	386-5500	Riverview
Jolene Conway	204-5711	Moncton
Mark Estabrooks	536-1782	Sackville
Nicole Landry	758-2032	Memramcook
Renée Doiron	523-9403	Richibucto
Roland Gallant, CIP	204-6089	Moncton

## Directors

Kevin Burdett, CPA  
Lynn Roy, CIP  
James Stark  
Nancy Whipp, CPA, CA

## Staff

Amy Glenn  
Brenda Ryder, CIP  
Chantal Gaudet  
Diana Stokes  
Michelle Bourque, CIP  
Mylène Després  
Sandra Batten  
Shaun MacPhee

## Claims

Donnie Saunders, CIP

## Loss Control

Bob Nuttall  
Gary Bellinger  
Roger Hebert

## Officers/Executive Management

Peter Wright, QC	Chairman
Jack Low, FCPA, FCA, CMA	Vice Chairman
Claire Fanning, FCIP, MBA	President/CEO

**SOUTHEASTERN**  
**MUTUAL INSURANCE**

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## Do You Own A BUSINESS?

**W**hen you own a business you have plenty to contend with. Let **SouthEastern Mutual Insurance** relieve you from some of the day-to-day stress. We will protect your hard work with a business insurance package that will suit the needs of your company. *We can help you with:*

- Building • Inventory • Equipment • Loss of Income
- Equipment Breakdown • Crime • Commercial Liability

An accredited, friendly **SouthEastern Mutual Insurance** agent would be happy to offer you a quote on your business insurance needs. You can trust the insurance company that has been serving your community for over 78 years.

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# CONGRATULATIONS SCHOLARSHIP WINNERS

**SouthEastern Mutual** is always proud to call itself a New Brunswick-based insurance company, giving back to our community for over 78 years. The tradition continues as we are pleased to offer yet another benefit to our policyholders. We honour our students by off-setting the ever increasing cost of their post secondary education. The graduates listed below are the 2016 winners of our \$1,000 Scholarships.

- Katie Buck Moncton
- Kiana Butland Riverside-Albert
- Gina Collette Bouctouche Cove
- Alissa Dugas Pointe Sapin
- Nikki Steeves Petitcodiac
- Timothy Woodworth Hopewell Hill

*SouthEastern Mutual congratulates them all and wish them great success in the years to come.*



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