

**BC POULTRY
INDUSTRY INFECTED PREMISES CLEANING
& DISINFECTING RECOVERY FUND REPORT
29 MARCH 2018**

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Introduction

The BC Poultry sector, along with provincial and federal governments, has been looking to develop a risk transfer program for the various regulated poultry producer groups. Discussion on the type of coverage and vehicle that the program will offer began with developing a comprehensive insurance package that included a “gap” insurance coverage. Whereby, the insurance product would indemnify the producer for lost production revenues not covered by the Canadian Food Inspection Agency (CFIA) resulting from a Notifiable Avian Influenza (NAI) outbreak via an industry owned captive. However, due to various factors discussed further in this report the discussion shifted focus on only indemnifying producers to cover the cost of Cleaning and Disinfection (C&D) and limited business interruption for premises infected as a result of CFIA.

Guy Carpenter and Marsh were engaged as consultants to provide input on the following items:

1. Creation of draft insurance policy wording
2. Review of the draft funding agreement
3. Advice on the distribution and sales structure of the program
4. Recommendation on claims handling
5. Identification and selection of fronting insurer
6. Advice on reinsurance
7. Qualifications on third party administrator for the program
8. Actuarial assessment
9. Cost breakdown to launch the program

While some or most of the above items have been advised on at different points of the engagement, the intent of this report is to consolidate all this information to provide a cohesive perspective. The report closes off with professional fees to be charged for the undertaken work.

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Policy Wording

The following is the draft wording for an insurance policy covering infected premises cleaning and disinfection costs due to Notifiable Avian Influenza (NAI) in poultry in British Columbia, Canada.

Please note, this is only a preliminary draft and adjustments may be needed as the product becomes more refined. The policy wording will also require review and approval from the underwriting and legal department of the selected fronting insurer.

INSURING AGREEMENT

INDEMNIFICATION

Subject to all other terms and conditions contained herein and if indicated on the Policy, the Fund will pay the Insured for loss directly resulting from necessary interruption of the Insured's Business conducted on the Insured's Premises resulting from depopulation or damage caused by the Perils Insured against occurring during the term of this Policy to Property Insured on the Insured's Premises.

1.2 PERILS INSURED AGAINST

Infection as defined in Section 2.4 by Notifiable Avian Influenza (hereinafter referred to as NAI), which results in the depopulation and/or Consequential Loss to the Property Insured.

1.3 PROPERTY INSURED

Subject to paragraph B herein, Property Insured consists of Poultry and Premises which are owned by the Insured as defined in this Policy, and unless otherwise specifically stated in this Policy, the Fund is not liable for loss or damage to property owned by any other person other than the Insured, unless the interest of that person is stated in this Policy.

Any Property Insured acquired by the Insured after the inception of this Policy is insured for a period of only thirty (30) days from the date of acquisition unless such acquisition is reported in writing to the Fund within the thirty (30) day timeframe. Failure to report the acquisition within thirty (30) days from the date thereof will disentitle the Insured to coverage for the additional Property Insured.

1.4 COVERAGE

The Insured under the Policy is covered for the following costs resulting from Infection by AI subject to all other terms and conditions of this Policy:

CONSEQUENTIAL LOSS

The Insurer will compensate the Insured for additional expenses arising as a consequence of an Outbreak of Notifiable Avian Influenza disease in the Insured's Birds, or as a result of action taken by the CFIA or equivalent Government authority under the current Health of Animals Act. This cover is subject to the Insured's premises being depopulated by order of the CFIA or equivalent Government authority as a result of:

- Notifiable Avian Influenza on the insured farm; or
- Notifiable Avian Influenza on an Infected Farm subject to the Infected Farm being within 1 kilometer of the Insured's Premises; or
- The Insured's Birds having significant epidemiological contact with an infected premise as determined by the CFIA.

Coverage is restricted to Cleaning and Disinfecting subject to the following limits:

Cleaning and Disinfection is fixed as per the Declarations Page attached hereto per Quota Unit insured hereon.

The Insurer's obligation to pay compensation ceases as soon as the Policy's Limits of compensation stated above for each additional expense have been reached.

1.5 DEDUCTIBLE

The Fund shall not be responsible for the applicable deductible amount indicated on the Declarations Page of this Policy.

1.6 LIMITATION ON AMOUNT OF COVERAGE

The loss payable under this Policy is subject to the limitation on the amount of coverage set out on the Declarations Page of this Policy.

1.7 POLICY TERRITORY

The Insurer's obligations for the payment of compensation are restricted to insured Birds that are located in the Province of British Columbia.

1.6 COVERAGE PERIOD

The Policy covers Claims that take place after the effective date and before the expiry date of the Policy as shown in the Declarations Page of this Policy.

DEFINITIONS USED IN THIS POLICY

2.1 POULTRY (BIRDS)

Means chicks, pullets, poults, broiler chickens, laying hens, breeding hens and turkeys.

2.2 CONTRACTED CHICK/POULT SUPPLIER

Means the chick/poult supplier that the Poultry producer has contracted to supply chicks or poults.

2.3 CANADIAN FOOD INSPECTION AGENCY (CFIA)

“CFIA” is the Canadian Food Inspection Agency, a branch of Agriculture and Agri-Food Canada with responsibilities for administering the *Health of Animals Act* and disease mitigation and control.

2.4 NOTIFIABLE AVIAN INFLUENZA (NAI)

Avian influenza, also known as bird flu, means a viral infection of birds caused by a group of viruses known as type A influenzas. Notifiable Avian Influenza includes:

Highly pathogenic notifiable avian influenza (HPNAI) means the a highly pathogenic strain of avian influenza, as identified or determined by CFIA and OIE.

Low pathogenic notifiable avian influenza (LPNAI) means the low pathogenic strain of avian influenza subtypes H5 and H7, as identified or determined by CFIA and OIE

2.5 CLAIM

A “Claim” is a written or oral demand for compensation due to a loss resulting from a Peril insured under this policy.

2.6 HEALTH OF ANIMALS ACT

“Health of Animals Act” is the Health of Animals Act 1990, c.21, as amended, describing diseases and toxic substances that may affect animals or that may be transmitted by animals to persons. This Act also outlines rules or guidelines for the protection of animals.

2.7 INFECTED PREMISES

“Infected Premises” is defined as the premises that are declared by CFIA to be infected with Avian Influenza.

2.8 INFECTED ZONE

“Infected Zone” is defined as a region or regions established pursuant to the Health of Animals Act which include all the Notifiable Avian Influenza (NAI) positive premises. For the purposes of this policy the outer boundary of an Infected Zone is three (3) kilometres from the Infected Premises.

2.9 INSURED

“Insured” is the person(s) shown on the Declarations Page of this Policy and has paid the required premium.

2.10 INSURED PREMISES

“Insured’s Premises” means the entire area within the property lines of the locations reported to the Insurer.

2.11 INSURED’S BUSINESS

“Insured’s Business” means the business carried on at the Insured's Premises and/or Contributing Property relating to the raising and production of: Breeders and the production and sales of hatching eggs suitable for hatching, Pullets, Eggs produced by layers, Chicken meat and Turkey meat.

2.12 NOTIFIABLE DISEASE

“Notifiable Diseases”, in general, are diseases exotic to Canada for which there are no control or eradication programs. The CFIA can undertake control measures for such diseases when notified of their presence in Canada.

2.13 NOTIFIABLE AVIAN INFLUENZA HAZARD SPECIFIC PLAN

This plan outlines the response to be undertaken by the Canadian Food Inspection Agency (CFIA) under the authority of the Health of Animals Act (1990) when there is suspicion of a developing outbreak of Notifiable Avian Influenza (NAI) or when an outbreak occurs.

2.14 OUTBREAK

“Outbreak” is a confirmed incidence of Avian Influenza. An Outbreak is deemed as coming to an end once the CFIA declares the farm or farms as being Avian Influenza free and all restrictions have been lifted.

2.15 POLICY

The application for insurance, the Declarations Page, the insurance coverage described in this document that the Insurer has issued as evidence of insurance coverage and any endorsements issued by the Insurer are the documents which constitute the Policy.

2.16 POLICY PERIOD

“Policy Period” is the period of time for which benefits under this Policy are provided, either as shown on the Declarations Page, or as amended by an endorsement to this Policy. In the case of cancellation of this Policy, the Policy Period shall expire upon the effective date of the Policy’s cancellation.

2.17 POLLUTANT OR POLLUTANTS

“Pollutant or Pollutants” means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapour, soot, fumes, acids, alkalis, toxic chemicals and waste. Waste includes materials to be recycled, reconditioned or reclaimed.

2.18 PRODUCTION WEEK

“Production Week” is the age of the Birds in weeks when the CFIA destroys the Birds.

2.19 QUALIFIED VETERINARY SURGEON OR VETERINARIAN

“Qualified Veterinary Surgeon” or “Veterinarian” is a person qualified and licensed to practice as a veterinary surgeon in the province or territory in which the services are provided.

2.20 QUOTA UNITS

“Quota Units” is the amount of quota allocated to the producer which is used to determine the annual meat and/or egg production coverage for the Insured’s Premises.

2.23 FUND

“Fund” means the British Columbia Poultry Industry Infected Premises Cleaning and Disinfection Cost Recovery Fund.

2.24 SUBJECT FLOCK

“Subject Flock” is the Property Insured

EXCLUSIONS

3.1 LOSSES EXCLUDED

The following losses are excluded from the coverage:

Losses suffered while the Insured's subject barn licence or related contract was suspended, lapsed or terminated.

Losses resulting from NAI Infections that were present in the Property Insured or their environment before this Policy became effective, regardless of whether the Insured knew or should have known of the Infection.

Losses resulting from non-compliance with the directions of the Fund and/or attending Veterinarian.

Losses covered by any other insurance, whether pre-existing or not.

Losses that can be recovered from a primary breeder or chick supplier under a purchase contract or any other guarantee.

Losses resulting from gross negligence or from any intentional or criminal act or failure to act by the Insured; or loss resulting from any intentional or criminal act at the direction of the Insured.

Losses where the Insured is eligible for reimbursement for all or some portion thereof from a third party. At the time of the event out of which the losses arise, the Insured must apply in good faith for, and make all reasonable efforts to obtain reimbursement from the third party as a condition precedent to seeking reimbursement under this Policy. Any reimbursement received from the third party shall be first applied to reduce the amount being claimed under this Policy. However, the Fund guarantees payment in full of the amount of the loss which would have been recoverable under this Policy in the absence of this Section. In connection therewith, the Fund hereby agrees to advance such an amount as a loan to the Insured, such loan to be repayable by the Insured to the FUND only to the extent of and at the time of the Insured's collection from the third party.

GENERAL POLICY CONDITIONS AND DUTIES OF THE INSURED

4.1 MISREPRESENTATION

If, in applying for this insurance, the Insured falsely describes or misrepresents or fraudulently omits to communicate any circumstance that is material to the Fund, this Policy shall be void.

4.2 CHANGE OF INTEREST

Subject to 4.7 this Policy shall be void if, at any time after the commencement of this insurance:

The Insured's Business is wound up or carried on by a liquidator or receiver or permanently discontinued;
or

The interest of the Insured ceases otherwise than by death unless the Policy's continuance be permitted by endorsement signed by or on behalf of the Fund.

4.3 MATERIAL CHANGE

Any change material to the risk and within the control and knowledge of the Insured voids the contract as to the part affected thereby, unless the Fund is promptly notified in writing of the change. The Fund when so notified may cancel the Policy, or may notify the Insured in writing that, if the Insured desires the contract to continue in force, the Insured must, within fifteen days of the receipt of the notice, pay to the Fund an additional premium, and in default of such payment, the Policy shall no longer be in force and the Fund shall return the unearned portion, if any, of the premium paid.

4.4 DUTIES OF INSURED

This Policy is voidable, at the discretion of the Fund, if the Insured fails to comply with one or more of the following duties of the Insured:

Insured will allow access to representatives of the Fund, as well as the attending Veterinarian, if requested, to conduct an inspection of the Insured's premises and the Property Insured.

The Insured must allow the Fund to obtain all inspection reports concerning biosecurity requirements and agrees to release or provide copies of such inspection reports directly or, if applicable, through his contributing Breeder grower, hatching egg producer or Pullet grower.

Insured must insure all of his Subject Flock with the Fund, even if they are kept at different locations.

The Insured must participate in the industry's applicable on-farm food safety program: L-CHEQ , Start Clean - Stay Clean™, Canadian Turkey Marketing Agency on Farm Food Safety Program and Safe, Safer, Safest with evaluations/audits conducted by delivery agents/auditors appointed by the applicable national organization

The Insured must implement the agreed industry bio security standards as developed by British Columbia

The Insured shall use due diligence and do and concur in doing all things reasonably practicable to avoid or diminish any loss under the cover provided hereunder.

4.5 NOTIFIABLE AVIAN INFLUENZA HAZARD SPECIFIC PLAN AND INSURANCE VALIDITY

This insurance is valid only while the Notifiable Avian Influenza Hazard Specific Plan is administered in its present form. If any alteration is made, the Insurer has the right to cancel this policy but without prejudice to the rights of the Insured accrued at the time of such cancellation.

4.6 INSURERS RIGHTS TO RECOVER FROM OTHERS

After the Insurer has made payment under this Policy, the Insured's rights to recover against any other party are automatically transferred to the Insurer to the extent of the payments it has made. The Insured shall do everything needed to assist the Insurer and the Insured must not prejudice its rights of recovery.

The Insurer waives any right of subrogation against any Insured except the author of or accomplice to any dishonest, fraudulent, criminal or malicious act or misrepresentation for any amounts paid, pursuant to the provisions of the Policy.

4.7 ASSIGNMENT OF POLICY

The Insured cannot assign the Insured's rights under this Policy to anyone else without the Insurer's consent. If the Insured should be adjudged bankrupt, insolvent, incompetent or die during the Policy Period, this Policy will cover the Insured's legal representatives in the same manner as it presently covers the Insured.

The Insured agrees that any notice of any kind the Insurer mails to the Insured at the address shown on the Declarations Page shall constitute notice to the Insured's legal representatives.

4.8 INSURERS RIGHT OF AUDIT

During the Policy Period, during any extension thereof, and for one year thereafter, the Insurer has the right to inspect the Insured's Premises and operations and to examine and audit the Insured's books and files, but strictly as they relate to this insurance or to the calculation of the premium for this Policy.

For Claim investigation and settlement purposes, the Insurer may exercise this right of audit and inspection until the delivery of final releases by all interested parties.

The Insurer assumes no responsibility whatsoever by exercising or declining to exercise these rights.

4.9 CHANGES TO INSURED

Any changes to the structure or composition of the Insured shall not affect the validity of this Policy but must be reported to the Insurer within sixty (60) days.

4.10 POLICY CONFORMITY WITH STATUTES

Terms of this Policy that are in conflict with the statutes of the jurisdiction wherein this Policy is issued are hereby amended to conform to such statutes.

EXPIRY OF CLAIM

5.1 EXPIRY OF CLAIM

The Fund will respond as quickly as possible to a claim of the Insured. Where the Fund has made a final decision with respect to the claim of the Insured (either by rejecting it, or by agreeing to pay a set amount), the right of the Insured to make any claims based on the same occurrence, and the right to bring every action or proceeding against the Fund for the recovery of the disputed claim, under or by

virtue of this Policy, will expire exactly one year from the date on which the Insured or his agent were notified of the decision of the Fund.

REQUIREMENTS AFTER LOSS

6.1 REQUIREMENTS AFTER LOSS

The Insured shall give immediate notice to the Fund of any Infection, accident, occurrence or loss that may give rise to a claim under this Policy.

Within sixty days following the date of confirmation of NAI Infection as determined by the Animal Health Laboratory, giving rise to the interruption of the Insured's Business, unless such time is extended in writing by the Fund, the Insured shall deliver to the Fund a proof of loss, verified by statutory declaration stating the knowledge and belief of the Insured as to the following:

The time and origin of the Infection causing the interruption of the Insured's Business; where "time" means the first positive test for NAI and "origin" means the Infection of the flock environment by NAI on the first positive lab test report for the Subject Flock.

The interest of the Insured and of all others in the Insured's Business and all other contracts of insurance, whether valid or not, covering in any manner the loss insured against by this Policy;

Any changes in the title, nature, location, encumbrance or possession of the Insured's Business since the issuing of this Policy;

The particulars of the claim of the Insured, and stating that the loss of or damage to the Property Insured did not occur through any wilful act, neglect, procurement, means or connivance of the Insured.

The Insured shall provide such explanation and information as may reasonably be required by the Fund for the purpose of investigating or verifying the claim. In connection therewith, the Insured, at his own expense, shall produce and furnish to the Fund, or such person as shall be designated by the Fund, such books of accounts and other business books, vouchers, invoices, balance sheets and other documents, proofs, computer records and other evidence, or certified copies of same if originals are lost and shall permit extracts and copies to be made thereof.

The Insured shall produce for examination to the Fund, or any person designated by the Fund, all that remains or proof of depopulation or disposal of any Property Insured, the loss of which or damage to which results in an interruption of the Insured's Business.

The Insured shall submit to an examination under oath, and shall produce for examination at such reasonable place and time as is designated by the Fund or any person designated by the Fund, all documents in the possession or control of the Insured that relate to the matters in question, and the Insured shall permit extracts and copies to be made thereof.

Notice to the Authorities – Where the loss is due to a malicious act, terrorism or attempted threat, or is suspected to be so due, the Insured shall give immediate notice thereof to the police or other authority having jurisdiction.

In the case of a loss, the Insured must release the name of the supplier(s) of the flock.

In the case of a loss, the Insured must grant the Fund authorization, if so requested, to obtain information from third parties.

Notice of loss may be given and proof of loss may be made by the agent of the Insured named in the contract, if any, in case of absence or inability of the Insured to give the notice or make the proof, and absence or inability being satisfactorily accounted for, or in the like case, if the Insured refuses to do so, by a person to whom any part of the insurance money is payable.

The Insured, in the event of any loss or damage to any Property Insured under the Policy, shall take all reasonable steps to:

prevent damage to other Property Insured hereunder including, but not limited to and if authorized by the CFIA or equivalent government authority, its removal, if necessary, to prevent damage or further damage thereto.

mitigate any loss or damage, including but not limited to, finding replacement flocks and/or extending the current growing.

After loss or damage to Property Insured and subject to authorization by the CFIA or equivalent government authority, the Fund has an immediate right of access and entry, as required, by accredited agents sufficient to enable them to survey and examine the Property Insured and Insured's Premises, and to make an estimate of the loss or damage.

The Fund, upon making any payment or assuming liability therefore under this Policy, shall be subrogated to all rights of recovery of the Insured against others and may bring action to enforce such rights.

Any fraud or wilful false statement in a statutory declaration in relation to any of the above particulars nullifies the claim of the person making the declaration.

In the event of disagreement as to the amount to be paid under this Policy (liability being otherwise admitted), such disagreement shall be referred to and resolved by appraisal as provided under The Insurance Act of British Columbia. There shall be no right to an appraisal until a specific demand therefore is made in writing and until after proof of loss has been delivered.

The loss shall be payable within sixty days after delivery of a fully executed proof of loss.

6.2 NON-COMPLIANCE

No claim under this Policy shall be payable unless the terms of Section 6.1 have been complied with and in the event of non-compliance in any respect, any payment on account of the claim already made shall be repaid to the Fund forthwith.

CLEANING AND DISINFECTION

7.1 CLEANING AND DISINFECTION POST LOSS

After depopulation of an insured flock, the Insured shall undertake to perform cleaning and disinfection of the infected premises in a timely manner and in compliance with applicable on-farm food safety programs as defined and to the procedures specified by the CFIA. The Insured shall provide the Fund with documentation proving that all steps have been taken and that the Insured has been declared by the CFIA or equivalent government agency as being NAI-free . Failure to do so will negate coverage under this Policy.

HOLD HARMLESS AND NOTICES

8.1 HOLD HARMLESS

Both the Fund and the Insured declare and acknowledge that neither the National nor any Provincial or Territorial Poultry Board is a party to this contract of insurance. The Fund and the Insured hereby agree to save the National and all Provincial and Territorial Poultry Boards harmless from any and all actions, causes of action, claims and demands whatsoever that may arise in connection with the interpretation, alleged breach, or enforcement of any of the provisions herein.

Without limiting the generality of the foregoing, this save harmless provision shall apply in connection with any and all information which the National or a Provincial or Territorial Poultry Board may be called upon to provide to either or both of the Fund and the Insured for the purposes of giving effect and meaning to the Policy.

8.2 NOTICES TO FUND

Written notice to the Fund shall be delivered personally to Fund.

THE INSURED MUST NOTIFY THE FUND IMMEDIATELY UPON RECEIPT OF A POSITIVE NAI INFECTION REPORT

8.3 NOTICES TO THE INSURED

All notices, requests, demands or other communications by the terms of this Policy, required or permitted to be given, shall be given in writing to the Insured and served personally, or sent by registered mail postage prepaid, or shall be delivered, telephoned, sent by facsimile or other electronic means, or in such other manner as may be appropriate, addressed to each Insured noted on the Declaration Page, or at the last address noted on the records of the Fund, or at such other address as may be given in writing from time to time, and such notices, requests, demands, acceptances and other communications shall be deemed to have been received when delivered, or if sent by registered mail, shall be deemed to have been received on the fifth day following the date of mailing.

ADDITIONAL CLAUSES

ALL OTHER TERMS, CONDITIONS AND LIMITATIONS REMAIN UNALTERED.

Draft Declarations

The following are draft versions of declarations to be included with above policy wording. The declarations are drafted to tailor to the named insureds: British Columbia Broiler Hatching Egg Commission, British Columbia Chicken Marketing Board, British Columbia Turkey Marketing Board, and British Columbia Egg Marketing Board.

Please note, this is only a preliminary draft and adjustments may be needed as the product becomes more refined. The declarations wording will also require review and approval from the underwriting and legal department of the selected fronting insurer.

Draft British Columbia Broiler Hatching Egg Commission Declaration

In consideration of the payment of premium deposits stated and the statements in the Declarations, the insurers hereon will indemnify the Insured in accordance with the conditions, limitations and other terms of this Policy and its attached Forms and Endorsements.

Insured and Policy Information

Policy reference:	#
Name of Insured:	British Columbia Broiler Hatching Egg Commission
Address of insured:	180 – 32160 South Fraser Way Abbotsford, British Columbia V2T 1W5
Insurer:	TBD
Policy Status:	New
Policy Period:	1 st January 20xx – 31 st December 20xx
Locations Insured:	Various – Licenced hatching egg producers registered egg production units
Property Insured:	Licenced egg production units
Deductible:	[10%]
Premium:	TBD
Policy limits:	TBD

Conditions: The Insured’s licenced producers must comply with the codes, standards, rules and requirements contained in the CBHEPA’s *Canadian Hatching Egg Quality Program*; the *BC Poultry Biosecurity Program*; and the Canadian Agri-Food Research Council’s *Recommended code of practice for the care and handling of farm animals* with evaluations/audits conducted by delivery agents/auditors appointed by the applicable organization or designate managing the programs.

Coverage: **CONSEQUENTIAL LOSS**
The Insurer will compensate the Insured for additional expenses arising as a consequence of an Outbreak of Notifiable Avian Influenza disease in the Insured’s Birds, or as a result of action taken by the CFIA or equivalent Government authority under the current Health of Animals Act. This cover is subject to the Insured’s premises being depopulated by order of the CFIA or equivalent Government authority as a result of:

- a. Notifiable Avian Influenza on the insured farm; or
- b. Notifiable Avian Influenza on an Infected Farm subject to the Infected Farm being within 1 kilometre of the Insured’s Premises; or
- c. the Insured’s Birds having significant epidemiological contact with an infected premises as determined by the CFIA.

Coverage is restricted to:

- a. Cleaning and Disinfection

Indemnification:
Indemnification is limited and fixed as follows:

Important Information for Insured

Consequential Loss

Cause of loss	Value	Unit	Limit
Cleaning and Disinfection	\$2.00	Per bird	# Quota Units

PLEASE READ ALL DOCUMENTS

This Policy is issued and accepted subject to the following provisions, stipulations and conditions which form part of this Policy, together with other provisions, agreements, or conditions which may be endorsed or added.

IN WITNESS WHEREOF THE INSURER(S), has executed this Policy which is not valid unless countersigned by an authorized representative of the BCPC.

Signed on Behalf of the Fund

Date

Issued at <<City>>, <<Province>>

THIS POLICY CONTAINS CLAUSES THAT MAY LIMIT THE AMOUNT PAYABLE

Please refer to the policy wording for complete details of the coverage.
These declarations are subject to terms and conditions of the policy.

Draft British Columbia Chicken Marketing Board Declaration

In consideration of the payment of premium deposits stated and the statements in the Declarations, the insurers hereon will indemnify the Insured in accordance with the conditions, limitations and other terms of this Policy and its attached Forms and Endorsements.

Insured and Policy Information

Policy reference:	#
Name of Insured:	British Columbia Chicken Marketing Board
Address of insured:	#101 – 32450 Simon Avenue Abbotsford, British Columbia V2T 4J2
Insurer:	TBD
Policy Status:	New
Policy Period:	1 st January 20xx – 31 st December 20xx
Locations Insured:	Various – Licenced chicken growers registered production units
Property Insured:	Licenced broiler production units
Deductible:	[10%]
Premium:	TBD
Policy limits:	TBD
Conditions:	The Insured's licenced growers must comply with board approved food safety, animal care and bio-security protocols appropriate to their farming operations, including by not limited to <i>On-Farm Food Safety Assurance Program</i> ; the <i>BC Poultry Biosecurity Program</i> ; and <i>CFC's Animal Care Program</i> with evaluations/audits conducted by delivery agents/auditors appointed by the applicable organization or designate managing the programs.
Coverage:	CONSEQUENTIAL LOSS The Insurer will compensate the Insured for additional expenses arising as a consequence of an Outbreak of Notifiable Avian Influenza disease in the Insured's Birds, or as a result of action taken by the CFIA or equivalent Government authority under the current Health of Animals Act. This cover is subject to the Insured's

premises being depopulated by order of the CFIA or equivalent Government authority as a result of:

- a. Notifiable Avian Influenza on the insured farm; or
- b. Notifiable Avian Influenza on an Infected Farm subject to the Infected Farm being within 1 kilometre of the Insured’s Premises; or
- c. the Insured’s Birds having significant epidemiological contact with an infected premises as determined by the CFIA.

Coverage is restricted to:

- a. Cleaning and Disinfection

Indemnification:

Indemnification is limited and fixed as follows:

Consequential Loss

Cause of loss	Value	Unit	Limit
Cleaning and Disinfection	\$1.00	Per bird	# Quota Units

Important Information for Insured

PLEASE READ ALL DOCUMENTS

This Policy is issued and accepted subject to the following provisions, stipulations and conditions which form part of this Policy, together with other provisions, agreements, or conditions which may be endorsed or added.

IN WITNESS WHEREOF THE INSURER(S), has executed this Policy which is not valid unless countersigned by an authorized representative of the BCPC.

Signed on Behalf of the Fund

Date

Issued at <<City>>, <<Province>>

THIS POLICY CONTAINS CLAUSES THAT MAY LIMIT THE AMOUNT PAYABLE

Please refer to the policy wording for complete details of the coverage.
These declarations are subject to terms and conditions of the policy.

Draft British Columbia Turkey Marketing Board Declaration

In consideration of the payment of premium deposits stated and the statements in the Declarations, the insurers hereon will indemnify the Insured in accordance with the conditions, limitations and other terms of this Policy and its attached Forms and Endorsements.

Insured and Policy Information

Policy reference:	#
Name of Insured:	British Columbia Turkey Marketing Board
Address of insured:	106 – 19329 Enterprise Way Surrey, British Columbia V3S 6J8
Insurer:	TBD
Policy Status:	New
Policy Period:	1 st January 20xx – 31 st December 20xx
Locations Insured:	Various – Licenced turkey growers farm operations
Property Insured:	Licenced turkey growers
Deductible:	[10%]
Premium:	TBD
Policy limits:	TBD
Conditions:	The Insured's licenced growers must comply with the Turkey Farmers of Canada's Flock Care Program and On Farm Food Safety Program, as well as the BC Poultry Biosecurity Protocols with evaluations/audits conducted by delivery agents/auditors appointed by the applicable organization or designate managing the programs.
Coverage:	<p style="text-align: center;">CONSEQUENTIAL LOSS</p> <p>The Insurer will compensate the Insured for additional expenses arising as a consequence of an Outbreak of Notifiable Avian Influenza disease in the Insured's Birds, or as a result of action taken by the CFIA or equivalent Government authority under the current Health of Animals Act. This cover is subject to the Insured's premises being depopulated by order of the CFIA or equivalent Government authority as a result of:</p>

- a. Notifiable Avian Influenza on the insured farm; or
- b. Notifiable Avian Influenza on an Infected Farm subject to the Infected Farm being within 1 kilometre of the Insured’s Premises; or
- c. the Insured’s Birds having significant epidemiological contact with an infected premises as determined by the CFIA.

Coverage is restricted to:

- a. Cleaning and Disinfection

Indemnification:

Indemnification is limited and fixed as follows:

Consequential Loss

Cause of loss	TOMS	HENS	BROLIERS	Unit	Limit
Cleaning and Disinfection	\$2.60	\$1.44	\$0.84	Per bird	# Quota Units

Important Information for Insured

PLEASE READ ALL DOCUMENTS

This Policy is issued and accepted subject to the following provisions, stipulations and conditions which form part of this Policy, together with other provisions, agreements, or conditions which may be endorsed or added.

IN WITNESS WHEREOF THE INSURER(S), has executed this Policy which is not valid unless countersigned by an authorized representative of the BCPC.

Signed on Behalf of the Fund

Date

Issued at <<City>>, <<Province>>

THIS POLICY CONTAINS CLAUSES THAT MAY LIMIT THE AMOUNT PAYABLE

Please refer to the policy wording for complete details of the coverage.
These declarations are subject to terms and conditions of the policy.

Draft British Columbia Egg Marketing Board Declaration

In consideration of the payment of premium deposits stated and the statements in the Declarations, the insurers hereon will indemnify the Insured in accordance with the conditions, limitations and other terms of this Policy and its attached Forms and Endorsements.

Insured and Policy Information

Policy reference:	#
Name of Insured:	British Columbia Egg Marketing Board
Address of insured:	250 – 32160 South Fraser Way Abbotsford, British Columbia V2T 1W5
Insurer:	TBD
Policy Status:	New
Policy Period:	1 st January 20xx – 31 st December 20xx
Locations Insured:	Various – Licenced egg producers registered egg production units
Property Insured:	Licenced egg production units
Deductible:	[10%]
Premium:	TBD
Policy limits:	TBD
Conditions:	The Insured's licenced producers must comply with and put into practice on their Egg Production Units the minimum standards as outlined in the <i>Start Clean Stay Clean HACCP-based On-Farm Food Safety Program for Shell Egg Production and Spent Hens in Canada</i> by EFC; the <i>BC Poultry Biosecurity Program</i> ; and EFC's <i>Animal Care Program</i> with evaluations/audits conducted by delivery agents/auditors appointed by the applicable organization or designate managing the programs.
Coverage:	CONSEQUENTIAL LOSS The Insurer will compensate the Insured for additional expenses arising as a consequence of an Outbreak of Notifiable Avian Influenza disease in the Insured's Birds, or as a result of action taken by the CFIA or equivalent Government authority under the current Health of Animals Act. This cover is subject to the Insured's

premises being depopulated by order of the CFIA or equivalent Government authority as a result of:

- a. Notifiable Avian Influenza on the insured farm; or
- b. Notifiable Avian Influenza on an Infected Farm subject to the Infected Farm being within 1 kilometre of the Insured’s Premises; or
- c. the Insured’s Birds having significant epidemiological contact with an infected premises as determined by the CFIA.

Coverage is restricted to:

- a. Cleaning and Disinfection

Indemnification:

Indemnification is limited and fixed as follows:

Consequential Loss

Cause of loss	Value	Unit	Limit
Cleaning and Disinfection	\$2.50	Per bird	# Quota Units

Important Information for Insured

PLEASE READ ALL DOCUMENTS

This Policy is issued and accepted subject to the following provisions, stipulations and conditions which form part of this Policy, together with other provisions, agreements, or conditions which may be endorsed or added.

IN WITNESS WHEREOF THE INSURER(S), has executed this Policy which is not valid unless countersigned by an authorized representative of the BCPC.

Signed on Behalf of the Fund

Date

Issued at <<City>>, <<Province>>

THIS POLICY CONTAINS CLAUSES THAT MAY LIMIT THE AMOUNT PAYABLE.

Please refer to the policy wording for complete details of the coverage. These declarations are subject to terms and conditions of the policy.

3

Governance and Trusteeship

The following is a reviewed draft of the British Columbia Poultry Infected Premises Cleaning and Disinfection Cost Recovery Fund Agreement between insureds British Columbia Broiler Hatching Egg Commission, British Columbia Chicken Marketing Board, British Columbia Turkey Marketing Board, and British Columbia Egg Marketing Board.

Please note, this is only a preliminary review and adjustments may be needed as the product becomes more refined. The draft agreement may also require review and approval from the underwriting and legal department of the selected fronting insurer.

BC Poultry Infected Premises Cleaning and Disinfection Cost Recovery Fund Agreement

THIS AGREEMENT dated as of December XX, 20XX

AMONG:

BRITISH COLUMBIA BROILER HATCHING EGG MARKETING COMMISSION, having its office at 180 – 32160 South Fraser Way, Abbotsford, British Columbia V2T 1W5

(the “Hatching Egg Commission”)

AND:

BRITISH COLUMBIA CHICKEN MARKETING BOARD, having its office at #101 – 32450 Simon Avenue, Abbotsford, British Columbia V2T 4J2

(the “Chicken Board”)

AND:

THE BRITISH COLUMBIA EGG MARKETING BOARD, having its office at 250 – 32160 South Fraser Way, Abbotsford, British Columbia V2T 1W5

(the “Egg Board”)

AND:

B.C. TURKEY MARKETING BOARD, having its office at 106 – 19329 Enterprise Way, Surrey, British Columbia V3S 6J8

(the “Turkey Board”)

WHEREAS:

- A. Each of the Members license producers in different areas of the regulated poultry industry in British Columbia;
- B. The Members are legal entities under the *Natural Products Marketing (BC) Act*, for the purposes of marketing a regulated product in BC;
- C. The Members wish to enter into this Agreement in order to define their respective rights and obligations in respect of the BC Poultry Infected Premises Cleaning and Disinfection Fund (the “Fund”);

THEREFORE, the parties hereto covenant and agree as follows:

1. INTERPRETATION

1.1 In this Agreement, unless the context otherwise requires:

- (a) “Accountants” means the auditors designated by the Board from time to time;
- (b) “Act” means the *Natural Products Marketing (BC) Act*, as may be amended or replaced from time to time;
- (c) “Bank” means the bank or other institutional lender appointed by the Board from time to time as the main institutional lender for the Fund;
- (d) “Board” means the board of directors of the Fund;
- (e) “Contribution Formula” means the formula used to assign the share of cost or contribution attributed to the particular poultry industry sector represented by a Member as more particularly described in Clause 2.4 hereof;
- (f) “Contributions” mean the contributions established by, and payable to, the Fund from time to time in accordance with Clause 2.4 hereof;
- (g) “Default” means a default pursuant to Clause 8.1 hereof;
- (h) “Defaulting Member” means a Member that is in Default;
- (i) “Fund” means the BC Poultry Industry Cleaning and Disinfection Cost Recovery Fund;
- (j) “Interest” means all of the right, title and interest of a Member in and to any and all other rights and claims that such Member may have against the Fund and the other Members in such Member’s capacity as a Member of the Fund;

- (k) “Members” means the Egg Board, Hatching Egg Commission, Turkey Board and Chicken Board, and “Member” means any of the Members;
- (l) “Member Loans” means any and all outstanding amounts advanced or otherwise loaned by any of the Members to the Fund and any and all accrued interest thereon;
- (m) “Non-Voting Directors” means the nominee of the BCPA appointed as a director of the Fund from time to time pursuant to Clause 3.1(b) hereof and such additional directors as may be appointed by the Members (if any) pursuant to Clause 3.3 hereof;
- (n) “NPMA Act” means the *Natural Products Marketing (BC) Act* and any applicable regulations pursuant thereto as may be in effect or amended or replaced from time to time;
- (o) “Prime Rate” means the floating annual rate of interest published or announced as such from time to time by the Bank as a reference rate for determining the interest rates it will charge on loans denominated in Canadian dollars in Canada (if there is a dispute as to such rate, the certificate of the branch manager or acting manager as to such rate will be accepted as conclusive evidence thereof);
- (p) “Registered Producer” and “Registered Producers” means a registered producer(s) who is in good standing of one of the Members;
- (q) “Voting Director” means the directors of the Fund appointed by the Members pursuant to Clause 3.1(a) hereof.

1.2 The headings appearing in this Agreement have been inserted for convenience of reference only and in no way define, limit, or enlarge the scope or meaning of the provisions of this Agreement.

1.3 All references to any person, whether a party to this Agreement or not, are to be read with such changes in number and gender as the context or reference requires.

1.4 The terms “this Agreement”, “hereof”, “herein”, “hereby”, “hereto”, and similar terms refer to this Agreement, and not to any particular provision or other part of this Agreement. References to particular Clauses or Sections are to Clauses or Sections of this Agreement unless another document is specified.

1.5 All accounting terms not defined in this Agreement have those meanings generally ascribed to them in accordance with generally accepted accounting principles, consistently applied.

1.6 Words and phrases used herein that have acquired special meanings in the British Columbia regulated poultry industry will be read and construed in accordance with the special meaning attaching to those words, unless the context otherwise requires.

2. PURPOSE

2.1 The primary purpose is to provide coverage and products to Registered Producers for costs and expenses to clean and disinfect an infected premise resulting from a defined Notifiable Avian Influenza outbreak in the British Columbia poultry industry, and such other coverage or products as set out herein.

2.2 The Members agree that:

- (a) Initially, coverage for losses/costs incurred to clean and disinfect infected premises by Registered Producers due to Notifiable Avian Influenza in the British Columbia poultry industry, as may be more particularly set out in policies established by the Board in such regard from time to time;
- (b) Without limiting the generality of the foregoing, the policy wording will be created and policy declarations, and claims adjusting procedures will be established in providing coverage as set out above; and
- (c) In addition, the Board may, based upon recommendations of the Members and the BCPA, establish additional disease or other products or coverage from time to time, subject to the approval of the Members pursuant to Clause 3.11 hereof.

2.3 The Members further agree that it is intended that the Fund attempt to reduce its dependence on reinsurance and/or Contributions over time through establishing and maintaining reserves for paying out approved claims.

2.4 The Board will establish from time to time the Contributions payable by each Member on an annual basis for the coverage to be provided by the Fund, such Contributions to be based the Funding Formula describes as follows:

- (a) Each Member is solely responsible for allocating and invoicing its respective Registered Producers for their respective share of such Contributions, for collecting payment of same from such Registered Producers, and for remitting full payment of such Contributions to the Fund as and when due.

3. CONDUCT OF THE AFFAIRS OF THE FUND

3.1 Subject to Clause 3.2 hereof, the Members will vote so that the Board consists of not less than five (5) directors and so that:

- (a) one nominee of each of the Members are directors of the Fund, subject to the provisions of Clause **Error! Reference source not found.** hereof; and
- (b) one nominee of the BCPA is a director of the Fund.

If a position on the Board is vacant for any reason whatsoever, the Member or the BCPA (as the case may be) whose nominee formerly occupied such position will be entitled to nominate a new director to fill such vacancy.

3.2 If a nominee of a Member or the BCPA to the Board fails to vote (as applicable) and act as a director to carry out the provisions of this Agreement and/or at any time ceases to be qualified to act as a director of the Fund pursuant to this Agreement, then each Member will exercise its right as a Member of the Fund in accordance with this Agreement to remove such nominee from the Board and to elect another person in his or her place.

3.3 In addition to the directors set out in Clause 3.1, the Members may, by majority vote, elect up to two (2) additional directors to the Board in order to provide additional knowledge and expertise that the Members feel would be of assistance to the Fund.

3.4 Notwithstanding anything to the contrary contained herein:

- (a) The nominee of the BCPA as a director of the Fund pursuant to Clause 3.1(b) will be a non-voting director;
- (b) Any additional directors elected to the Board pursuant to Clause 3.3 hereof will be non-voting directors; and
- (c) The nominee of each Member to the Board pursuant to Clause 3.1(a) will be entitled to attend all meetings of the Board and otherwise participate as directors.

3.5 The term of each of the directors will be as determined by the Members from time to time.

3.6 A quorum for the transaction of business at a meeting of the Board will be not less than 4 Voting Directors.

3.7 Notwithstanding any provision of this Agreement to the contrary:

- (a) A director may participate in a meeting of the Board or of any committee of the directors by means of conference telephone or other communication facilities by means of which all directors participating in the meeting can hear each other, and directors participating in a meeting in accordance with this provision will be deemed to be present at the meeting and to have so agreed and will be counted in the quorum therefor and be entitled to speak and vote thereat;
- (b) For any matter requiring a decision of the Board, every effort will be made so that such decision is made by consensus of the Board, provided that in the event that consensus cannot be reached, such decision will be based on a simple majority vote of the Voting Directors (in accordance with Clause **Error! Reference source not found.** hereof). In

the event that such vote results in a tie, the resolution or motion being presented will be defeated; and

- (c) All Non-Voting Directors will, while having input into any decision of the Board, not under any circumstance be entitled to vote.

3.8 The present initial Voting Directors of the Fund are as follows:

<u>Director</u>	<u>Member represented</u>
	Turkey Board
	Chicken Board
	Egg Board
	Hatching Egg Commission

3.9 The present Non-Voting Director of the Fund is xx, being the representative of the BCPA.

3.10 The present officers of the Fund are as follows:

Chair
Secretary

The officers will hold office at the pleasure of the directors.

3.11 The directors of the Fund will be entitled to receive such remuneration for acting as Directors as may be established and approved by a special resolution of the Members from time to time.

3.12 The Members agree that any and all major decisions involving the Fund will be decided by consultation and [unanimous] resolution of all of the Members of the Fund. For the purposes of this provision, major decisions include but are not limited to the following:

- (a) The winding up or liquidation of the Fund;
- (b) The sale, lease, transfer, mortgage, pledge or other disposition of the undertaking of the Fund, or any substantial part thereof, or any of its subsidiaries;
- (c) Any increase or reduction in the authorized or issued capital of the Fund;
- (d) Any changes to the Funding Formula;
- (e) The addition of any further Member(s);
- (f) The consolidation, merger or amalgamation of the Fund with any other Fund, undertaking, association, partnership or entity;
- (g) The providing of any additional disease or other products or offerings;
- (h) Any single capital expenditure of the Fund in excess of \$25,000;

- (i) Without limiting the generality of the foregoing, the purchase, acquisition or owning of any real property;
- (j) Any borrowing by the Fund;
- (k) Any loan by the Fund to any person;
- (l) Any transaction out of the ordinary course of the business of the Fund;
- (m) Any agreement by the Fund that restricts or purports to restrict, or that permits any other party to accelerate or demand the payment of any indebtedness of the Fund upon, the transfer or other disposition by a Member of any of its Interest;
- (n) Any material change in the coverage provided by the Fund; and
- (o) Any payment to any one or more Members, except as otherwise set forth in this Agreement;

provided that nothing in this provision will be construed so as to fetter the discretion of the Board or require the Board to act in a particular manner with respect to any of the foregoing matters.

3.13 The Members will cause the Fund to keep complete and accurate books of account and other records of the Fund showing assets, liabilities, costs, expenditures, receipts, profits and losses of the Fund, all in accordance with generally accepted accounting principles, consistently applied, which books and records will include and provide such other matters as the Members may determine or as the Accountants may deem reasonably necessary. Such books and records will be kept and maintained at the principal place of business of the Fund or at such other place as the Board may determine. Such books and records will be available for inspection by each of the Members and their authorized representatives during normal business hours and each will have the right to make copies of such books and records or to extract therefrom such information as they may desire. Each Member will be provided with copies of financial statements prepared in accordance with generally accepted accounting principles, consistently applied, as and when same are prepared by or on behalf of the Fund. Each Member has the right to conduct, at his or her own expense, an independent audit of the books and records maintained by the Fund.

3.14 The signing authorities for the Fund's bank account(s) will be as determined by the Board from time to time.

3.15 The fiscal year of the Fund will be as determined by the Board from time to time.

4. **RESTRICTIONS ON TRANSFER AND ENCUMBRANCES**

4.1 Each Member will keep such Member's Interest free and clear of all liens, charges, encumbrances and other claims whatsoever except with the prior written consent of each of the other

Members (such consent not to be unreasonably withheld), and no Member will transfer or in any way otherwise dispose of any of such Member’s Interest except in accordance with this Agreement.

5. FINANCING AND CAPITALIZATION

5.1 The initial subscribed capital/Member’s equity of the Fund is as follows:

<u>Member</u>	<u>Subscribed Capital / Equity</u>
Hatching Egg Commission	
Chicken Board	
Egg Board	
Turkey Board	

5.2 In addition to the subscribed capital/Member’s equity set out in Clause 5.1 above:

- (a) The Fund will require from time to time additional capital for the purposes of providing coverage;
- (b) All such capital required from the Members from time to time will be based on the Funding Formula set out in clause 2.4(a) or as amended from time to time;
- (c) The Members have determined that the Fund requires an initial capitalization of \$1,000,000 and the Members agree to provide to the Fund such additional capital funds based on the Funding Formula as at the date hereof as follows:

<u>Member</u>	<u>Funding Formula</u>	<u>Initial Capitalization</u>
Chicken Association	%	\$x.00
Egg Association	%	\$x.00
Hatching Egg Association	%	\$x.00
Turkey Association	<u>%</u>	<u>\$x.00</u>
Total	100%	\$1,000,000.00

5.3 If as a result the payout of funds for approved claims or for any other reason the Board determines that the Fund requires additional capital/funds over and above the funds set out in Clauses 5.1 and 5.2 hereof, then the Fund may make a written request to each of the Members for such additional funds. Such written request will be made to each Member based on its respective Funding Formula share at the time that such request is made, and each Member will advance such funds requested to the Fund within six (6) months after receipt of such written request.

5.4 No Member shall be entitled to a return or repayment of any of its capital except in accordance with the terms of this Agreement.

5.5 If the Board determines that any funds are to be returned or paid to the Members, then notwithstanding anything in this Agreement to the contrary such return or payment shall be made in accordance with the Members' Funding Formula share at the time.

5.6 Except as otherwise set out herein, funds required from time to time by the Fund will be obtained, to the extent that the Fund is able on terms satisfactory to the Board, by borrowing from a chartered bank or other institutional lender.

6. MEMBERS OBLIGATIONS

6.1 Each of the Members shall be obliged to:

- (a) Work collectively and collaboratively together to ensure the success of the Fund;
- (b) Promote to, and strongly encourage, their Registered Producers to establish, maintain, adhere to and comply with all such rules, regulations, policies and guidelines which may be in effect from time to time for the poultry industry in order to reduce the risk and impact of Notifiable Avian Influenza or other diseases affecting the poultry industry (and thereby reducing/limiting the risk of claims made against the Fund), including without limitation encouraging their Registered Producers to:
 - (i) Maintain high levels of bio-security audit compliance; and
 - (ii) Adhering to and instituting lockdown protocols in the event of a Notifiable Avian Influenza discovery in accordance with the poultry industry Emergency Response Plan in effect from time to time;
- (c) Secure from their Registered Producers in a timely manner as and when due their respective share of each Member's annual Contributions;
- (d) Remit payment of annual Contributions to the Fund as and when due; and
- (e) Provide to their Registered Producers not less than once per year a status report on the Fund and its operations.

7. WITHDRAWAL/REMOVAL OF A MEMBER AND DISSOLUTION

7.1 None of the initial Members shall be entitled to voluntarily withdraw from the Fund for a period of five (5) years from the date hereof.

7.2 For the purposes of this Section 7:

- (a) "Net Capital" means the capital/assets of the Fund net of existing or contingent liabilities (including any outstanding claims) or reserves therefore; and

- (b) “Withdrawal Value” means the amount to be paid out to a Member in accordance with the applicable provisions of this Section 7 determined as follows:
- (i) if the Net Capital is \$xx or less, then the Withdrawal Value is zero [only required if there is an fixed equal share for the initial contribution to the Fund];
 - (ii) if the Net Capital is \$xx or more but less than \$xx, then the Withdrawal Value is the aggregate of the following:
 - (A) the sum of \$xx (being repayment for the share in the capital of the Fund held by each Member (as more particularly set out in Clause 5.1 hereof); plus
 - (B) the product of the Member’s Funding Formula percentage set out in Clause 5.24 hereof multiplied by the amount of the Net Capital in excess of \$xx; and
 - (iii) if the Net Capital is \$xx or more, then the Withdrawal Value is the aggregate of the following:
 - (A) the sum of \$xx; plus
 - (B) the amount of the Member’s initial capital contribution set out in Clause 5.2(c) hereof; plus
 - (C) An amount equal to the product of such Member’s percentage of Premium contributions to the Fund (such percentage being the sum of all such Member’s aggregate annual Premium contributions to the Fund divided by the aggregate sum of all Premium contributions collected from all of the Members) multiplied by the amount of the Net Capital in excess of \$xx; and
- (c) All calculations and determinations of Net Capital and Withdrawal Value will be made as at the Effective Date (as hereinafter defined) (and therefore for certainty based on the assets/capital and liabilities of the Fund at that date) and will be calculated by the Accountants within 90 days following the Effective Date.

7.3 Following the expiry of five (5) years from the date hereof, a Member (the “Withdrawing Member”) may by notice in writing to the Board and to each of the other Members (the “Remaining Members”) advise that it wishes to withdraw from the Fund, provided that:

- (a) It has, concurrently with the providing of such notice, provided to the Fund evidence satisfactory to the Board (acting reasonably) that the withdrawal by the Withdrawing Member from the Fund has been approved by a “double 2/3 majority” of the Registered Producers of such Member at a special meeting of such Registered Producers duly called

and convened for such purpose. For the purposes hereof, “double 2/3 majority” means that not less than 2/3 of the registered voting Registered Producers of such Member have in fact properly voted on a motion to approve such withdrawal, and that not less than 2/3 of such Registered Producers who have actually so voted have voted in favour of the withdrawal;

- (b) Such notice will be deemed to constitute not less than two (2) full years’ advance notice of the effective date of such withdrawal, so that the effective date of such withdrawal (the “Effective Date”) will be two (2) years from the end of such Withdrawing Member’s next policy renewal date;
- (c) Upon receipt of such notice, the Fund will provide written notice of the withdrawal of the Withdrawing Member (and accordingly the termination of the coverage provided by the Fund) to each of the Withdrawing Members’ Registered Producers.

7.4 Upon receipt of such notice, the Remaining Members may, within sixty (60) days following receipt of such notice, elect (by way of unanimous agreement of such Remaining Members) to either:

- (a) Continue the Fund and allow the Withdrawing Member to withdraw; or
- (b) Terminate and wind up the Fund as of the Effective Date.

In the event that unanimous agreement is not reached by the Remaining Members within such sixty (60) day period, then the Remaining Members will be deemed to have elected to terminate and wind up the Fund pursuant to Sub-Clause (b) above.

7.5 In the event that the Remaining Members agree to continue the Fund and the coverage without the Withdrawing Member pursuant to Clause 7.4(a):

- (a) The Fund will pay to such Withdrawing Member its Withdrawal Value (together with any Members Loans owing by the Fund to such Withdrawing Member, if any) within 60 days following the determination of such Withdrawal Value by the Accountants, subject to the Fund’s right of set-off set out below;
- (b) The Withdrawing Member will, on the Effective Date, deliver to the Fund the written resignation of such Withdrawing Member’s nominee as director and/or officers (as applicable) of the Fund;
- (c) The Withdrawing Member will, on the Effective Date, pay to the Fund any and all amounts then owing by the Withdrawing Member (including in particular, but without limitation, any and all unpaid Contributions) and such amounts if not paid may, at the option of the Fund without limiting or waiving any other right or remedy, be set off and applied against any and all amounts owed to the Withdrawing Member (including without

limitation the Withdrawal Value and any Members Loans) until such amounts have been completely set off; and

- (d) Neither the Withdrawing Member nor any of its Registered Producers will be entitled to any further coverage from the Fund, and the Fund will have no obligation to pay any claims made by or on behalf of the Withdrawing Member or any of its Registered Producers, on or after the Effective Date.

7.6 In the event that the Remaining Members elect (or are deemed to have elected) to terminate and wind up the Fund, then:

- (a) The Fund will cease all business operations, the assets of the Fund will be liquidated, and the Fund will otherwise be wound up, in an orderly fashion commencing on the Effective Date; and
- (b) Following the completion of such liquidation and winding up, each of the Members will be entitled to receive their respective Withdrawal Value as determined by the Accountants together with any Members Loans owing by the Fund to the Members (if any).

8. **DEFAULT**

8.1 It is a default hereunder if a Member:

- (a) Fails to observe, perform or carry out any of its obligations hereunder and such failure continues for 15 days after any of the other parties hereto has in writing given notice and particulars of such failure and demanded that such failure be cured;
- (b) Without limiting the generality of the foregoing, fails to pay any Contributions as and when due and such failure continues for 10 days after the Fund has in writing given notice of such failure to pay;
- (c) Fails to take reasonable actions to prevent or defend assiduously any action, proceeding, seizure, execution or attachment that claims possession, sale, foreclosure, the appointment of a receiver or receiver-manager of its assets, or forfeiture or termination of or against, any of the Interest of such Member, and such failure continues for 10 days after any of the other parties hereto has in writing demanded that such reasonable actions be taken, or such Member fails to defend successfully any such action, proceeding, seizure, execution or attachment; or
- (d) Becomes a bankrupt or commits an act of bankruptcy or if a receiver or a receiver-manager of his/her/its assets is appointed or makes an assignment for the benefit of creditors or otherwise.

8.2 In the event of a Default, any one or more of the other parties hereto may do any one or more of the following:

- (a) Pursue any and all remedies available at law and in equity, it being acknowledged by each of the Members that specific performance, injunctive relief (mandatory or otherwise) and other equitable relief may be the only adequate remedies for a Default;
- (b) Take any and all actions in their own name, or in the name of the Defaulting Member or of some or all of them, as may be reasonably required to cure the Default, in which case all costs (including without limitation legal costs on a solicitor-and-client basis) incurred therefor will be payable by the Defaulting Member to the other parties hereto incurring such costs, which costs will bear interest at the Prime Rate plus 3% from the date or dates on which they are incurred, and the full amount thereof plus all accrued interest will be payable on demand; and
- (c) Require the Defaulting Member to withdraw from the Fund pursuant to Section 7 hereof as if the Defaulting Member was a Withdrawing Member and had given notice in writing to the Board in accordance with Clause 7.2 hereof (and for the purposes of this Clause 8.2(c), in such event the Defaulting Member will be deemed to have received and provided the necessary approval of its Registered Producers pursuant to Clause 7.2(a) hereof).

8.3 Notwithstanding any provision of this Agreement to the contrary, if and for so long as a Member is a Defaulting Member:

- (a) All monies payable to such Member by the Fund will be held by the Fund and may be used by the Fund at its sole discretion towards wholly or partially curing a Default; and
- (b) The director appointed by such Member shall not be entitled to vote on any matters requiring a decision of the Board.

9. TERMINATION OF AGREEMENT

9.1 This Agreement will terminate on the occurrence of any one of the following events:

- (a) The Fund having a receiving order made against it, going into bankruptcy either voluntarily or involuntarily or making a proposal to its creditors;
- (b) The Members consenting in writing to the termination hereof; or
- (c) The 80th anniversary of the date hereof.

9.2 No termination of this Agreement will affect the right of any party hereto to which money is owed at the time of termination to receive such money according to the provisions of this Agreement, or affect any other right or remedy of such party hereto under this Agreement.

10. NOTICE

10.1 Any notice required or permitted to be given pursuant to this Agreement is to be in writing and may be given by delivering or sending by prepaid registered mail such notice to the address first above written of the party hereto for which such notice is intended, or to such other address as any of the parties hereto may from time to time advise by notice to the others in accordance with this provision. The date of receipt of such notice will be deemed to be as follows:

- (a) If such notice is delivered, the date of delivery thereof;
- (b) If such notice is sent by prepaid registered mail, the fifth (5th) day after the date of posting thereof, provided that if at the time of such posting or between the time of such posting and the fifth (5th) day thereafter there is a strike, lockout, act of God or other material disturbance affecting postal service, then such notice will not be deemed to be received until actually delivered.

11. ARBITRATION

11.1 Should there be a disagreement or a dispute between or among any of the parties hereto with respect to this Agreement, the interpretation hereof or any matters arising pursuant hereto, then such disagreement or dispute will be referred to a single arbitrator pursuant to the *Arbitration Act* (British Columbia), and the determination of such arbitrator will be final and binding upon each of the parties hereto. This provision will be deemed to be a submission to arbitration in accordance with the *Arbitration Act*.

12. SUBSEQUENT MEMBERS BOUND

12.1 Every person that acquires or holds any shares in the capital of the Fund hereafter will, as a condition of acquiring or holding such shares, subscribe to and be bound by this Agreement (*mutatis mutandis*), and each of the parties hereto covenants and agrees that upon the subsequent subscription to this Agreement (*mutatis mutandis*) by any and all such persons, each of the parties hereto will be bound to each and every other person, and in like manner, each and every person will be bound to each of the parties hereto and to each and every subsequent subscriber thereafter.

13. GENERAL PROVISIONS

13.1 Each Member will vote and otherwise act as necessary so as to give full effect to the provisions and intent of this Agreement, including without limitation causing the Fund to act in accordance with the provisions and intent of this Agreement.

13.2 Each Member hereby consents to all purchases and redemptions of Interests or any portion thereof made in accordance with this Agreement. Without limiting the generality of the foregoing, each Member will execute and deliver all such specific consents and waivers as may be required in each instance.

13.3 Each of the parties hereto will execute and deliver all such further documents, do or cause to be done all such further acts and things, and give all such further assurances as may be necessary or desirable to give full effect to the provisions and intent of this Agreement.

13.4 Each of the parties hereto will indemnify and save harmless the others from and against any and all claims, demands, actions, losses, damages, obligations, liabilities and costs (including without limitation legal costs on a solicitor-and-client basis) which may arise by virtue of anything done or omitted to be done by such party outside the scope of, or in breach of, this Agreement.

13.5 The failure of any party hereto to exercise any right, power or other advantage pursuant to this Agreement, or to insist upon the strict compliance with the provisions of this Agreement, will not be, and will not be deemed to be, a waiver of any of the provisions of this Agreement in respect of any subsequent or continuing breach of this Agreement, nor a waiver of the right to require strict compliance with all provisions of this Agreement.

13.6 Except as otherwise contemplated by this Agreement, any Member, that has disposed of all of such Member's Interest pursuant to this Agreement will be entitled to the benefit of and be bound by only the rights and obligations that arose pursuant to this Agreement prior to such disposition.

13.7 This Agreement is governed by and is to be construed in accordance with the law of British Columbia and the law of Canada applicable in British Columbia.

13.8 If any provision of this Agreement is invalid, illegal or otherwise unenforceable, then such provision is severable from and not to be deemed to affect any other provision of this Agreement. All other provisions of this Agreement are, nevertheless, to remain in full force and effect and no provision is to be deemed dependent upon any other provision unless so expressed in this Agreement.

13.9 Neither this Agreement nor any of the rights, duties or obligations hereunder will be assigned by any of the parties hereto without the prior written consent of the others, which consent may be arbitrarily withheld.

13.10 This Agreement will ensure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

13.11 Except as otherwise set forth in this Agreement, no subsequent alteration, amendment, change or addition to this Agreement will be binding upon the parties hereto unless reduced to writing and signed by the parties hereto.

13.12 Time is of the essence of this Agreement.

13.13 The provisions of this Agreement constitute the entire agreement among the parties hereto and supersede all previous communications, representations and agreements, whether oral or written, between or among any of the parties hereto with respect to the subject matter hereof, there being no representations, warranties, terms, conditions, undertakings or collateral agreements (express, implied,

statutory or otherwise) between or among any of the parties hereto other than as expressly set forth in this Agreement.

13.14 Upon execution of this Agreement, and thereafter whenever any new share certificates are issued by the Fund, each of the Members will surrender to the Fund for safekeeping in the records book of the Fund all existing share certificates. There will be legibly stamped or endorsed upon each share certificate a statement as follows:

“The rights of the holder of this Certificate and successors to the holder of this Certificate to sell, transfer, alienate, encumber, redeem, retract or realize the Shares represented by this Certificate are restricted by the provisions of a Members Agreement among the Fund and all of the Members thereof effective as of December xx, 2017.”

13.15 Each of the parties to this Agreement acknowledges having been advised to obtain independent legal, tax and accounting advice with respect to this Agreement and has done so or has considered doing so and, in his/her/its sole discretion and judgment, has decided that such advice is not necessary.

EXECUTED by the parties hereto to be effective as of and from the date and year first above written.

THE BRITISH COLUMBIA EGG MARKETING BOARD
PER:

Authorized Signatory

Authorized Signatory

BRITISH COLUMBIA BROILER HATCHING EGG COMMISSION
PER:

Authorized Signatory

Authorized Signatory

B.C. TURKEY MARKETING BOARD
PER:

Authorized Signatory

Authorized Signatory

BRITISH COLUMBIA CHICKEN MARKETING BOARD
PER:

Authorized Signatory

Authorized Signatory

This is page 17 of a Members Agreement among THE BRITISH COLUMBIA EGG MARKETING BOARD, BRITISH COLUMBIA BROILER HATCHING EGG COMMISSION, BC TURKEY MARKETING BOARD and BRITISH COLUMBIA CHICKEN MARKETING BOARD effective as of December XX, 2017.

4

Distribution & Sales

It is our understanding that the designing of the distribution and sales structure will be undertaken by the Consultant of this project through resources not associated with Marsh and McLennan Companies.

Marsh recommends the client ensure the structure meets the applicable provincial regulatory requirements and clearly describes key role and responsibilities.

5

Claims Handling

It is our understanding that the process of identifying and selecting the appropriate independent claims adjuster will be undertaken by the Consultant of this project through resources not associated with Marsh and McLennan Companies.

Marsh recommends the client ensure the claims adjuster has experience in handling fund deductible claims transactions and provide regular reporting. Below is a brief analysis of the benefits of a third party adjuster (TPA) and the disadvantages to be considered:

Benefits of TPA	Disadvantages of TPA
<ul style="list-style-type: none"> • The convenience of a single point of contact for clients on claims and program management issues. • Most firms are able to offer services on a national level. • Customized solutions tailored to a specific client which incorporates the client's business insights, strategies, goals and customer service philosophy. • Ability to establish dedicated units for larger claims programs in which examiners work with the client and access to specialized large and complex loss adjusters. • Comprehensive, customized claims reporting, viewing, and ability to track incident reporting. • Customized data to assist with Loss Control and Risk Management efforts through the use of benchmarking, loss projections and data analytics to identify and evaluate cost drivers. • Some firms are able to offer additional services- Litigation Management, Subrogation and Recovery Services, and Trust Management Services. 	<ul style="list-style-type: none"> • There are TPAs that will market their services on a national level. In some cases, it is a challenge for firms to offer the same product across the country, and the client experiences inconsistencies in the services provided. There are several factors involved- including the management philosophy, the culture and training in the local office, the geographical location, and the scope and experience of the adjuster. • It is difficult to manage and budget for TPA costs (variable costs v. fixed costs) as the costs incurred will be driven by the frequency and severity of losses. • The TPA is expected to make reserve and payment recommendations to the Underwriters. These recommendations are considered by the Underwriters, but in most cases the Underwriter will make the final decision on the appropriate reserve amount based on their internal processes and philosophy. This tends to lead to a disconnect, and the integrity of the data is flawed in the reports that a TPA is generating and providing to the client.

A third party adjuster typically undertakes the following responsibilities:

- Initial claims investigation – Description of incident, claimant details, injury/loss information
- Communication – on-going and initiated within a specified or reasonable timeframe
- Need for and assignment of field investigation- cost management and mitigation
- Use of appropriate experts including medical reports
- Fraud triggers identified and investigated
- Investigation quality and timing
- Subrogation potential explored and initiation as needed
- Policy coverage and limits applied correctly
- Payment and Reserve movement – analysis of process and quantum to determine if reserving is appropriate or if there has been evidence of step-reserving or leakage identified
- Claim value totals – for closed claims, a financial comparison to the expected value of the claim to actuals paid
- Action Plan – was it updated regularly?
- Status correct- can the file be closed? Was the file closed prematurely and has resulted in a re-open?
- Litigation Management – confirm use of appropriate resources and guidelines given the claim (from both a cost and expertise perspective).

6

Fronting Insurer

We have engaged Liberty Mutual Insurance Company to act as the fronting insurer for this insurance coverage.

The fronting insurer would require approximately 6 weeks to review the risk and the following information in order to provide a quote:

- Latest audited client's financials
- Full description of operations of named insured, including locations
- Program structure required including limits, sub-limits, deductibles
- If premium has already been established please provide
- Advise if premium taxes, boards & bureau & insurer fees should be deducted from the premium or if the premium should be grossed up accordingly
- If this is a group fund, how will the program work, are members added to the program monthly & as such premiums paid to the insurer monthly (if this is the case, what are the monthly premiums)
- Administrator for this program
- 5 – 10 years claims history, or claims forecast
- Claims adjuster
- Copy of policy wording
- Collateral in the form of Letter of Credit or reinsurance security agreement
- Any other pertinent information which will materially affect the risk

7

Reinsurance Analysis

Guy Carpenter, a subsidiary of Marsh and McLennan Companies, was engaged to provide analysis on developing reinsurance options, retention level, and maximum stop loss coverage.

As a result Guy Carpenter developed and provided three reports as follows:

1. Risk Transfer Program Analysis, March 15, 2017

This report discussed the required risk transfer components for the cleaning and disinfection exposure, the vehicles through which risk transfer can occur, some structures in which the Risk Transfer could occur, and a summary on next steps.

2. Coverage Option Review, July 26, 2017

This report discussed the necessary step of designing and developing primary program coverage in establishing a risk transfer program responding to cleaning and disinfection caused Notifiable Avian Influenza (NAI) outbreak.

3. BC Poultry Insurance Strategy, October 26, 2017

This report focused on designing a group funded deductible fund, capitalization of this fund and reinsurance, ownership structure and governance of the fund.

These three documents are included verbatim herein.

Risk Transfer Program Analysis, March 15, 2017

Introduction

The BC Poultry sector, along with provincial and federal governments, has been looking to develop a risk transfer program for the various regulated poultry producer groups. Discussion on the type of coverage and vehicle that the program will offer has been discussed in detail.

The initial approach was to develop a comprehensive insurance package that included a “gap” insurance coverage whereby the insurance product would indemnify the producer for lost production revenues not covered by the Canadian Food Inspection Agency (CFIA) resulting from a Notifiable Avian Influenza (NAI) outbreak via an industry owned captive. The package included a fixed amount per bird type that would cover the cost of Cleaning and Disinfecting (C&D) infected premises and a limited business interruption component.

Recently discussions have been redirected to focus on indemnifying producers for C&D costs. This new direction was chosen as a result of a number of factors; the national feather agencies position that compensation must be individualized for each infected premise with respect to the current review of the compensation formula by CFIA, the compensation for the gap in market value not being linked to sound marketing policy and possible privacy procedures between CFIA and the producer following a NAI loss and certain confidentiality requirements tied to the payments. In 2004, the total cost of C&D for the 42 infected commercial premises was ~\$3.0 million or an average of \$71,400 per farm. The cost was borne by industry and shared between processors and producers via levy proceeds of the various boards.

Detailed financial information on the most recent HPAI outbreak (in 2014) is not publicly available. Based on industry estimates developed in the Lessons Learned process, the 2014 cost of C&D was in the order of \$750,000 to \$1 million for the 11 commercial infected premises with the cost per farm ranging from less than \$10,000 to in excess of \$300,000.

The industry is currently examining the need for mandatory insurance and whether or not the requirement for a licenced producer to hold insurance for NAI is in accordance with sound marketing policy and is necessary to return the industry to a system of orderly marketing following a NAI discovery.

This document will discuss:

- i) The required Risk Transfer Components for the C&D exposure
- ii) The vehicles through which Risk Transfer can occur
- iii) Some structures in which the Risk Transfer could occur – pending further analysis, and
- iv) A summary on next steps

Ultimately the goal of this report will be to advise on what options are available to the various boards and what would be required to setup a Risk Transfer solution for poultry producers in British Columbia.

Cleaning and Disinfecting Risk Transfer Components

There are several boards domiciled in British Columbia with vested interest in the Poultry sector. We have provided a brief description below for each along with their current fund allocation for the C&D exposure. Our focus for this preliminary analysis will take into account the following four entities:



Broiler Hatching Egg Commission (BCBHEC)

The BCBHEC has a “Reserve for the Unforeseen” equalling \$624,574 as at December 31, 2016. This reserve includes a \$167,000 assignment to the Canadian Hatching Egg Producers to cover potential future assessments for over allocation production. A portion of this reserve could be allocated to provide C&D funding for producers of infected premises.

As a result of past NAI outbreaks, the BCBHEC has experienced reductions in levy income resulting from lost production due to the ordered destruction of broiler breeders. The loss in levy income reduces the ability of the BCBHEC to compensate producers for the cost of C&D of infected premises without jeopardizing the on-going operation of the BCBHEC. This provides support and interest to develop a separate risk transfer vehicle to respond on C&D losses

Chicken Marketing Board (BCCMB)

The BCCMB has established a Restricted Contingency Fund pursuant to the General Orders. The purpose of the Restricted Contingency Fund is to fund expenditures for unforeseen circumstances. While not explicitly stated, the fund can be used to mitigate poultry disease management related costs. As such, the BCCMB could fund a portion of the future C&D costs of those infected.

By order, the fund is to be maintained with a minimum of \$2 million and not exceed one year's operating expense budget. The funds balance for the fiscal year ending December 31, 2015, was \$2,468,808.

Given the restriction that the funds balance does not exceed one year's operating expense budget there is concern that a remote and extremely severe event could deplete the entire fund balance. This provides support for a risk transfer mechanism.

Egg Marketing Board (BCEMB)

The BCEMB has created a formal contingency which will be funded over the next few years. Currently, year over year, the BCEMB reports excess revenue over expenses greater than \$1 million which could be used in the event contingencies arise. The BCEMB has in the past increased the producer levy to generate funds for specified purposes, as was the case in 2004 to cover the egg industry share of infected premises C&D costs.

At the national level, the Egg Farmers of Canada has a Risk Management Fund that can be used to off-set producer losses resulting from a NAI, including a \$1 per bird provision for C&D. No assistance was provided to BC producers in 2014.

With no dedicated fund in place for C&D losses the BCEMB has significant interest in the setup of a standalone fund. Another benefit would be the mitigation of volatility in producers' levies to be charged.

Turkey Marketing Board (BCTMB)

The BCTMB is the only regulated poultry board that has a dedicated fund for "self-insurance". Following the 2004 HPAI outbreak, the BCTMB put aside budget surpluses to provide a contingency in the event of future turkey disease outbreaks. The BCTMB has dedicated \$750,000 of their Investments to the Internally Restricted Fund for self-insurance.

In total the various boards mentioned above could potentially allocate almost \$4 million dollars to creating a fund to pay for various disease losses including C&D. Allocating the full amount in contingencies to NAI C&D would require the boards and commission to re-establish their contingencies for other purposes. In addition another \$750,000 could be sourced from Agriculture Canada under the Growing Forward AgriRisk Capacity Building Initiative provided that the application for funding support is approved. Dependent upon the risk transfer appetite of the risk bearing vehicle, all or a portion of this available funding could be used for the prospective program. Guy Carpenter can analyze the risk portfolio for minimum funding levels in order to meet the requirements for the applicable risk transfer vehicles outlined in the next section.

Discussion of Potential Risk Transfer Vehicles

As a means to manage the risk transfer mandate for the aforementioned boards, a vehicle needs to be established to acquire, fund and transfer the risk. There are six defined vehicles in which risk can be

transferred listed below in priority of low to high establishment and maintenance requirements. The chart inset right illustrates where each potential arrangement ranks from a cost and regulatory requirement standpoint.

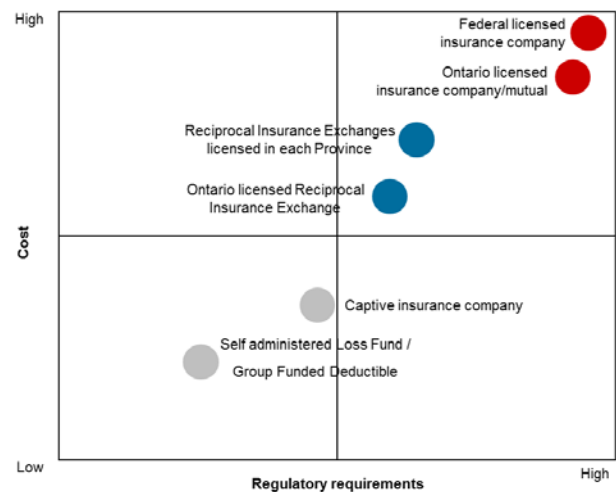
As shown, licensed insurance companies and reciprocals carry significant regulatory and reporting requirements. Minimum capital requirements, annual financial filings, committee reports (audit, etc.) and actuarial reports make up the majority of items that will need to be submitted as part of the regulatory requirements. These additional requirements and complexities result in higher operating costs well into several hundred thousand dollars to operate annually.

Reciprocals, also known as Affinity Groups, operate in a different manner than licensed insurance companies. The insurance organization is formed by individuals and businesses in a specific sector (such as the Canadian Egg Industry Reciprocal Alliance and the Ontario Poultry Insurance Exchange) and these individuals spread their associated risk via insurance contracts which are written amongst the members of the group. Policyholders of a reciprocal insurance exchange are referred to as subscribers.

Captive insurance companies (“captives”), like those already explored in previous undertakings, require feasibility costs (<\$50K), implementation costs (<\$30K) as well as annual operating costs (~\$100 K), and have relatively low regulatory requirements. The captive option presents a more cost effective means to deliver the risk transfer program to both the producer and potential reinsurance companies.

Self-administered loss funds have the lowest operating cost of any alternative structure (<\$50K) and have little regulatory requirements outside of income reporting for tax purposes. For insurance regulatory purposes, these funds are to be “fronted” by a licensed insurer and placed with a licensed insurance broker. Fronting fees can range between 3.5%- 5.5% net of premium taxes. The table on the next page ranks each structure by resource demand.

Relative program comparison



Relative program comparison

	Self-administered loss fund*	Captive insurance company	Reciprocal insurance exchange	Licensed insurance company
Regulated entity, licensed under a regulatory body	●	●	●	●
Extensive, detailed documentation (financial reports, actuarial reports, etc.)	●	●	●	●
Need to hire and maintain own staff	●	●	●	●
Freedom of operation (Offerings/coverage, limits, premiums, capital levels, etc.)	●	●	●	●
Set up and operating costs (focus member contributions on loss funding)	●	●	●	●
Lean operational structure	●	●	●	●
Responsiveness of fund to losses (timeliness of loss payments)	●	●	●	●
Fund solvency requirements	●	●	●	●
Member "premiums" are tax deductible	●	●	●	●

Consideration towards program size, required capital, speed of payment and overall program fit will need to be addressed in the selection process for the risk bearing vehicle. Such items as how the program will be offered, ultimate responsibility for ownership and the provision of stability to the various market participants will need to be included in the strategic development of the program.

Preliminary indicators in respect of the size and geographical scope of the offering show that the risk transfer needs can certainly be met by the lower cost and less regulated options. These solutions fit well with current capital efficiency demands and the required customization of coverage. As the product grows the corporate structure can graduate to the larger, more demanding structures in order to achieve benefits via economies of scale once they are obtained. Further direction can be provided as analysis is completed in regards to the underlying product as both size and take up within the various producer groups will determine the actual product structure.

Considerations for Retention and Risk Transfer

The federal government, through the Health of Animals Act (HOA Act), clearly place the responsibility for the cost of C&D on the owners of the infected premises. In the past, processors, boards, commission and federal and provincial governments have provided financial support to cover most or all of the extraordinary costs resulting from C&D following an NAI discovery. The federal and provincial government have stated that they would not likely support a future industry request for support via the AgriRecovery Program.

As indicated earlier the loss data for the 2014 outbreak is not publically available so it is difficult to properly incorporate the impact of that loss into this concept paper. Fortunately data on the 2004 loss is available for analysis via Seracon. The analysis completed by Seracon was done on a proxy basis as to what an insurance program “would” have covered. Seracon determined that if an insurance product was in place with parameters to cover gap, C&D and BII the total cost would have been \$26.1 million of which \$3.9 million resulted from C&D costs. In actual fact the actual loss attributable to C&D was \$3.0 million so therefore some calibration to the Seracon model for ongoing analysis will be required.

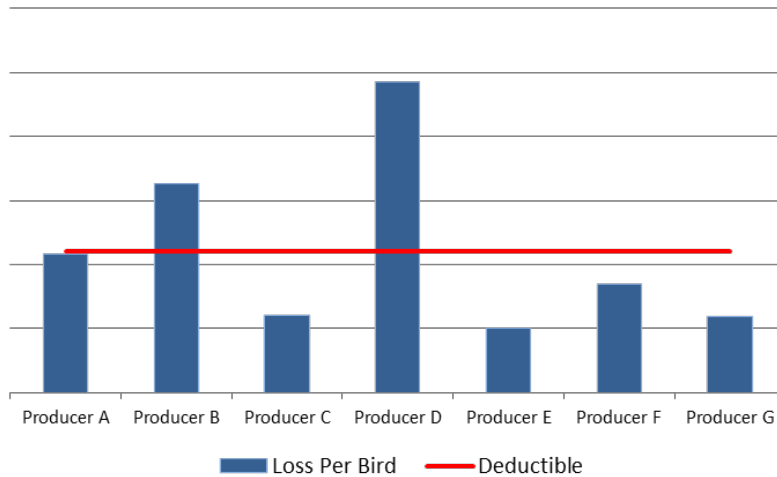
Fundamentally there are four bases to establish an insurance product – the same four are also equally import to reinsurance transactions. They are:

- Insured/reinsured retention
- Expected loss
- Required rate, and
- Target fund balance

Each of the aforementioned items are mutually dependent and correlated when developing the underlying insurance product and - ultimately – the risk bearing entity’s capital requirements. We will address each in the order presented above.

Retention, whether at the insured or reinsured level directly impacts the cost (rate) and capital required for the insurance entity. As the retention increases, more of the loss remains with the (re)insured and is not transmitted to the (re)insurance entity. With less expected loss being transmitted to the (re)insurance entity, less capital is required to remain at hand and fund balance targets can be reduced.

At the top of the following page we have illustrated an example of producers’ losses and how a deductible would impact each differently. Retention setting typically takes the pole position in program pricing exercises as expected losses are calculated based on a predetermined retention and pricing (rate) is then calculated after the expected loss amount is loaded for expenses (administrative and margin).

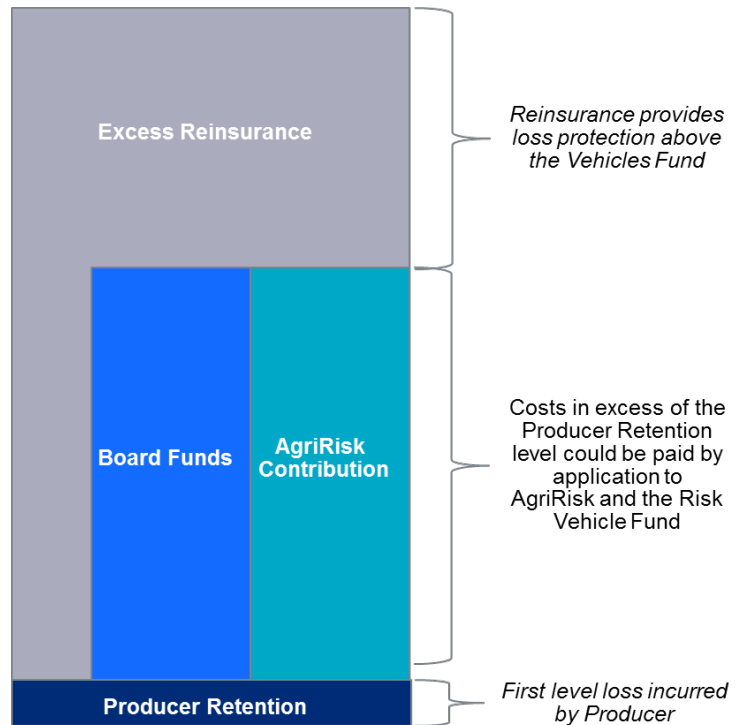


As shown in the diagram above, Producers B and D would have recoveries under the program. If these losses are in line with expected loss calculations then adequate rate would have been gathered and the fund would not be impacted negatively. Guy Carpenter has the capabilities to perform this expected loss analysis, but it is beyond the scope of this report.

A rate dependent on projected exposure will be calculated. As part of the rate determination retentions, expected loss and required fund levels will be incorporated to ensure that all regulatory and operational commitments remain outside. These sustainability and risk transfer costs will need to be incorporated into the primary rate charged to the insureds (producers).

Once the program retention and premium rates have been determined, the reinsurance protection for catastrophic loss scenarios will be designed. This reinsurance structure can be implemented on any of the risk vehicle structures previously described under section 3 however the various attachment points and limits will need to provide the necessary protection as defined by each vehicle’s regulatory mandates.

As illustrated in the diagram inset right, the



reinsurance cover can drop down to any amount not covered by the AgriRisk and Risk Vehicle (Board) funds as long as they are in excess of the Producer Retention.

Reinsurance would be utilized for unexpected catastrophic NAI losses. Referring to the diagram at the bottom of the previous page, the first and most immediate respondent to a NAI loss is the producer. Losses in excess of the Producer Retention level could then be paid by the government through application to AgriRisk Capacity Building (ACB) and Board funds (inclusive of Agriculture Canada funds if applicable) which are labelled accordingly in the diagram. ACB is a cost-shared federal-provincial program to provide seed capital to establish industry risk management initiatives, such as C&D cover for NAI. The funding is provided for a fixed period (x years) and subject to repayment. In the event that the Agri-Risk funding level is exceeded, reinsurance recoveries would keep the fund solvent.

As shown in the diagram, losses beyond a predetermined threshold (depicted by the grey area of the diagram) can source protection via the purchase of reinsurance. Various structures of reinsurance exist however two structures for immediate consideration are as follows:

- i) Aggregate loss protection: stop loss fund protection in the event of multiple claims (limit should be set below level of fund capital to ensure fund survival during the first few years)
- ii) Excess loss protection: loss protection above the fund limit for a single loss

Guy Carpenter is able to perform a best fit determination for the reinsurance structure after the primary program design is completed and expected loss figures are established. Once the rate load for reinsurance costs are imbedded in the primary rate charged to producers, financial liquidity targets will need to be identified.

Summary

This report has identified the following:

- i) A need for risk transfer for the poultry sector in British Columbia
- ii) C&D risk transfer components
- iii) The various vehicle formations through which risk transfer may occur, and
- iv) Considerations that need to be addressed for risk transfer.

In order to proceed with any of the ideas presented herein, agreement as to what and how the product will be offered to the various poultry producers and how each board will – if at all – participate in the setup of the risk transfer vehicle, is required.

Guy Carpenter has the capabilities and expertise to develop a risk bearing vehicle and can assist in the pricing and design of both primary and reinsurance risk transfer programs.

Required next steps are as follows:

- i) Select best suited risk bearing vehicle (Group Funded Deductible or Captive)
- ii) Design and develop primary program coverage
- iii) Analyse historic losses to develop an annual expected loss
- iv) Develop base primary rate inclusive of overhead and fund balance growth targets
- v) Explore reinsurance options to respond to pre-determined risk appetite and financial liquidity mandates

If approval to explore the various options provided in the document is received, Guy Carpenter can draft a project proposal plan which will outline the various costs and timelines for each requirement.

Coverage Option Review, July 26, 2017

Introduction

In the concept paper dated March 15, 2017 titled *Risk Transfer Program Analysis* the following items were outlined as needed steps in establishing a risk transfer program responding to cleaning and disinfecting costs (C&D) caused by Notifiable Avian Influenza (NAI) outbreak. In the conclusion, these required next steps were listed:

- i) Select best suited risk bearing vehicle (Group Funded Deductible or Captive)
- ii) Design and develop primary program coverage
- iii) Analyse historic losses to develop an annual expected loss
- iv) Develop base primary rate inclusive of overhead and fund balance growth targets
- v) Explore reinsurance options to respond to pre-determined risk appetite and financial liquidity mandates

The selection of a best-fit risk bearing vehicle – item i) above – will be decided upon by the various contributing producer groups. This decision has both capital and regulatory implications and the right risk-bearing vehicle needs to be selected by the parties who will be operating and serviced by it.

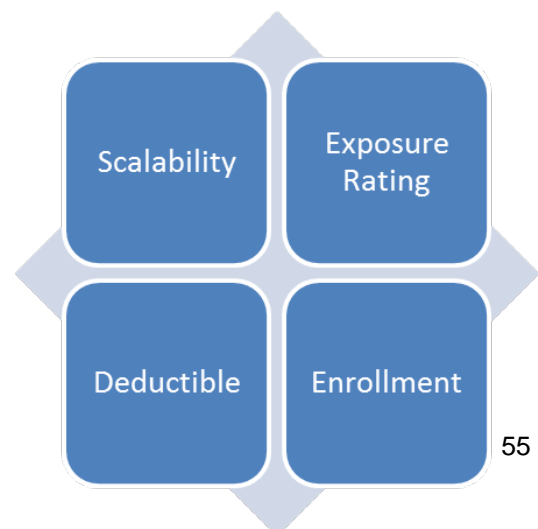
This report will address the second step being “Design and develop primary program coverage”. It will first look at the Primary Rating Components required for any insurance product and will then review four options for consideration. Reference to BC poultry market statistics will be used in order to develop a recommendation for the program structure.

The analysis will remain focused on what aspects need to be addressed in the product to ensure that the product can be adequately underwritten - meaning that risks can be assessed on their various beneficial or disparaging qualities and charged accordingly. By ensuring fair rating criteria is in place, the program will mitigate anti-selection and will have a better opportunity to provide coverage to every producer at the right price.

Following the above, we define what anti-selection is and how it can be mitigated in the program through the incorporation of the following aspects:

- Scalability to operation size
- Exposure rating (i.e. type of bird)
- Utilization of a deductible, and
- Enrollment rate (mandatory or voluntary)

After these characteristics are addressed, we will then compare four potential program structures to see how each respond to the aforementioned criteria. By tabulating the results, a best-fit program can be



determined for utilization in items iii) and iv) listed under the next steps above.

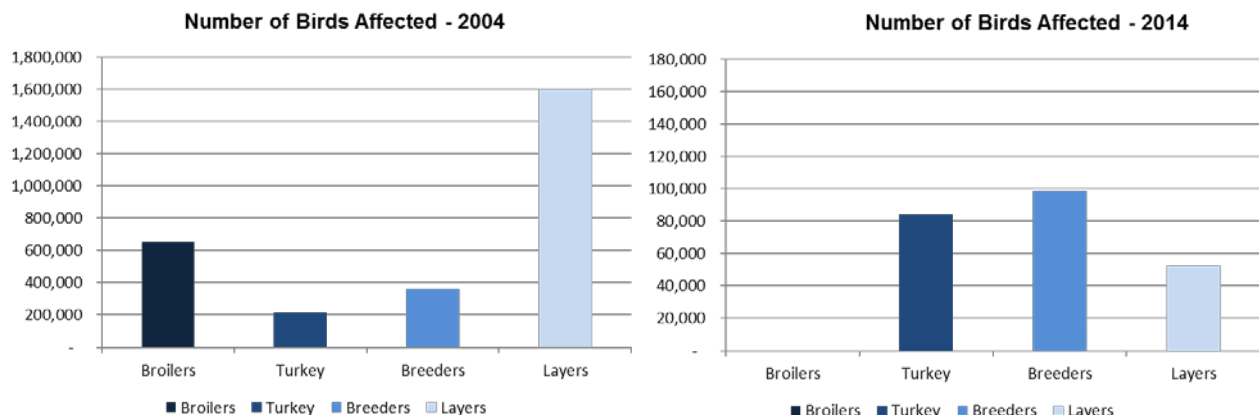
Description of Primary Rating Components

In the previous section the term anti-selection was referred to. “Anti-Selection”, sometimes called “Adverse Selection”, is a concept in economics, insurance, and risk management, which describes a situation where market participation is affected by asymmetric information or when buyers and sellers have different information. Insureds with better private information about their exposure to loss will selectively participate in programs which benefit them the most, usually at the expense of the insurer.

Insurance products have evolved to address anti-selection via the introduction of processes to identify and rate components of risk accordingly. In order for the NAI program to be sustainable and offer a long term platform of protection for BC Poultry producers, anti-selective qualities pertaining to the insured risk must be identified and contained. Fortunately - with the use of rating methods pertaining to size and risk quality – the impact resulting from anti-selection can be addressed. This is further enhanced if the enrollment rate can be maximized via mandatory participation which will be discussed under a separate section.

Scalability to Operation Size

It is crucial that the program offered is scalable to the operation size. This will enable the program to provide the necessary coverage on a custom level to each and every participant in the program. By referring to data collected following the 2004 and 2014 NAI outbreaks it becomes apparent that there can be a wide range in the number of birds affected depending on where the outbreak occurred and what operations were impacted. The charts inset below illustrate the number of each type of bird affected and it is apparent that the *Layers* sector was the hardest hit by having almost three times the number of birds affected. Note: The table is an accurate reflection of the number of birds compensated for ordered destruction in 2004. Not all of the birds were in premises that tested positive for AI and as a result the numbers that potentially would have been compensated for enhanced C&D would have been less. Using this loss as an example, if all of the affected birds were at one production site it would be critical to have a product that offers sufficient coverage for that producer. Coverage must have the ability to be tailored to differently sized operations.

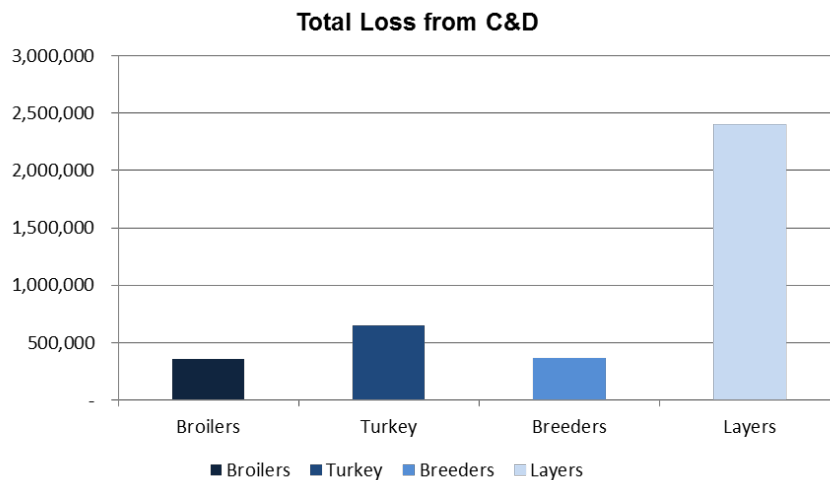


Exposure Rating

The second aspect to be discussed is the ability for the program to respond to the different classes of exposure in the program. Within the proposed program the exposure is best identified by the type of bird being covered. For discussion purposes the following diagram illustrates the four bird classes by which the exposure can be allocated.



Within these four classes there are some common characteristics between groups. Broilers and Turkeys are considered “meat birds” while Breeders and Layers are referred to as “long cycle”). For purposes of this report, the distinguishing factor between the two groups is the duration that the bird spends in the barn. The “risk of infection” increases with the amount of time spent in the barn. The higher exposure warrants consideration in the rate calculation for each bird class.



However, the two broad categories of “meat birds” and “long cycle” do not sufficiently capture all of the risk characteristics for each bird type. This is apparent by looking at the average C&D cost per bird for each of the four classes. For example, although Turkeys spend less time in the barn than Breeders, Turkeys have generated higher C&D costs than Breeders which spend considerably more time in the barn.

	Number Affected	C&D Loss per Bird (\$)	Total Loss (\$)
Broilers	-	N/A	-
Turkeys	87,482	2.50	218,705
Breeders	98,450	2.13	209,815
Layers	53,214	4.82	256,325

Another factor affecting C&D exposure is the size and type of barn and equipment. The more equipment within the barn, the greater time will be spent on C&D.

These observations indicate that each bird type has unique qualities that should be considered in the development of exposure classes – further reinforcing that four risk classes are needed.

Utilization of a Deductible

The size of the loss must be meaningful from the perspective of the insured. Insurance premiums need to cover: the expected cost of losses; the cost of issuing and administering the policy; adjusting losses; and supplying the capital needed to reasonably assure that the insurer will be able to pay claims. It doesn't serve any party in the agreement to have smaller, attritional losses processed. These losses increase administrative costs and unnecessarily burden the claims handling system and premium rate.

By utilizing a deductible, these attritional losses will not be covered and the administrative cost burden will be removed from the program. Consideration needs to be given to how the deductible level is set. Every consideration that was addressed as part of the insured exposure – resulting from scalability and class of risk – needs to be factored into the deductible to ensure no dislocation occurs. Listed below are some deductible options for consideration:

- i) Based on number of birds affected (per head)
- ii) A dollar amount per head of affected bird
- iii) Total loss amount in dollars
- iv) Percentage of operation impacted

Dependent on the actual program structure, one or all of the deductible options above could be sourced for the program. However, the perceived impact of the deductible by the insured will impact the enrollment rate which brings us to the last rating component.

Enrollment Rate

Enrollment does not impact the rating criteria as much as the aforementioned items. However it is important in the sustainability of the program on both a funding and data sourcing platform. To achieve a higher degree of enrollment, the prospective insured must see value in the coverage being offered. The most immediate value proposition is determined by whether or not the premium is considered reasonable on a risk-reward basis, and then is it affordable? If the likelihood of an insured event is so high, or the cost of the event so large, that the resulting premium is large relative to the amount of protection offered, then it is not likely that the insurance will be purchased. By not having sufficient enrollment, the program will not generate a sustainable volume of premium to pay for losses.

To appeal to prospective participants, the product should be able to cater to the specific needs of each potential insured. The required approach has been previously discussed in that the product will need to have the capability to adjust the retention/deductible, limit and premium/rate to best fit the exposure being covered. This customization could be mitigated somewhat if mandatory enrollment is sought.

Mandatory Enrollment

From a pure insurance standpoint, having every member of the participating associations required to participate would provide a larger pool of premium and comprehensive producer level data which could be utilized to enhance most – if not all – aspects of the program. With a mandatory enrollment, the program could not be anti-selected against due to all members being required to participate. Considering the reduction in anti-selection, the program will also benefit from reduced volatility and will become sustainable in a shorter time when compared to a program with optional enrollment. The reduction in volatility is also further mitigated due to the increased size of the program base and the more homogeneous spread of risk.

Governing protocols will need to be utilized to ensure that every poultry producer contributes to the pool. This may require additional resource to develop a compliance system that can determine which producers have contributed and which have not. On the other hand this capability may already be largely embedded in the existing quota management system. Relatively recent changes in authority enabling various boards and commissions to impose mandatory enrollment have removed barriers that previously stood in the way of mandatory participation. Further enhancement could occur if other authoritative bodies (i.e. AAFC and BCMA) indicate that no “Agri-Recovery” payments will be remitted for C&D losses which would direct producers towards enrolling into this program.

Regardless of whether the program has mandatory enrollment or not, care must be taken to ensure that the value proposition is maintained so that participation is deemed beneficial to – at minimum – the majority of its members. If enrollment is not made mandatory, then the benefits offered in the coverage will need to be structured in such a way that the program is sustainable and attractive to potential insureds.

In summary, the criteria discussed in this section will serve to grade the program coverage options that will be discussed in the next section.

Discussion of Program Coverage Options

This section will review four coverage options for the C&D losses component resulting from a NAI outbreak and rank each according to the four rating components discussed under Section 2. The four coverage options are as follows:

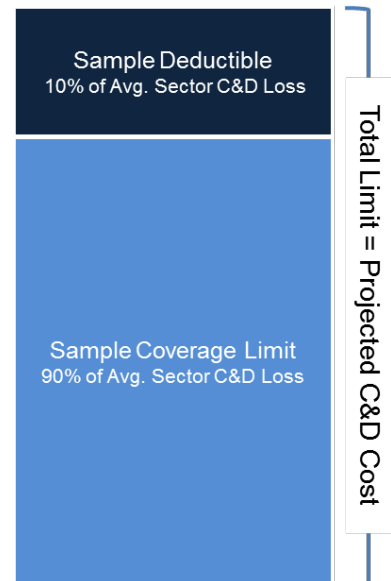
- i) Percentage of total loss

- ii) Fixed aggregate dollar value
- iii) Fixed dollar value per bird
- iv) Fixed dollar value per bird with additional percent of loss for excessive costs

This analysis uses a grading scale from 1 to 4 with 1 being “not very capable” and 4 being “very capable”.

Coverage Option 1 – Percentage of C&D Cost

This coverage option would respond on an excess of loss basis which indemnifies the insured up to a specific percentage of the total loss after the initial deductible is exhausted. Benefits under this cover are that recovery can be made for relatively small claims and, depending on the amount of the coverage bought, can protect to a meaningful degree. The coverage is based on a market average that would be applied to each respective producer independent of their operation size. For the purposes of this analysis the program structure will be set at coverage equating to 90% of the average C&D cost with a 10% deductible shown in the diagram inset right.



A challenge with this option is that both the limit and deductible will need to be defined in a broadly accepted manner potentially via the average C&D losses by sector. Due to the limited historical data available on costs of C&D, use of existing data to establish sector averages would result in \$0 for broilers; ~\$73,000 for turkeys; \$30,000 for breeders; \$250,000 for layers. Using this as the basis for determining coverage does not take into consideration that there may be unique instances (size of operation) that cannot be generalized and could leave the producer with either too much - or not enough - cover. Additional considerations and factors impact a producer’s bottom line such as efficiencies in operations through good management (in addition to mandatory biosecurity measures). Such factors impact the potential loss and would not be incorporated into the average coverage and rate. If they were, challenges as to how guidelines should be set arise.

This coverage option could be attractive to producers for the breadth of cover offered and potential responsiveness dependent on the deductible level. However, there are meaningful challenges in developing the exposure rating model and there is concern around the scalability in cases where the operation sees material inter-year and/or intra-year growth.

How the rating and scalability are addressed will directly impact the level of anti-selection inherent to the program. Concrete parameters for underwriting guidelines would be required. In light of these items, this option would be rated as shown at the top of the following page.

Coverage Option	Scalability	Exposure Rating	Deductible	Enrollment
Percentage of Total Loss	1	2	3	3

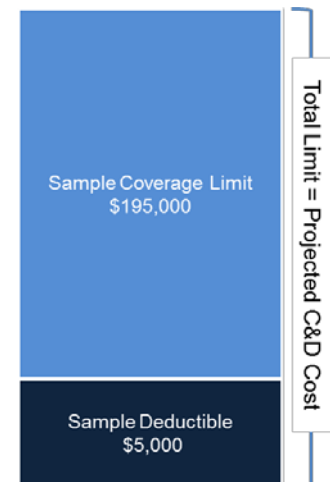
Summary:

Scalability – “not very capable”, due to non-correlation of cost of C&D to operation size
 Exposure – “somewhat capable”, due to non-correlation of costs to exposure (i.e. bird type)
 Deductible – “capable”, due to difficulty in determining proper level
 Enrollment – “capable”, due to producers having to only provide evidence of IP declaration

Coverage Option 2 – Fixed Dollar Value

This coverage option would respond on an excess of loss basis that would indemnify the insured up to a specific dollar amount of total loss after the initial deductible is exhausted. Benefits under this cover are that both limit and deductible amounts can be easily changed year-over-year and that the program has an easily identified attachment point. This differs slightly in operation from option 1 as under that program the loss was generated from drops in revenue whereas this program responds to increases in actual loss amounts.

Again, no base line data exists to underwrite the risk which will hinder the establishment of a definite limit and deductible that there is no mandated scalability. A large producer could purchase a nominal amount of cover leaving the operation exposed to a large loss and smaller producers could increase the deductible (reducing the cost of the program) and move the program further away from recovery.



This inherent flexibility is attractive to buyers who are sophisticated enough to properly assess the amount of coverage required thereby avoiding capacity charges for limit at the top of the program that in most cases will be unused. Additionally, the program operation is more standardized and therefore more readily understood by potential clientele. As was the case for option 1, issues surrounding rate and scale will directly impact the level of anti-selection inherent to the program. Without concrete parameters to establish underwriting guidelines this option would be rated as follows:

Coverage Option	Scalability	Exposure Rating	Deductible	Enrollment
Fixed \$ Value	1	1	4	3

Summary:

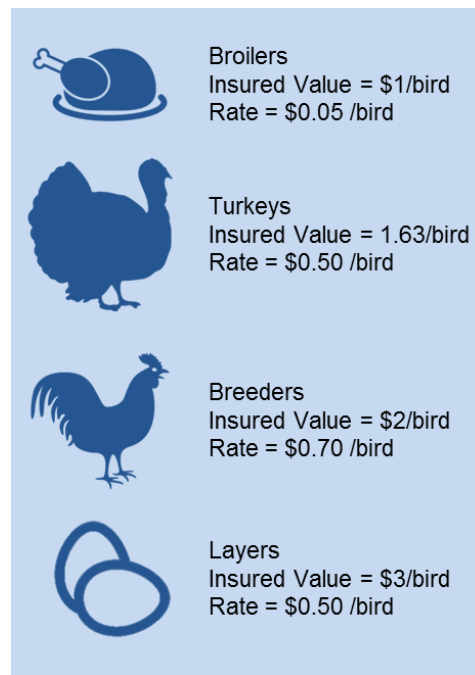
Scalability – “not very capable”, due to potential of coverage to operation size

Exposure – “not very capable”, due to non-correlation of cost to exposure (i.e. bird type) Deductible – “very capable”, due to incorporation of a defined dollar amount
Enrollment – “capable”, due to producers having to select deductible and limit amounts

Coverage Option 3 – Fixed Dollar Value Per Bird

Whereas under options 1 and 2 the coverage offered was dependent on actual dollars spent on C&D, the basis of risk for the next two coverage options will be based on the number and types of poultry being insured.

Referring to the charts included in Section 2, each class has quantifiable characteristics specific to each bird type. Therefore by designing a coverage that addresses these specifications the coverage offered becomes scalable and ratable accordingly to the exposure. A major requirement for this type of coverage is that analysis would have to be performed to establish that the proper amount of coverage is being provided on a per bird basis and that adequate rate is being charged. Both of these criteria can be determined via analysis of the historic loss occurrences. For discussion purposes C&D values have been selected for each class of bird as indicated in the diagram inset above right. In addition, it will be assumed that the insured producer has 1,000 birds in each respective class.



Coverage for this insured would be as follows:

Class of Bird	Number of Birds	Total Coverage	Total Premium
Broilers	1,000	\$1,000	\$45
Turkeys	1,000	\$1,630	\$500
Breeders	1,000	\$2,000	\$700
Layers	1,000	\$3,000	\$500
Total	4,000	\$7,630	\$1,750

There are two ways in which a deductible can be introduced if so desired. The first is via the standard application as shown in Coverage Option 2 whereby the loss must exceed a prescribed aggregate dollar amount. Rate should decrease as the deductible amount increases which could incent producers to take higher deductibles in order to achieve greater savings.

The second method of incorporating a deductible is by imbedding it in the coverage offered on a per bird basis. This would be the preferred method from an underwriting standpoint as it is fully customizable to each sector particular needs and exposure characteristics. For example, broilers have a comparatively nominal C&D exposure so the deductible could be set lower than the other sectors.

Referring back to the table above, by introducing a 10% deductible per bird across each class, both coverage and premium would also be impacted (assumed a 10% reduction for both coverage and rate). This impact is shown in the example at the top of the following page:

Class of Bird	Number of Birds	Deductible	Total Coverage	Total Premium
Broilers	1,000	\$100	\$900	\$40
Turkeys	1,000	\$163	\$1,467	\$450
Breeders	1,000	\$200	\$1,800	\$630
Layers	1,000	\$300	\$2,700	\$450
Total	4,000	\$2,000	\$5,630	\$1,570

The remaining consideration is how this program would resonate with prospective insureds. Given that it adjusts its costs according to size and risk, the program provides coverage on a fairer basis which should enlist some enrollment. The key criteria to generate participation will be how the rating for each class of bird is received by producers however if the program participation becomes mandatory this criteria's importance reduces significantly.

With all of the above being considered, the rating for this coverage option would be as follows:

Coverage Option	Scalability	Exposure Rating	Deductible	Enrollment
Fixed \$ value/bird	4	4	4	3

Summary:

Scalability – “very capable”, due to the coverage being directly related to operation size
 Exposure – “very capable”, due to correlation of exposure (i.e. bird type) to premium charged
 Deductible – “very capable”, due to multiple ways of incorporation (direct or imbedded)
 Enrollment – “capable”, due to producers being less able to anti-select against the program

Coverage Option 4 – Fixed Dollar Value Per Bird + % of Loss of Excessive Eligible Costs

This coverage option is identical to what was presented under option 3 but with a component of additional coverage for excessive eligible costs. These additional costs would result from demand surge type

charges whereby contracted cleaners would charge additional – above market – rates resulting from the surplus demand for their services.

Whilst this additional coverage is welcome, challenges become apparent when considering the impact to both the rating model and loss adjustment of the program.

First, the impacts to the rating model will be addressed. Given the lack of credible data available on the frequency and severity of losses arising from this additional cost, the only way a rating model can incorporate payments for this peril is by applying a generic load to the technical loss rate that is developed from actual losses. This method will prove punitive to insureds as the load will need to account for a meaningful amount of uncertainty that will increase the rate charged for the cover.

When shifting focus to the loss adjustment of the claim, only those producers who embrace these additional costs will see benefit from this feature. By not operating with a cost-sensitive mindset, considerable anti-selection is introduced to the program via this additional coverage which will negatively impact the overall performance of the program.

This behaviour also applies to the deductible of the program. By having additional anti-selective qualities in the program, more adverse risks will be incented to purchase coverage. With more adverse risk in the program the deductible will be dislocated from the true level and will either be too high for properly assessed risk or too low for understated risk.

With the uncertainty loads impacting the cost of the program, enrollment will be less than seen under coverage option 3 due to the program being more expensive.

Considering the uncertainty on how to properly account/rate for the excessive eligible costs, the overall ratings are lower than those presented under coverage option 3.

Coverage Option	Scalability	Exposure Rating	Deductible	Enrollment
Fixed \$ value/bird + add'l	4	3	2	2

Summary:

Scalability – “very capable”, for same reasons as presented under coverage option 3

Exposure – “capable”, due to uncertainty introduced from additional excessive costs

Deductible – “somewhat capable”, resulting from reduced accuracy of the deductible level

Enrollment – “somewhat capable”, due to enrollment decline resulting from increase in rate

Summary

This report has identified four rating components and has applied them to four separate and unique structures. The table inset below summarizes the findings for each program by each rating component:

Coverage Option	Scalability	Exposure Rating	Deductible	Enrollment
1. % of Total Loss	1	2	3	3
2. Fixed \$ Value	1	1	4	3
3. Fixed \$ value/bird	4	4	4	3
4. Fixed \$ value/bird + add'l	4	3	2	2

By being able to properly adjust for both scalability and exposure and also include two methods for incorporation of a deductible, Coverage Option 3 has the highest ratings. By having a fair platform to assess total risk this coverage option doesn't dissuade producers from enrolling as a result of anti-selection and actually promotes enrollment due to the customizable features of the program. Additionally, via a simple adjustment advice (i.e. number of birds by type) the coverage is easy to apply for and even more easily adjusted at the time of loss. Based on this reasoning Coverage Option 3 is best suited for exploration and rate development as specified under items ii) to iv) of the next steps in program development.

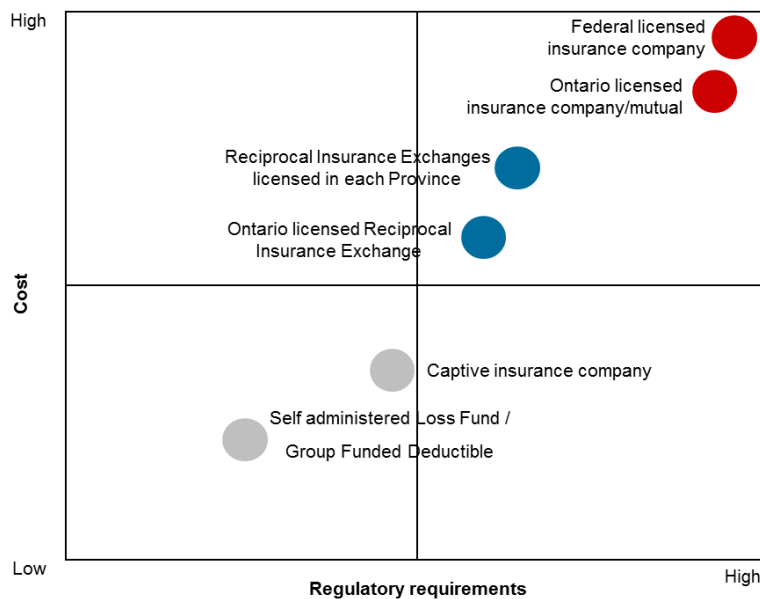
BC Poultry Insurance Strategy, October 26, 2017

Group Funded Deductible

While premiums paid to a large traditional insurance company are pure expenses to the policyholder, certain other forms of risk management strategy can have an equity component. An equity component is typically more interesting to program members than pure expenses because there is an opportunity to build net worth.

A Group Funded Deductible (C&D Fund) is a custom designed strategy that would include an equity component for its program members, BC poultry producers.

The following diagram shows where a Group Funded Deductible stands relative to other forms of risk transfer vehicles.



The next table provides greater resolution on the operational benefits of a Group Funded Deductible. The rating scale should be looked at relative to delivery of the C&D insurance policy. Green is considered the most favourable for delivery of C&D policies, red is the least favorable, and yellow is neutral or in between.

Relative Program Comparison	Group Funded Deductible	Captive Insurance Company	Reciprocal Insurance Exchange	Licensed Insurance Company
Regulated entity, licensed under a regulatory body	●	●	●	●
Extensive, detailed documentation (financial reports, actuarial reports, etc.)	●	●	●	●
Need to hire and maintain own staff	●	●	●	●
Freedom of operation (Offerings/coverage, limits, premiums, capital levels, etc.)	●	●	●	●
Set up and operating costs (focus member contributions on loss funding)	●	●	●	●
Lean operational structure	●	●	●	●
Responsiveness of fund to losses (timeliness of loss payments)	●	●	●	●
Fund solvency requirements	●	●	●	●
Member "premiums" are tax deductible	●	●	●	●

The C&D Fund model is a form of mutualisation. While member policyholders are not directly responsible to each other for each other’s claims, their fortunes are tied to the results of the insurance program. If the C&D Fund grows, the members benefit through the inherent equity in their shares of the C&D Fund. On the other hand, if the C&D Fund erodes, members are responsible for making decisions regarding the management of the C&D Fund. In either case, the Fund will require a certain amount of active management by the members.

From an accounting perspective the insurance premiums are treated as ordinary business expenses on the member’s income statement, as is the case when paying premiums to a third party insurer. But unlike insurance premiums paid to a third party insurer, the surplus that builds inside the C&D Fund belongs to the program members

Capitalization of the C&D Fund & Reinsurance

The C&D Fund must be capitalized and this can be accomplished by combination of an initial capital infusion from members and the first annual premium payment.

The JSCP (actuarial) report of September 13, 2017 suggests an initial capital infusion of \$1,000,000 in the event that a captive insurer is formed. This capital assumption also applies to formation of the C&D Fund. A good portion of this amount can be subsidized through the AgriRisk Initiatives program offered by the Federal Ministry of Agriculture. Our understanding is that this program makes available up to \$750,000 in the form of a perpetual interest free loan to be used as seed capital for programs like this.

The JSCP report goes on to recommend an annual premium of \$198,000: assuming stop loss reinsurance with a retention of \$100,000 at a cost of \$105,000; administration expenses of \$63,500; and a minor amount for adjusters fees. These expenses would also be applicable to operating the C&D Fund.

Reinsurance is required by the C&D Fund for financial risk management purposes. Reinsurance transfers risk from the C&D Fund to third party reinsurance companies in exchange for a premium. The premium is paid annually, and the coverage applies on a stop loss basis, meaning that the reinsurance layer pays after the C&D Fund retention of \$100,000 is exhausted.

The C&D Fund will require third party administration, accounting and actuarial services. The estimated cost of these services has been noted above. Likewise for adjusting expenses.

Premium tax would not be incurred directly by the C&D Fund, but would be incurred indirectly through the fronting insurer. A fronting insurer is required issue retail insurance policies to the program members. The fronting insurer also deals with regulatory filings. A typical fronting fee is 5% of the gross insurance premium flowing through the program, plus the premium tax noted above.

Ownership of the C&D Fund

The C&D Fund is a catastrophe program by nature. It is not expected to respond to frequency claims. In the absence of frequency claims it would be expected that the C&D Fund will grow over time, particularly so with the proper use of reinsurance to protect the C&D Fund.

Ownership of the growing fund is an important governance issue, and there are different ways to deal it. Our recommendation is to use a form of rolling ownership based on annual premium contributions.

For example, if program member A contributes 25% of the total C&D Fund premium in year 1, Program member A is entitled to 25% of the equity balance at the end of year 1. This equity belongs to program member A but does not vest for three years and so cannot be taken out of the fund until the beginning of the fourth year. This is intended to encourage continuous membership and growth of the C&D Fund. The component of profit earned during year 1 is allocated to a surplus account for each member for record keeping purposes and is carried forward to year 2. At the beginning of year 2 the equity weightings are recalculated based on premium contributions for year 2. In the example given below the equity weighting for program member A for year 2 is 23%. The cycle then repeats itself annually.

Program Member	Underwriting Year	Total Fund Premium	Member Premium	Weighting By Premium	Underwriting Profit After Reinsurance Recoveries	Weighted Underwriting Profit	In Trust Current Year	In Trust Cumulative	Vested	Cumulative Vested
A	Year 1	198,000	5,000	2.53%	100,000	2,525	2,525	2,525	-	-
	Year 2	205,000	7,000	3.41%	110,000	3,756	3,756	6,281	-	-
	Year 3	202,000	6,000	2.97%	90,000	2,673	2,673	8,955	-	-
	Year 4	165,000	5,000	3.03%	100,000	3,030	3,030	11,985	2,525	2,525
	Year 5	185,000	6,000	3.24%	75,000	2,432	2,432	14,417	3,756	6,281
	Year 6	195,000	7,000	3.59%	85,000	3,051	3,051	17,469	2,673	8,955
	Year 7	198,000	6,000	3.03%	95,000	2,879	2,879	20,347	3,030	11,985
	Year 8	190,000	5,000	2.63%	100,000	2,632	2,632	22,979	2,432	14,417

Governance, Moral Hazard and Conflict of Interest

The Fund is essentially a small insurance company that will have to be managed by its members at the equivalent of board level. The members will have to establish protocols regarding moral hazard and conflicts of interest.

After establishing governance protocol the mechanics of operating the Fund can be routinely managed by a third party administrator. The third party administrator then becomes responsible for general administration of the Fund including accounting, banking, actuarial, reinsurance and risk management, and claims management.

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Third Party Administrator/Trustee

Qualifications for Administrator of the Group Funded Deductible

If engaged, Marsh will work the client to develop requirements and qualifications for a third party administrator. Marsh will also assist in developing an administrative and cost structure as per the client's needs.

Selecting an Administrator

Upon development of the qualifications and program structure, Marsh will assist in creating a Request for Proposal process and provide assistance in the selection of a suitable administrator.

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Estimated Premium Costs

J.S. Cheng & Partners Inc. (JSCP) was engaged by the British Columbia Poultry Association to undertake a feasibility study to establish a captive insurance company to provide cleaning and disinfection expense insurance related with an avian influenza outbreak.

Please refer to this JSCP report dated September 13, 2017 for:

- Assessment of the risk and captive premium
- Estimated annual claims frequency and average losses
- Estimated claims and cost of reinsurance over 3 year period
- Estimated funding requirement over 3 year period
- Allocation of funding
- Pro-forma financial statements over 3 years
- Recommended loss limit per occurrence and an annual aggregate loss limit
- Estimated cost of stop-loss and excess-of-loss reinsurance
- Stress test for adverse events
- Recommended initial capital and surplus
- Opinion on feasibility for captive

Please note this report is developed based on a captive structure, rather than a group-funded deductible option. The difference in structures is noted in Guy Carpenter's Risk Transfer Program Analysis dated March 15, 2017 included in this report under section 7.

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Estimated Start-up Cost Breakdown

The following table offers an estimated cost breakdown comparison between a BC domiciled captive and a group funded deductible plan.

	BC Captive	Group Funded Deductible
	No Fronting	Liberty Policy with Group Deductible
	With Stop Loss Reinsurance	Association Manages Funds
Aggregate Retention	250,000	250,000
Assumed LOC	None	287,500
Retail Distribution		
Loss Cost	30,674	30,674
External Adjuster	500	500
Reinsurance Premium	79,343	79,343
G&A	80,000	83,688
Subtotal	190,517	194,205
Premium Tax	11,088	Require legal opinion. Assume NIL
Fronting Fee	N/A	21,578
Fronting Premium Tax Loading	N/A	Require legal opinion. Assume NIL
Retail Brokerage/Distribution	50,401	53,946
Gross Premium	252,007	269,728
General & Administrative Costs		
G&A	80,000	83,688
Management	35,000	Managed by association. Assume \$35,000
Audit	20,000	Unclear if required. Assume \$20,000
Actuarial (pricing and valuation)	20,000	20,000
Insurance License	3,500	N/A
Banking	1,500	1,500
LOC Cost	N/A	7,188

Assumptions		
Premium Tax	4.40%	Unclear if required (4.4%)
Fronting Fee	N/A	8%
Fronting Premium Tax Loading	N/A	Unclear if required (0.5%)
Retail Brokerage/Distribution	20.00%	20.00%
Total Loading	24.40%	28.00%

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Professional Fees

Our fee for the scope as proposed in the Work Plan is CAD \$10,000, plus applicable taxes. This fee is billable and payable upon receipt of this report titled Infected Premises Cleaning & Disinfecting Recovery Fund Report dated March 29, 2018.

Travel and related expenses, if any, are in addition to the above and invoiced at cost. This fee is also billable and payable upon receipt of the aforementioned report.

The fee outlined does not include assistance with implementation and operation of this fund. Should BC Poultry choose to implement this program, Marsh would be pleased to assist with this process and would prepare a separate agreement at that time.

We hope this report is acceptable and we look forward to the opportunity of working with you on this significant project.

If any further detail is required, please do not hesitate in contacting us directly.

Sincerely,



Daniel Winstanley
Senior Vice President
Marsh Canada Limited



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