



PRIVATE & CONFIDENTIAL

Canadian Lawyers Liability Assurance Society
(CLLAS)

Report to Reinsurers – Part II

for the Policy Period
July 1, 2018 – July 1, 2019

June 2018

Notice to Reader

This Report to Reinsurers has been prepared by the Canadian Lawyers Liability Assurance Society (“CLLAS”) to be provided to select underwriters (the “Underwriters”) on the understanding that it is for their exclusive use and that it and all information in, or pertaining to, it will be kept private and confidential.

All figures in this submission are expressed in Canadian currency unless otherwise specified.

Table of Contents

1.0	Introduction	1
1.1	Overview.....	1
1.2	Background.....	1
1.3	CLLAS Objectives	2
1.4	CLLAS Structure	3
1.5	Regulatory Jurisdiction	3
2.0	The CLLAS Reciprocal	5
2.1	Overview of CLLAS Subscribers Agreement.....	5
2.2	Mergers	5
2.3	Termination of Memberships	5
2.4	Expansion of the Reciprocal.....	6
2.5	Claims Administration	7
2.6	Risk Management.....	8
2.7	CLLAS Website	10
2.8	Financial Statements	10
3.0	CLLAS Member Firms	11
3.1	Background on CLLAS Member Firms.....	11
3.2	Limited Liability Partnerships	11
3.3	Non-Lawyer Patent and Trade-Mark Agents	11
3.4	Non-Lawyer Consultants/Professionals	11
3.5	Contract Lawyers Through Service Companies	12
3.6	Lawyers on Secondment	12
3.7	Cyber Exposures	13
4.0	Loss Experience Update.....	14
4.1	General	14
4.2	Claims Bordereau Update	14
5.0	Proposed Renewal Terms	16
5.1	Update to Headcount for Premium Calculation	16
5.2	Update to Headcount for Non-lawyer Professionals.....	17
5.3	Premium Allocation Between CLLAS and International Insurers.....	17
5.4	CLLAS Retention and Proposed Reinsurance	17
6.0	Renewal Applications.....	20

Table of Contents (Cont'd)

Appendix A	CLLAS Committees
Appendix B	Claims Administration Manual
Appendix C	Conflict of Interest Policy
Appendix D	Actuarial Report
Appendix E	Agreement Between CLLAS and “CLLAS International” Insurers Regarding Resolution of Allocation Disputes
Appendix F	Policies on Directors & Officers/Conflicts of Interest/Tax Opinions/Outside Counsel Guidelines
Appendix G	Key Elements of CLLAS Risk Management Program
Appendix H	Audited Financial Statements as of December 31, 2017
Appendix I	Associated Firms and Joint Venture Firms
Appendix J	Foreign Law and Foreign Offices Drop-down Exposures
Appendix K	Open and Closed Claims Bordereaux as of March 31, 2018
Appendix L	Large Loss Claim Precis
Appendix M	Estimated Number of Lawyers, Non-lawyer Patent & Trademark Agents and Non-lawyer Consultants/ Professionals as of March 1, 2018

1.0 Introduction

1.1 Overview

The Canadian Lawyers Liability Assurance Society (CLLAS) is a reciprocal insurance exchange formed in Ontario in 1987. It currently has 10 members and operates on the basis of five-year underwriting periods (“Underwriting Periods”). July 1, 2017 marked the beginning of the seventh Underwriting Period, which saw 10 of the 11 member firms recommit to CLLAS following a difficult, but successful Underwriting Period renewal in which competitors quoted savings of 30% to 33% relative to the existing CLLAS pricing, with multi-year rate guarantees.

Dentons Canada LLP (“Dentons”) was the only firm not to renew; however, the firm’s departure was not as a result of direct competitive pressure. Following a series of international mergers in 2013, Dentons Canada made known that it would not renew participation in CLLAS on July 1, 2017 (the end of the then-current Underwriting period) to allow the Canadian firm to participate in Denton’s global insurance program designed to address the firm’s U.S., U.K., and Chinese exposures.

CLLAS has resolved to seek new members and has added two firms to its Associate Firm program, which allows firms to get acquainted with CLLAS before formally joining the reciprocal.

The total projected lawyer count for the 2018/2019 policy year as determined from the renewal applications is 3,688. Actual headcount will be finalized based on updated June 15, 2018. No significant mergers or changes are anticipated at this time.

CLLAS greatly appreciated the cooperation of reinsurers last year, without which, CLLAS would likely have lost at least one significant member. As discussed during the renewal last year, CLLAS’ main objective for this renewal is to maintain the current terms and conditions, and focus on program stability for the years to come.

Mr. Nicholas Leblovic of Davies Ward Phillips & Vineberg LLP has stepped down as the Chair of CLLAS after a 10-year tenure in that position. CLLAS welcomes Mr. Kenneth Crofoot of Goodmans LLP as the incoming Chair. Mr. Crofoot has been a member of the CLLAS board since 2012 and is general counsel of his firm involved in all aspects of professional practice including insurance, risk management, conflict management, and ethics and has been operating as incoming Chair for the last year. As such, he is very well positioned to provide a seamless transition, and will be actively engaged in CLLAS’ renewal negotiations and strategic initiatives.

This year we have decided to present the CLLAS Report to Reinsurers in two parts, as follows:

Part I of the Report to Reinsurers, distributed in April, provided a review of the expiring terms, an overview of CLLAS’ Firm and lawyer count, analysis of CLLAS’ loss experience, and the expectations for reinsurance terms for the period July 1, 2018 to July 1, 2019.

This Part II of the Report to Reinsurers is intended to provide additional information to reinsurers on CLLAS’ risk management, operations, claims management process, updates on claims and CLLAS firm lawyer counts, along with other informational items

1.2 Background

CLLAS was initially established to provide professional liability protection to its member firms excess of the primary insurance provided on a mandatory basis by the Law Society of Ontario (formerly Law Society of Upper Canada). The CLLAS Program is now also excess of the mandatory insurance programs of the law society insurance programs in Alberta, British Columbia, Quebec, and Nova Scotia where some member firms maintain offices. CLLAS, as a reciprocal

insurance exchange, provides professional liability protection pursuant to the terms and conditions of the insurance policies issued by it to its member firms.

The current underlying primary mandatory limits applicable to each of the provinces are as follows:

- Alberta: \$1,000,000 per claim/\$2,000,000 annual aggregate
- British Columbia: \$1,000,000 per claim/\$2,000,000 annual aggregate
- Ontario: \$1,000,000 per claim/\$2,000,000 annual aggregate
- Nova Scotia: \$1,000,000 per claim/\$2,000,000 annual aggregate
- Quebec: \$10,000,000 per claim

- Notes:
- 1) Above limits are on a per lawyer basis.
 - 2) The law society insurance programs have sub-limits for certain coverages.
 - 3) Because of the possibility of sub-limits, deductibles, wording differences or the exhaustion of the annual aggregate in the underlying coverage, CLLAS provides drop-down and in-fill protection on a difference in conditions (DIC) and difference in limits (DIL) basis through its Primary Policy.

CLLAS' geographic profile has changed with firm mergers that have taken place over the years (mainly 1999-2002) resulting in an improvement in the jurisdictional spread of risk, i.e. less concentration in the Province of Ontario compared to the earlier years.

Risk management at the individual firm level, and at the overall CLLAS level, has been an area of focus and success since the formation of CLLAS. There are a number of risk management initiatives, including sophisticated risk management audits, educational seminars, and practice notes that have been undertaken by CLLAS and the CLLAS member firms. See section 2.6 for details.

1.3 CLLAS Objectives

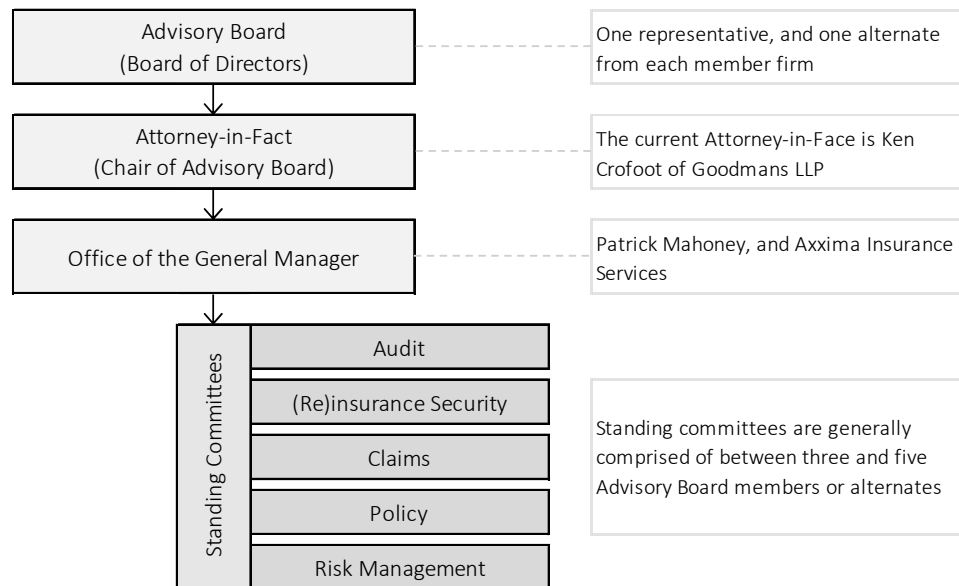
The major objectives of CLLAS are:

- to enable a meaningful portion of the risk underwritten by CLLAS to be retained by CLLAS or by Colchester Reinsurance Limited;
- to provide insurance at cost with no profit or risk loadings for the retained risk;
- to provide increased availability and stability of insurance to its member firms;
- to provide a community of interest amongst its member firms in respect of professional liability matters in general, and loss prevention in particular; and
- to cultivate and maintain long-term relationships with its reinsurers.

These objectives have enabled CLLAS to provide significant, long-term benefits to member firms.

1.4 CLLAS Structure

A schematic of CLLAS' management structure is presented below:



CLLAS is governed by its Advisory Board which consists of one representative from each of the member firms. The Chair of the Advisory Board also acts as Attorney-in-Fact.

CLLAS continues to rely on its standing committees for important matters. For example, the CLLAS Claims Committee is comprised of five CLLAS Advisory Board members (or alternates), each of whom is an experienced litigation lawyer. It has the responsibility of reviewing the more significant claim files. The Committee is regularly assessing liability and damages, monitoring new developments and recommending changes in reserves. They are assisted by the General Manager's office referred to below, specifically Patrick Mahoney, a lawyer who coordinates the review process and liaises with the Lawyers' Professional Indemnity Company (LawPRO) or other law society insurers to access the underlying insurers' claim files and documents.

Appendix A sets out the current committees and their members.

Patrick Mahoney and Axxima Insurance Services fill the role of the Office of the General Manager for CLLAS. CLLAS' appointed actuary, Julie-Linda Laforce, is also part of the Axxima Group.

Deloitte LLP acts as CLLAS' auditors.

1.5 Regulatory Jurisdiction

As a reciprocal insurance exchange, CLLAS is regulated at the provincial level because the insurance framework of the federal regulator, the Office of the Superintendent of Financial Institutions (OSFI), does not explicitly contemplate reciprocals. CLLAS' principal regulator from inception until June 30, 2012 was the Financial Services Commission of Ontario (FSCO). Effective July 1, 2012, the Alberta Superintendent of Insurance became the primary regulator for CLLAS, in place of FSCO. This change, which took place at CLLAS' initiative with the agreement of both the Ontario and Alberta regulators, was undertaken primarily as a result of CLLAS' desire to fall within the governance framework of Alberta which closely follows OSFI guidelines and international standards. These guidelines require that an insurer

have a sound and comprehensive insurance risk management plan that appropriately reflects the scale, nature and complexity of the insurer's business.

Alberta, in following OSFI's approach, provides a pro-active and internationally-respected regulatory environment for CLLAS. This is seen as adding strength and value to CLLAS, its members and reinsurers.

As of March 28, 2018 the head office of CLLAS is as follows, at an office of member firm Torys LLP:

525 - 8th Avenue S.W., 46th Floor,
Eighth Avenue Place East
Calgary, Alberta T2P 1G1

2.0 The CLLAS Reciprocal

2.1 Overview of CLLAS Subscribers Agreement

The CLLAS Subscribers' Agreement sets out the rules of operation for the reciprocal insurance exchange and addresses such key issues as:

- Advisory Board – consists of one member from each member firm;
- Underwriting Period – five years;
- Accounting Period – the underwriting period plus further period not to exceed five years;
- Banking and Financial Matters;
- Admission of New Members;
- Minimum Period of Membership – If a firm is admitted to membership within the first two years of an underwriting period, the minimum period of membership is the balance of the current underwriting period. If later, it is the balance of the current underwriting period plus the following underwriting period;
- Termination of Membership; and
- Obligation of Continuing Liability.

2.2 Mergers

Since 1999, a number of CLLAS member firms were involved in merger activities due to the need to provide clients with services on a national and international scale. CLLAS provides coverage to all of the merged and predecessor firms.

On January 1, 2011, two member firms, McMillan LLP and Lang Michener LLP, merged and started to operate under the name McMillan LLP.

Member firm Fasken Martineau DuMoulin LLP merged with Johannesburg-based law firm Bell Dewar Inc. on February 1, 2013, adding close to 80 lawyers to the firm's Johannesburg office. While the CLLAS Primary Policy does not provide coverage for the practice of foreign law, the Optional Excess and Blanket Excess Policies were endorsed to extend coverage to Bell Dewar Inc. and its predecessor firms.

In February, 2014 Heenan Blaikie LLP, a Montreal-based law firm, dissolved. A number of former Heenan Blaikie lawyers became partners or associates of certain CLLAS member firms, and CLLAS agreed to provide tail coverage for these lawyers for claims reported after April 30, 2014 relating to professional services rendered while the lawyers were at Heenan Blaikie. As of the date of this submission, there have been no Heenan Blaikie related claims that penetrate the CLLAS layer so CLLAS is comfortable to continue providing tail coverage to former HB lawyers on its policies (by endorsement) without charging additional premium.

2.3 Termination of Memberships

On June 30, 2012, Blake, Cassels & Graydon LLP terminated its membership with CLLAS at the end of the Fifth Underwriting Period. Blakes was the first firm to voluntarily withdraw from CLLAS since its formation.

Dentons Canada LLP (formerly Fraser Milner Casgrain LLP) withdrew from CLLAS at the end of the current previous period, June 30, 2017. Dentons Canada LLP had announced its desire to leave CLLAS in 2013, the first year of the sixth underwriting period, due to the Swiss Verein it had merged with having a global insurance program. CLLAS' advisory board voted on a motion to allow Dentons Canada LLP to exit CLLAS early, and it was decided that the five year

underwriting period was to be upheld. Dentons Canada LLP remained a supportive member for the remaining four years of the period.

2.4 Expansion of the Reciprocal

In 2015, it was decided that CLLAS should actively seek to add a few new firms that meet its eligibility criteria. The following options for expansion were considered:

1. Traditional expansion of CLLAS based on existing rules;
2. Changing the traditional approach by attracting smaller firms and/or firms that are outside of Ontario; and
3. Creating a dedicated underwriting facility whose participants are not part of the reciprocal but are associated with CLLAS.

It was concluded that the first option above should be pursued but it was also acknowledged that this approach faced challenges given current insurance marketplace conditions. As a result, the conclusion was that the third option above be explored. To achieve this, the CLLAS Board approved the establishment of a dedicated underwriting facility pursuant to which eligible law firms would become “CLLAS Associate Members”.

CLLAS Associate Members would have access to many of the benefits of CLLAS, including CLLAS’ claims management expertise and customized policy wording, but would not benefit from CLLAS’ ability to retain risk, which has a material stabilizing impact on insurance costs over time. Full entry into CLLAS would be required to obtain that benefit.

The Board was clear in its conclusion that CLLAS Associate Members should meet similar underwriting criteria as would be applicable to direct entry into CLLAS. Quantitative measures include: growth of the firm; report and loss claim frequency; large loss claim frequency; and loss per exposure unit. Qualitative measures include: standing and reputation within the legal community; ongoing stability; internal organization; degree of concentration in “high risk” practice areas; and acceptance of CLLAS policies. Essentially, this initiative is viewed by the Board as a way of adding immediate value to potential new members while pre-underwriting the firms so that they would have easier access to full membership in CLLAS in the future.

Immediately following this decision, Axxima Insurance Services approached and held meetings with several Ontario-based law firms to outline the program. After receiving the application from Lenczner Slaght Royce Smith Griffin LLP and determining that it met the CLLAS underwriting criteria, this firm (with close to 50 lawyers) officially became a CLLAS Associate Member on January 1, 2016. Lenczner purchased total limits of \$95,000,000. The Primary Excess Policy of \$50,000,000 was an 18-month policy (to coincide with the expiry of the CLLAS policy) placed through Binding Authorities for which Axxima Insurance Services is the Coverholder. Underwriters on the Binding Authorities included some who also participate on the CLLAS Program. \$45,000,000 excess of \$50,000,000 was placed with the same commercial markets already committed to other CLLAS members.

Lenczner renewed their policy upon expiry July 1, 2017 and are expected continue to stay on as a CLLAS Associate Member.

On January 1, 2017, Stockwoods LLP became the second CLLAS Associate Member. This firm is comparatively smaller (20 lawyers) and they only purchased a limit of \$30,000,000. Again, an 18-month policy was issued to coincide with the expiry of the CLLAS policy.

Axxima Insurance Services continues to selectively approach law firms to explore the prospect of joining CLLAS, either as full members or as Associate Members.

The CLLAS Associate Member initiative is being undertaken as a separate initiative, i.e. it is not part of this reinsurance submission. However, it is anticipated that over time, some Associate Members will convert to direct participation in

CLLAS. Ideally, CLLAS' intention is to grow modestly and prudently, by adding three or four firms, with perhaps 1,000 lawyers.

2.5 Claims Administration

The CLLAS Claims Administration Manual is attached as **Appendix B**. The following summary is an overview of how claims are managed by CLLAS through the General Manager.

CLLAS has established procedures for addressing possible conflicts of interest where member firms may be asked to represent claimants against other member firms, including notification to the Chair of the Claims Committee or the CLLAS General Manager. The current Conflict of Interest Policy is contained in **Appendix C**.

Claim Reporting and Handling

The policy requires that claims be reported directly to the General Manager's office at the same time as they are reported to the applicable law society program. The General Manager's office conducts a thorough initial (and, in the case of substantial claims, on-going) review of the material to, among other things, determine potential exposure and identify coverage issues.

Claims which in the view of the law society program, or of CLLAS, are likely to be equal to or greater than \$500,000 are considered to be "substantial claims". CLLAS monitors all substantial claims by working closely with the representatives of the law society programs in the respective provinces.

Claims under the drop-down/differences in conditions coverage are reported to, and managed by, the General Manager's office.

CLLAS Claims Committee

CLLAS has a Claims Committee which consists of four or five leading litigation lawyers (barristers) from some of Canada's leading law firms, each of whom has at least 30 years of practical litigation experience at all levels of courts, including extensive experience in professional liability and insurance matters.

The Claims Committee reviews substantial claims with respect to liability, damages, coverage, strategy and approach and/or the identity of appropriate coverage, defence or monitoring counsel. The Claims Committee meets on a regular quarterly basis to review substantial claims, and on an ad-hoc basis as necessary to provide input to claims that are at a stage where they develop rapidly.

The benefit to CLLAS of its Claims Committee is significant. Claims under review receive the benefit of the perspective of a number of senior counsel who can provide valuable analysis, insight of practising litigators, and recommendations whose views carry substantial weight with underlying insurers and/or defence counsel who may be involved.

Reserves

In setting reserves, CLLAS takes into consideration the reserve information provided to it by underlying insurers (where available), copies of defence counsel and expert reports, discussions with defence counsel, and other information that may become available to it (e.g. its knowledge of the lawyers involved and other "intangible" information). While recognizing that reserving, particularly at the excess level, involves the exercise of judgment based on CLLAS' collective experience, it is CLLAS' aim to reserve to the ultimate cost of the file at the earliest possible time. Given the nature of excess claim files, information required to make the full analysis (i.e. to set a reserve that will be sufficient to take the matter through to settlement, trial or appeal) is often not fully available until after completion of examinations for discovery and/or the receipt and review of expert reports. CLLAS' reserving approach is to be realistically conservative.

The December 31, 2017 actuarial report is provided as **Appendix D** which sets forth the claims liabilities, including reserves, as of that date.

Reporting to Reinsurers

The claims reporting threshold for reinsurance purposes is \$500,000 ground-up (reserves plus paid indemnity and expenses). In the case of these claims, a Large Loss Report is prepared for distribution to each reinsurer participating on that particular policy year. These reports contain a summary of the matter and details relating to the paid/reserve amounts established by both the law society and CLLAS.

The initial report for a particular claim is generated based on calendar quarter-end reserve information and is dispatched within 45 days of the end of that quarter (i.e. May 15, August 15, November 15 and February 15). Reports are updated on a quarterly basis. Updates are distributed within 45 days following each quarter end until the claim is closed or its total incurred amount is reduced below the reporting threshold.

CLLAS also hosts a conference call with its reinsurers involving, as required, its London broker, Miller Insurance Services LLP, and the lead syndicate in the first layer of reinsurance to discuss new claims and developments in significant claims and/or discuss any input the reinsurers may have on claims which CLLAS is reporting.

When warranted or upon specific request, CLLAS also provides interim updates to reinsurers if significant developments arise on a particular claim (e.g. involving settlement negotiations/mediation efforts).

CLLAS International

In certain cases involving claims against those firms with a policy issued under the CLLAS International Program (as further detailed in section 5.2), the claims may be covered by both the CLLAS Policy and the CLLAS International Policy. In order to address situations where there may be a disagreement between CLLAS and the insurers under the CLLAS International Program as to the allocation of liability for such claim, CLLAS has entered into an agreement with the CLLAS International insurers (see **Appendix E**). Pending a determination as to the appropriate allocation of liability, CLLAS and the CLLAS International insurers will make payments in respect of such claim (including defence costs) on a 50/50 basis.

2.6 Risk Management

CLLAS devotes a considerable amount of resources to a risk management and loss prevention program continues to evolve under the oversight of the Risk Management Committee. The key elements of the program are:

- Risk Management Audits;
- Risk Management Information and Programs;
- Firm Policies and Procedures; and
- Co-ordination with the Law Society Loss Prevention Programs.

Work continues to develop in all areas, in particular:

- John Walker, a partner of the law firm Walker Sorensen LLP, completed a second full round of risk management audits. As background, Mr. Walker completed the first round of risk management audits of all CLLAS member firms about six years ago. He has used the results of those audits to prepare a second round of audits on a more focused basis. This process involved the firm lawyers and staff completing detailed surveys at various levels of seniority and the preparation of privileged and confidential reports for each firm. Each report shows the firm where its policies and procedures stand in relation to both the previous risk management audits and to the other CLLAS member firms. An anonymized summary report was provided to CLLAS, which educates the Risk Management committee on areas to focus on for future risk management seminars.

- In 2010, CLLAS began the development of an interactive, computer-based risk management program to be delivered at the individual lawyer level. This program built on the loss control/risk management templates developed by Mr. Walker, with the assistance of a consulting company that specializes in e-learning. The program has been certified for continuing professional development by the Law Societies in Ontario, BC, Quebec and New York. A full 13-module program was developed and translated into French. In 2015, it was concluded that the existing program would require significant investment to ensure its continued relevance, and the CLLAS Board determined that the most effective course was to enable each member firm to freely customize/update the program as saw fit.
- In 2013, a number of CLLAS' underwriters asked questions in relation to several class action claims arising out of tax opinions provided in connection with leveraged charitable donation programs. In response to these concerns, CLLAS' Risk Management Committee undertook a review of the principal factors which may have given rise to such claims. This review included a survey of senior tax practitioners in each of the CLLAS member firms to determine their practices and policies relating to tax shelter opinions. The following is a summary of the results of this survey:
 - At least half of these firms have never provided tax opinions in relation to tax shelters of the type which have been the subject matter of such claims;
 - Some firms do provide tax opinions in relation to fairly mainstream offerings of what are commonly called "registered tax shelters" in respect of which a tax shelter identification number has been obtained from the applicable revenue authorities;
 - All CLLAS member firms have decided not to provide opinions associated with marketed tax shelters except with respect to "registered tax shelters".

Based on this review, the Risk Management Committee developed a practice note to raise awareness of the risks associated with providing tax shelter opinions that third parties may be entitled to rely upon and the considerations that member firms should take into account in relation to providing such opinions. The practice note, which has been circulated to all member firms and is expected to be shared internally within these member firms, is contained in **Appendix F**.

- On September 21, 2016, CLLAS held a risk management seminar in Toronto and broadcast by webinar to office locations of member firms outside of Toronto. There were 68 attendees (36 in person, and 32 remotely) including Managing Partners, General Counsel, Chief Risk Officers and CLLAS Board members. Topics included recent developments in conflicts of interest, challenges faced in dealing with outside counsel guidelines, and cyber security. The 2016 edition of CLLAS' risk management seminar was well-received. Work has begun on the next seminar. A date has not been finalized, but the current plan is for it to be held in the Fall of 2018.
- It is becoming a more common practice for both existing and prospective clients of Canadian law firms to request that the law firms enter into retainer agreements which include provisions under which the law firm agrees to indemnify the client against losses and claims relating to or arising out of the retainer. In many cases, the indemnity language could potentially create liability on the law firm which is broader than might arise in respect of professional negligence. This issue has been considered by the CLLAS Advisory Board and there is a general consensus that CLLAS member firms should resist such requests. The Risk Management Committee has prepared a practice note on Outside Counsel Guidelines to raise awareness about the risks associated with these types of provisions.

CLLAS' risk management initiatives are discussed in more detail in **Appendix G**.

2.7 CLLAS Website

CLLAS maintains a secure website to facilitate the timely access and transfer of materials for CLLAS members. CLLAS member firms have ready access to insurance policies, treaties, agendas, minutes, risk management policies and other materials via internet connection. The renewal application and claims reporting forms are also available through this channel.

CLLAS also provides its reinsurers with limited access to the website to secure renewal applications, the reinsurance submission and the CLLAS Policies.

2.8 Financial Statements

The audited financial statements of CLLAS as of December 31, 2017 are attached as **Appendix H**.

Total subscribers' equity as of December 31, 2017 was \$11,547,191, a decrease from \$14,451,839 as of December 31, 2016. This reduction is due to a return of surplus to subscribers, as well as incurred losses in CLLAS's retained drop-down layer

3.0 CLLAS Member Firms

3.1 Background on CLLAS Member Firms

In the early 1990's, a number of CLLAS member firms established national associations/affiliations and international partnerships with other large Canadian law firms domiciled outside Ontario. As a result of this activity, and the potential for vicarious liability of the Insureds arising out of such activity, CLLAS revised its policy language to recognize the association risk and ensure the proper apportioning of liability between the member firms and the interjurisdictional partnerships/associations.

The mergers mentioned in Section 2.6, for the most part, replaced such associations/affiliations. **Appendix I** sets out a short description of the recent history of each of the CLLAS member firms as well as their relationship with associated firms and joint venture firms. **Appendix J** provides details on their foreign law and foreign offices drop-down exposures.

3.2 Limited Liability Partnerships

Legislation enacted in 1998 in the Province of Ontario permits law firms to designate themselves as limited liability partnerships (LLPs).

The legislation currently in force provides “full shield” protection to partners of LLPs. Under this legislation, a partner of an LLP will no longer be personally liable for (a) the non-professional debts or obligations of the partnership or (b) the professional liabilities of the partnership or any other partner, employee or agent of the partnership other than those arising out of (i) the negligent or wrongful act or omission of that partner or any other person under the partner's direct supervision or (ii) the negligent or wrongful act or omission of another partner or employee of the partnership if the act or omission was fraudulent or criminal or the partner knew or ought to have known of the act or omission and did not take the actions that a reasonable person would have taken to prevent it. The legislation does not, however, reduce or limit in any way the liability of the partnership itself. Consequently, all of the partnership's assets and insurance coverage remain at risk if a claim is made. This legislation is in line with that of other jurisdictions in Canada (including Alberta, British Columbia, Nova Scotia and Québec) as well as the United States.

All CLLAS member firms are LLPs.

3.3 Non-Lawyer Patent and Trade-Mark Agents

CLLAS tracks non-lawyer patent and trademark agents and they are currently charged at 25% of the standard Rest of Canada (“ROC”) lawyer rate for each respective layer of coverage.

3.4 Non-Lawyer Consultants/Professionals

CLLAS member firms include employees and non-lawyer consultants or professionals who may not be covered by any specific underlying insurance. “Consultant”, “Employee” and “Non-Lawyer Consultant” are specifically defined and insured under the policy, to ensure coverage is available for these non-lawyer consultants and professionals.

CLLAS asks member firms to list those non-lawyer consultants or professionals who are deemed to be employees when completing their renewal application, and an applicable premium is charged in respect of certain individuals. Most of these employees have no client contact and provide no advice to clients. Since their role is related to the operation of the firm, no additional premium is charged in those cases. On the other hand, if a non-lawyer consultant or professional does advise clients and acts on their own without the supervision of a lawyer, then a full lawyer rate applies. In between,

there may be some non-lawyer consultants or professionals who do advise clients but who act under the supervision of a lawyer. These individuals are currently charged at 25% of the standard ROC lawyer rate for each respective layer of coverage.

Like other Insureds, any new individuals added mid-term would automatically be included under the policy. Although notification of such individuals will not be a pre-requisite to coverage, CLLAS has requested member firms to report any new non-lawyer consultants/professionals on an ongoing basis to the extent practicable.

3.5 Contract Lawyers Through Service Companies

It has been brought to our attention that some member firms have interest in setting up a service company that would be owned in part by active partners of the member firm, and in part by other lawyers (e.g. retired lawyers) to provide certain services through contracted lawyers at a lower cost than that could be achieved via the member firm itself.

Of note, if the services are provided exclusively to or through the member firm, this structure meets the definition of “Service Company”, and CLLAS would provide coverage to the contract lawyers who provide legal services to or through the service company in accordance with the usual terms of the policy. CLLAS considered how best to fairly assess the risk, and below is an overview of the approach to evaluate the exposure and to determine premiums for this initiative.

As neither the number of contract lawyers nor the total hours billed will be known in advance, the premium for a policy year based on hours billed by each contract lawyer during the previous 12-month period (i.e. July 1 to June 30), using the following formula:

- 0.1 hour to 100 hours = 10% of the standard ROC lawyer rate
- 100.1 hours to 250 hours = 25% of the standard ROC lawyer rate
- 250.1 hours to 500 hours = 50% of the standard ROC lawyer rate
- 500.1 hours to 750 hours = 75% of the standard ROC lawyer rate
- 750.1 hours plus = 100% of the standard ROC lawyer rate

Once CLLAS has accumulated further experience with these initiatives, the above approach will be reviewed to ensure that it remains appropriate.

3.6 Lawyers on Secondment

From time to time, CLLAS receives enquiries from member firms about coverage for lawyers while they are on secondment to another organization or institution. CLLAS’ position is that normal coverage will be provided while on secondment provided both underlying mandatory and CLLAS premiums have been paid and the lawyers are providing services through the CLLAS member firm.

LawPRO amended its Standard Professional Liability Insurance Policy in 2017 to clarify the coverage applicable to lawyers on secondment with a corporate client. Since the amendment, the LawPRO policy limits coverage for claims brought against seconded lawyers for professional services provided while under secondment with that client to \$250,000 per claim and in the aggregate, and defence-only coverage. This applies where the claimant meets the definition of a “corporate employer”, i.e. a corporation (or its affiliates) for which the lawyer temporarily acts in the capacity of in-house corporate counsel. LawPRO advises that if the corporate client does not meet the test for a “corporate employer” and the normal employment laws do not arise that would stop it from recovering against an employee, the normal coverage terms will apply. CLLAS has confirmed to its member firms that lawyers on secondment would continue to be insured under its policy which would in turn drop down to the greater of \$25,000 and the available underlying coverage. Coverage for a claim would be provided (subject to the policy’s terms,

exclusions and conditions at the time of the claim) so long as the lawyer is included in the member firm's headcount and the services were provided through the member firm.

3.7 Cyber Exposures

The CLLAS Primary Policy provides coverage for third party cyber exposures as they relate directly or indirectly to "Professional Services". CLLAS collects underwriting information for this coverage through a questionnaire attached to the renewal application. In 2018, seven of the ten CLLAS member firms bought dedicated cyber coverage, and one more is expected to shortly. Work is underway between CLLAS and the cyber insurer to ensure that coverages and claims handling are appropriately integrated.

4.0 Loss Experience Update

4.1 General

This section provides an update of the CLLAS loss experience from Report to Reinsurers – Part I.

As a reminder, in reviewing the loss experience summarized herein, the following should be noted:

1. Unless specifically noted, incurred liabilities, including reserve positions, include those held by Ontario, Alberta, British Columbia, Nova Scotia and Quebec (the “Law Societies”) to the extent available and to the extent reserves were posted at the time data was collected from the Law Societies’ claims systems.
2. All incurred liabilities, including reserve positions, are expressed on a ground up basis unless otherwise specifically noted.
3. Reserve positions are inclusive of defense costs.
4. Reported claims include incidents reported out of an abundance of caution.
5. The reserve positions of CLLAS claims are updated quarterly and, if warranted on a particular claim, more frequently.
6. CLLAS’ loss experience includes the claims experience of former member firms Goodman and Carr LLP which dissolved on July 1, 2007, Blake, Cassels & Graydon LLP which left CLLAS on June 30, 2012 and Dentons Canada LLP which left CLLAS on June 30, 2017.
7. CLLAS’ loss experience has not been restated to include the historical loss experience of firms which have subsequently merged with existing CLLAS member firms.

4.2 Claims Bordereau Update

For year-to-year comparison purposes, please refer to the claims exhibits found in Report to Reinsurers - Part I (Appendices C1 to C11), which are as of December 31, 2017.

A more recent open and closed claims bordereaux as of March 31, 2018 is available and can be found in **Appendix K**. The table below highlights all CLLAS claims that were open with a total ground-up reserve greater than or equal to \$500,000 and the changes in incurred claims/development over the last quarter, and subsequent to Report to Reinsurers - Part I being distributed. A precis of 2017-068 can be found as **Appendix L**.

OPEN CLLAS CLAIMS WITH GROUND-UP INCURRED VALUE OVER \$500,000 DECEMBER 31, 2017 - MARCH 31, 2018

Claim No.	Ground-up Incurred (Dec. 31, 2017)	Ground-up Incurred (Mar. 31, 2018)	Change in Incurred for Quarter
2002-007 (O)	\$1,000,000	\$1,000,000	\$0
2005-177 (O)	\$5,500,000	\$5,500,000	\$0
2008-001 (O)	\$2,485,556	\$2,427,888	-\$57,668
2008-113 (O)	\$4,500,000	\$4,500,000	\$0
2010-059 (O)	\$35,000,000	\$35,000,000	\$0
2010-065 (O)	\$4,300,000	\$4,300,000	\$0
2010-165 (O)	\$3,000,000	\$3,000,000	\$0
2011-008 (O)	\$550,000	\$550,000	\$0
2011-034 (O)	\$650,000	\$650,000	\$0
2011-145 (O)	\$14,050,000	\$14,050,000	\$0
2011-193 (O)	\$2,000,000	\$3,000,000	\$1,000,000
2012-002 (O)	\$731,348	\$731,348	\$0

**OPEN CLLAS CLAIMS WITH GROUND-UP INCURRED VALUE OVER \$500,000
DECEMBER 31, 2017 - MARCH 31, 2018**

Claim No.	Ground-up Incurred (Dec. 31, 2017)	Ground-up Incurred (Mar. 31, 2018)	Change in Incurred for Quarter
2012-075 (O)	\$1,839,746	\$1,839,746	\$0
2012-090 (O)	\$644,426	\$644,426	\$0
2012-124 (O)	\$921,000	\$921,000	\$0
2013-122 (O)	\$1,500,000	\$1,500,000	\$0
2014-079 (O)	\$2,284,332	\$2,284,332	\$0
2014-131 (O)	\$2,000,000	\$2,000,000	\$0
2014-134 (O)	\$3,500,000	\$3,500,000	\$0
2015-011 (O)	\$1,000,000	\$1,000,000	\$0
2015-054 (O)	\$550,000	\$550,000	\$0
2015-059 (O)	\$600,000	\$600,000	\$0
2015-064 (O)	\$1,000,000	\$1,000,000	\$0
2015-069 (O)	\$552,125	\$552,125	\$0
2016-014 (O)	\$1,000,000	\$1,000,000	\$0
2016-017 (O)	\$1,000,000	\$1,000,000	\$0
2016-030 (O)	\$1,000,000	\$1,000,000	\$0
2016-039 (O)	\$1,000,000	\$1,000,000	\$0
2016-107 (O)	\$500,000	\$500,000	\$0
2016-108 (O)	\$500,000	\$500,000	\$0
2016-129 (O)	\$1,000,000	\$1,000,000	\$0
2016-151 (O)	\$1,000,000	\$1,000,000	\$0
2017-068 (O)	\$1,000,000	\$2,400,000	\$1,400,000
2017-091 (O)	\$2,020,000	\$2,020,000	\$0
2017-143 (O)	\$500,000	\$500,000	\$0
2017-157 (O)	\$525,000	\$525,000	\$0
Total:	\$101,651,408	\$103,545,866	\$2,342,332

5.0 Proposed Renewal Terms

5.1 Update to Headcount for Premium Calculation

CLLAS uses the member firms' headcount as of June 15 (versus July 1) to calculate premium, as well as to determine the premium payable to its reinsurers without further adjustment. This allows CLLAS sufficient time to send invoices to firms, and to report the numbers to reinsurers before July 1.

Based on the lawyer count as of March 1, 2018 determined from the renewal applications, the following two tables provide information on the number of insured lawyers by firm/location and by coverage layer. Final premium will be determined based on the actual headcount as of June 15, 2018.

NUMBER OF INSURED LAWYERS AS OF MARCH 1, 2018
BY OFFICE AND LOCATION

Firm	Québec Lawyers	Lawyers in Canadian and International Offices Other Than Québec and U.S. Practicing Canadian Law	Lawyers in International Offices Other Than Those in Previous Two Columns	Total Lawyers
Borden Ladner Gervais LLP	134	559	0	693
Cassels Brock & Blackwell LLP	0	219	0	219
Davies Ward Phillips & Vineberg LLP	88	148	13	249
Fasken Martineau DuMoulin LLP	220	453	70	743
Goodmans LLP	0	196	0	196
McCarthy Tétrault LLP	164	415	9	588
McMillan LLP	29	232	0	261
Osler, Hoskin & Harcourt LLP	50	411	16	477
Torys LLP	9	289	36	334
WeirFoulds LLP	0	97	0	97
Total	694	3,019	144	3,857

NUMBER OF INSURED LAWYERS AS OF MARCH 1, 2018
BY COVERAGE LAYER

Reins. Layer	Limit	Lawyer Count*			Comments
		Quebec	Rest of Canada	Total	
1	\$49M xs \$1M	694	3,019	3,713	
2	\$50M xs \$50M	694	3,165	859	One firm currently purchases less than \$50M and would be adjusted accordingly, if required
3	\$60M xs \$100M	694	3,068	3,762	
4	\$60M xs \$160M	694	3,068	3,762	One firm currently purchases less than \$60M and would be adjusted accordingly, if required
5	Blanket Excess \$30M/\$60M xs min \$65M	694	3,165	3,859	

* Excluding P&T Agents and Non-Lawyer Consultants

5.2 Update to Headcount for Non-lawyer Professionals

As discussed in Sections 3.2 and 3.3, CLLAS also provides coverage to and charges premium on non-lawyer patent and trademark agents, and certain non-lawyer consultants and professionals. CLLAS expects to continue to charge premium for these professionals at a rate of 25% of the standard Rest of Canada lawyer rate for each respective layer of coverage.

The estimated number of lawyers, non-lawyer patent and trademark agents and non-lawyer consultants and professionals by firm extracted from the renewal applications as well as details on the rating, are provided as **Appendix M**. Actual numbers will be finalized June 15.

5.3 Premium Allocation Between CLLAS and International Insurers

Some CLLAS lawyers qualified in Canada are also licensed to practise outside of Canada and/or may provide legal services from a U.S. office. Since CLLAS does not provide coverage for the practice of foreign law or for services rendered from a U.S. office under its Primary Policy, the drop-down provision in the First Excess Policy or, where applicable, the CLLAS International Policy would pick up these exposures.

If there is no CLLAS International Policy involved, no special action is required. Regardless of what foreign law or U.S. office exposures there may be, the First Excess Policy would respond.

If the member firm has a CLLAS International Policy, there are a variety of different scenarios. CLLAS has agreed with the CLLAS International insurers that the following general guidelines will apply:

1. If a lawyer is located in a U.S. office, the CLLAS International insurers will charge 100% of their rate and CLLAS will not charge anything.
2. If a lawyer is located in a non-Canadian/non-U.S. office and only practises Canadian law, CLLAS will charge 100% of its rate and the CLLAS International insurers will not charge anything.
3. If a lawyer is located in a non-Canadian/non-U.S. office and only practises foreign law, then the CLLAS International insurers will charge 100% of its rate and CLLAS will not charge anything.
4. If a lawyer is located in a non-Canadian/non-U.S. office and practises both Canadian and foreign laws, regardless of the split in work, CLLAS and the CLLAS International insurers will each charge 50% of their rate.
5. If a lawyer in a Canadian office practises in a U.S. office part time or if a lawyer in a Canadian office practises both foreign and Canadian laws, CLLAS and the CLLAS International insurers will determine the best way to charge on a case by case basis.

5.4 CLLAS Retention and Proposed Reinsurance

As mentioned in the introductory remarks, last year two large insurance brokers provided BLG with indicative quotes leading the firm to consider one of two alternative arrangements. The competitors' premium indications were 30% to 33% lower than the expiring CLLAS rates and was difficult for BLG to ignore. BLG committed to CLLAS for the next five-year underwriting period because CLLAS has confirmed that they will deliver a 25% saving over expiring.

CLLAS greatly appreciates how cooperative and helpful reinsurers were in meeting the competitive challenges of the marketplace. CLLAS' main objective for this renewal is to maintain the current terms and conditions, and focus on program stability for the years to come.

CLLAS has continued to retain 100% of the \$975,000 drop down exposure since July 1, 2012. 20% of Reinsurance Layer 1 is currently reinsured with Colchester. It is not anticipated that CLLAS or Colchester will vary their retentions for the upcoming term.

The following reinsurance coverage is being proposed:

Type:	Excess Lawyers Professional Liability Reinsurance
Reinsured:	Canadian Lawyers Liability Assurance Society
Original Insured:	CLLAS member firms as set forth in this submission
Period:	From: July 1, 2018 To: July 1, 2019 Both days at 12:01 a.m. Local Time, Toronto, Canada
Interest:	Lawyers Professional Liability written for member firms of CLLAS in respect of claims made on Original Policies issued during the period of this Contract.
Sum Insured:	\$50,000,000, including underlying insurance, each claim AND \$50,000,000 in the annual aggregate each CLLAS member firm
Territorial Limits:	CLLAS member firms whose operations are principally confined to Canada, including offices or branches situated anywhere in the World other than those in the United States of America.
Premium:	Estimated annual premium for lawyers: \$5,443,462 Actual premium to be determined based on the following rates and the actual headcount as of June 15, 2018: <ul style="list-style-type: none"> • \$710/lawyer in Québec • \$1,592/lawyer in the rest of Canada • Rest of Canada rate for certain non-lawyer consultants • 25% of the rest of Canada rate for certain non-lawyer consultants and patent & trademark agents
Conditions:	CLLAS to retain 100% of any claim payable below \$1,000,000 under the Original Policies in the event that mandatory or other coverage does not respond in whole or in part due to sub-limits, exclusions or exhaustion of coverage.
CLLAS First Excess Layer:	CLLAS will participate on 5% (fully reinsured) of this layer of up to \$50,000,000 excess of \$50,000,000. Estimated annual premium for lawyers: \$1,209,580 Actual premium to be determined based on the following rates against the member firms' limit option and the actual headcount as of June 15, 2018: <ul style="list-style-type: none"> • \$307/lawyer and certain non-lawyer consultants

CLLAS Optional Second Excess Layer:	<p>CLLAS will participate on 5% (fully reinsured) of this layer of up to \$60,000,000 excess of \$100,000,000.</p> <p>Estimated annual premium for lawyers: \$1,049,139</p> <p>Actual premium to be determined based on the following rates against the member firms' limit option and the actual headcount as of June 15, 2018:</p> <ul style="list-style-type: none"> • \$273/lawyer and certain non-lawyer consultants
CLLAS Optional Third Excess Layer:	<p>This layer of up to \$60,000,000 excess of \$160,000,000 is expected to be 100% reinsured.</p> <p>Estimated annual premium for lawyers: \$550,665</p> <p>Actual premium to be determined based on the following rates against the member firms' limit option and the actual headcount as of June 15, 2018:</p> <ul style="list-style-type: none"> • \$143/lawyer and certain non-lawyer consultants • 25% of the respective rates for certain non-lawyer consultants and patent & trademark agents
CLLAS Blanket Excess Layer:	<p>The Blanket Excess layer is expected to be 100% reinsured.</p> <p>Estimated annual premium for lawyers: \$280,440</p> <p>Actual premium to be determined based on the following rates and the actual headcount as of June 15, 2018:</p> <ul style="list-style-type: none"> • \$71/lawyer and certain non-lawyer consultants • 25% of the above rate for certain non-lawyer consultants and patent & trademark agents
Commission:	Reinsurance rates and premiums are net of commission and/or brokerage.
Premium Taxes:	Applicable provincial premium taxes payable by CLLAS.

6.0 Renewal Applications

Renewal applications are available upon request.