

PRIVATE & CONFIDENTIAL

Canadian Lawyers Liability Assurance Society
(CLLAS)

Report to Reinsurers

for the Policy Period
July 1, 2016 – July 1, 2017

May 2016

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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 11 members and operates on the basis of five-year underwriting periods. July 1, 2016 marks the beginning of the final year of CLLAS' sixth five-year underwriting period. The end of an underwriting period is always a critical juncture for CLLAS. Member firms have been extremely loyal and 10 out of the 11 member firms were original members when CLLAS was formed in 1987. CLLAS anticipates that the member firms (with the exception of Dentons Canada LLP – see Section 2.6) will elect to renew for another underwriting period next year; however, CLLAS is aware that member firms will, as part of their due diligence leading into membership renewal, benchmark the services/coverages received from CLLAS and some will undoubtedly be contacted by Canadian brokers. Against the backdrop of a soft insurance market, it will be essential to this process (and the proposed expansion of CLLAS referred to in Section 2.10) that CLLAS achieves competitive pricing for this renewal and for 2017. CLLAS fully intends to continue to differentiate itself through the delivery of other unique benefits while providing competitive terms and conditions to its member firms.

In 2015, CLLAS established a working group to review expansion opportunities in CLLAS. The working group launched the "CLLAS Associate Member" initiative that allowed prospective law firms to join CLLAS without having to contribute to the required capital until full membership was attained. CLLAS has been successful in attracting one excellent litigation law firm, Lenczner Slaght Royce Smith Griffin LLP (Lenczner), under a CLLAS Associate Member program that included most of the existing CLLAS reinsurers. 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 and is discussed more fully in Section 2.10. The new firm has already indicated a strong interest in formally joining CLLAS as a subscriber to the reciprocal on July 1, 2017.

The total lawyer count on June 15, 2015 was 4,282. The total projected lawyer count on March 1, 2016 for 2016/2017 is 4,224. This represents a slight decrease of 1.35%.

CLLAS is licensed in Ontario, Alberta, British Columbia and Nova Scotia. While some member firms have offices in Montreal, CLLAS is not required to be licensed in Québec.

Mr. Nicholas Leblovic of member firm Davies Ward Phillips & Vineberg LLP continues to be the Chair of CLLAS. His current term will run through February 2018.

This Report to Reinsurers provides a review of the expiring policy period (Section 2.0), an analysis of CLLAS' loss experience (Section 3.0) and the expectations for reinsurance terms for the period July 1, 2016 to July 1, 2017 (Section 4.0).

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 Upper Canada in Ontario. The CLLAS Program is now also excess of the mandatory insurance programs of the law society insurance programs in Alberta, British Columbia, Québec and Nova Scotia where some member firms have established 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
- Québec: \$10,000,000 per claim

Notes: 1) *Unless specifically prefaced, the \$ sign means Canadian dollars throughout the report.*
2) *Above limits are on a per lawyer basis.*
3) *Ontario and Québec have sub-limits for certain coverages.*
4) *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.*

The CLLAS membership criteria is rigorous and the claims experience of new firms and merged firms at the time of joining CLLAS has historically been better than the average claims experience of CLLAS member firms at the same time. The result has been that the new additions had an immediate positive impact on the overall CLLAS claims/risk profile.

CLLAS' geographic profile has changed with the mergers that took 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 (see Section 2.9 for details).

Risk management at the individual firm level, and at the overall CLLAS level, is clearly evident and more advanced since the formation of CLLAS. There are a number of risk management initiatives that have been undertaken by CLLAS and the CLLAS member firms. These are more fully described in Section 2.19.

1.3 CLLAS Objectives

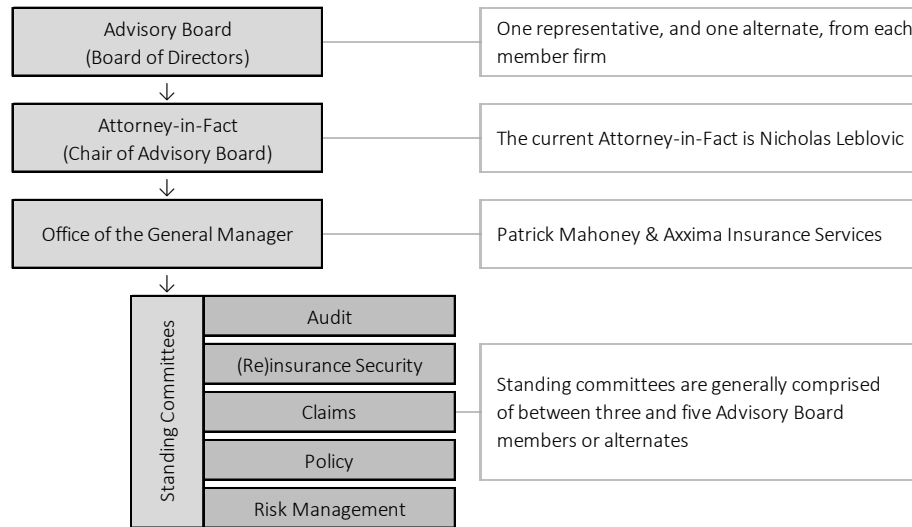
The major objectives of CLLAS are:

- to enable a meaningful portion of the risk underwritten by CLLAS to be retained by CLLAS or by Colchester Reinsurance Limited (Colchester), a reinsurer domiciled in Barbados whose shares are owned directly or indirectly by the members of CLLAS;
- 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;
- to cultivate and maintain long-term relationships with its reinsurers.

These objectives enable CLLAS to provide significant benefits to its 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, 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 or 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.

2.0 2015/2016 in Review

2.1 Original Policy Coverage

The current coverage is as follows:

Type: Lawyers Professional Liability Insurance (“claims-made” basis)

Policy Term: July 1, 2015 to July 1, 2016

Policy Limit:

a) **Primary Policy (individual policy issued to each CLLAS member firm)**

\$50,000,000 each and every claim and in the annual aggregate, including costs, charges and expenses, inclusive of the minimum mandatory coverage provided by the applicable law society professional liability insurance program or by the professional liability insurance program of the governing body of a self-regulatory profession other than law and/or other applicable insurance and/or \$25,000 per claim self-insured retention.

b) **Optional Excess Policy (individual policy issued to certain CLLAS member firms that elect to purchase this coverage)**

Available limits for this policy ranges from \$10,000,000 to \$60,000,000 (in increments of \$10,000,000) each and every claim and in the annual aggregate, including costs, charges and expenses, excess of \$110,000,000¹ each and every claim and in the annual aggregate, including costs, charges and expenses, and the CLLAS Primary Policy described above, or excess of specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations (see CLLAS International below), or excess of \$500,000 per claim self-insured retention.

The CLLAS Optional Excess Policy follows the terms and conditions of the \$15,000,000 excess of \$50,000,000 commercial policy currently issued jointly by Encon and Liberty (First Excess Policy) which in itself has a drop-down feature excess of \$500,000 each claim in the event that it is broader than the CLLAS underlying coverage. Specifically, the First Excess Policy does not exclude coverage for U.S. offices nor for the practice of foreign law. It should be noted that a CLLAS member firm with any material international exposure would be insured by the CLLAS International policies referred to below for such exposures. The questionnaires completed by each member firm regarding the “drop-down” exposures that they may face are provided as **Appendix B2**.

c) **Blanket Excess Policy (one policy issued to all CLLAS member firms)**

\$30,000,000 each and every claim and \$60,000,000 in the annual aggregate, including costs, charges and expenses, **for all CLLAS member firms combined** excess of not less than \$65,000,000 for each CLLAS member firm. This policy also follows the terms and conditions of the First Excess Policy and is excess of the Optional Excess Policy and/or excess of specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations (see CLLAS International below).

¹ Represents limits purchased by each of the firms in the Canadian direct commercial market.

Territorial Scope:

Coverage under the CLLAS Primary Policy is provided to law firms whose operations are principally located in Canada, including foreign service offices anywhere in the world other than those situated in the U.S., and is limited to the practice of Canadian law. CLLAS also provides coverage for U.S. and other foreign exposures under the Optional Excess and Blanket Excess Policies.

CLLAS International:

Five member firms, namely:

- Davies Ward Phillips & Vineberg LLP
- Fasken Martineau DuMoulin LLP
- McCarthy Tétrault LLP
- Osler Hoskin & Harcourt LLP
- Torys LLP

maintain offices in the U.S. and/or other international locations. Each of them purchases a dedicated primary policy to cover its U.S. and foreign offices and/or the practice of foreign law.

All of these policies are written with the same group of insurers under a program referred to as “CLLAS International”. However, each of the policies stands alone with a separate aggregate limit of US\$30,000,000 and each firm is separately rated for this purpose. The self-insured retention is dependent on the location of the risk as follows:

U.S. – US\$100,000 for all except US\$50,000 for McCarthy Tétrault LLP

U.K. – US\$350,000 for Fasken Martineau DuMoulin LLP; US\$75,000 for McCarthy Tétrault LLP

Elsewhere in the world – US\$50,000 for all

Following a merger with Bell Dewar Inc. in South Africa in February 2013, member firm Fasken Martineau DuMoulin LLP has arranged a separate and dedicated tower of coverage for its South African office with a total limit of ZAR 1,500,000,000 which is equivalent to approximately \$132,750,000.

The insurers of the CLLAS member firms excess of \$50,000,000 from the ground-up also provide coverage within their \$110,000,000 limit in excess of the CLLAS International Policy but not the Fasken dedicated South African coverage. The Optional Excess and Blanket Excess policies do, however, respond excess of the dedicated South African coverage.

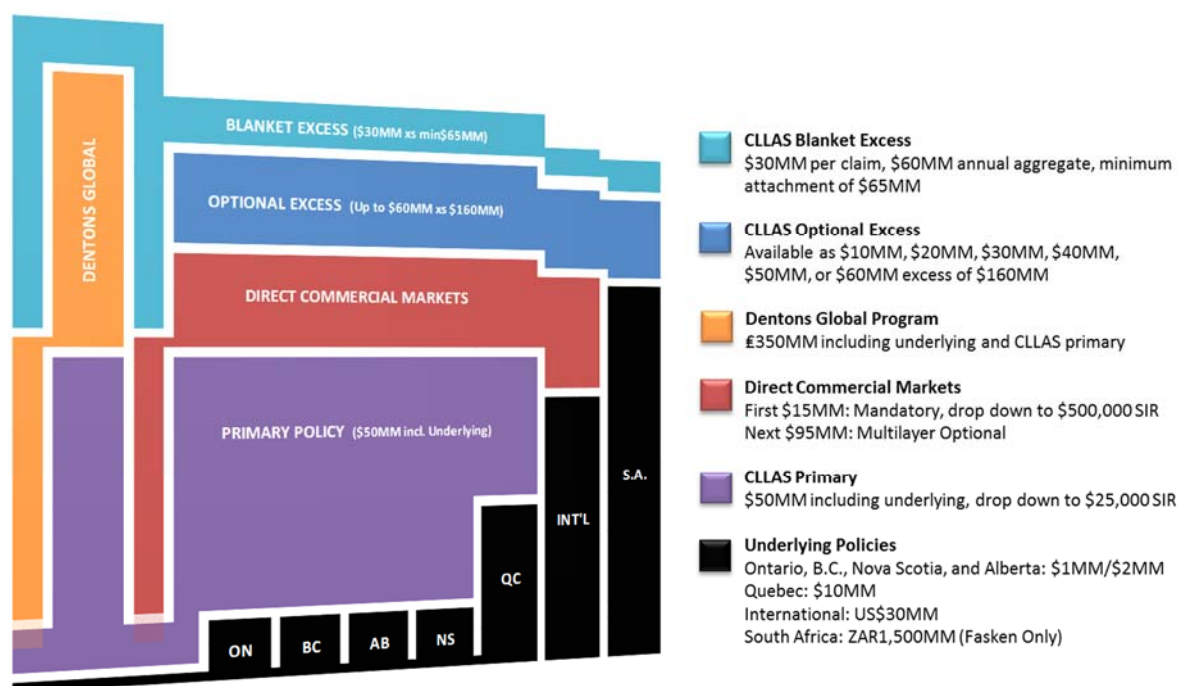
CLLAS member firm Dentons Canada LLP is part of a separate insurance program for Dentons Global with limits of £350,000,000 which would respond after the CLLAS \$50,000,000 Primary Policy is exhausted. The CLLAS Blanket Excess Policy would respond excess of the £350,000,000.

Note: All limits are expressed in Canadian currency unless otherwise specified.

2.2 Reinsurance Structure

It is CLLAS’ overall philosophy to retain, in combination with Colchester, a meaningful portion of its risk. At the end of the Fifth Underwriting Period, CLLAS had assumed a significant amount of risk since inception and had built up large loss reserves and supporting assets and surplus. Beginning with the Sixth Underwriting Period, CLLAS decided to reduce its retained risk from 25% of the \$49,000,000 excess of \$1,000,000 reinsurance layer (Layer 1) and 100% of the \$975,000 drop down to only the drop down. At the same time, Colchester expanded its participation on Layer 1 and is currently at 20%.

The CLLAS Primary, Optional Excess and Blanket Excess Policies are each reinsured with specific placements. The schematic below outlines the structure:



In recognition of the fact that Québec represents a significantly reduced risk because of the \$10,000,000 underlying mandatory limit, a differential rating structure for Québec lawyers in the CLLAS Primary Policy reinsurance layer is applied. Rates for the upper layers are consistent across all jurisdictions except in respect of the CLLAS International and Fasken's South African policies.

2.3 Colchester Reinsurance Limited

Colchester provides CLLAS with quota-share reinsurance protection for 20% of the CLLAS Primary Policy and aggregate stop-loss reinsurance protection for CLLAS' retained risk. With respect to aggregate stop-loss protection for the policy year ending June 30, 2016, Colchester provides a limit of \$10,000,000 in the annual aggregate excess of \$5,000,000 in the annual aggregate in respect of CLLAS' retained losses.

2.4 Mandatory Coverage and Changes

A chart detailing the differences in underlying mandatory coverages and a summary of the changes introduced by the underlying insurance carriers can be found in **Appendices C1** and **C2** respectively.

2.5 Overview of the 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;
- Obligation of Continuing Liability.

2.6 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.

On March 28, 2013, member firm Dentons Canada LLP (formerly Fraser Milner Casgrain LLP) combined with two international law firms, SNR Denton and Salans LLP, in a Swiss Verein initially consisting of five separate partnerships operating worldwide under the name Dentons. Dentons continues to grow. In 2015, it announced a merger with a major law firm in China and another law firm in the U.S.

The combined firm has a global insurance program in place and Dentons Canada LLP requested withdrawal from CLLAS. It is expected that this will take place at the end of the current underwriting period, June 30, 2017. CLLAS does not provide coverage for any foreign law or international office exposures for Dentons except on the Blanket Excess Policy but only excess of Dentons' global insurance program.

2.7 Termination of Membership

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

2.8 Acquisition of Former Heenan Blaikie LLP Lawyers

Heenan Blaikie LLP (HB), a Montreal-based law firm, dissolved in February 2014. A number of the CLLAS member firms acquired former HB lawyers, a list of whom is provided in **Appendix D**. 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 HB. April 30, 2014 is the expiry date of the HB professional liability insurance policies and the inception date of a two-year run-off policy put in place by HB's special "Transition Committee". The CLLAS coverage is excess of the HB run-off policy with limits of \$10 million in the aggregate.

The tail coverage applies from April 30, 2014 to July 1, 2017 which corresponds to the end of the current underwriting period. Claims made related to Professional Services provided by former HB lawyers before they joined the CLLAS member firms will attach to the CLLAS policy that is in force at the time the claim is made.

This means that HB related claims could be made in the CLLAS Primary Policies expiring July 1, 2015, 2016 and 2017. The aggregate limit over all policy periods that applies to all CLLAS Primary Policies that cover former HB lawyers for tail coverage related claims will be \$50,000,000.

The Optional Excess and Blanket Excess Policies have been endorsed to recognize the possibility of drop down resulting from the exhaustion of the underlying limits due to claims relating to former HB lawyers.

2.9 *New Membership and Changing Profile*

The last new member admitted to CLLAS was Lang Michener LLP on July 1, 2003 which has since merged into member firm McMillan LLP.

Any new member firm must meet the relevant actuarial and other criteria set by CLLAS. The membership procedures and criteria are attached as **Appendix E**.

The addition of Lang Michener LLP, the merger activities referred to in Section 2.6 and the acquisition of former HB lawyers referred to in Section 2.8 not only substantially increased the number of lawyers in CLLAS but also changed and improved the CLLAS risk profile. More specifically, there was an improvement in both the geographic distribution of lawyers and the large loss (claims penetrating the CLLAS layers of coverage) frequency of the group.

The rise in the number of lawyers outside of Ontario beginning in 1999 has resulted in a decrease in the concentration of Ontario lawyers from 80% to 55% of the CLLAS group. The CLLAS risk profile has improved materially over that period which is assumed to be a result of the change in CLLAS' geographic profile in combination with heightened awareness of, and improvements in, risk management.

2.10 *Expansion of the Reciprocal*

Last year, it was concluded 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 firm; report and loss claim frequency; large loss claim frequency; and loss per exposure. Qualitative measures include: standing and reputation within the legal community; ongoing stability; internal organization; degree of concentration in "high risk" practice area; 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.

Over the course of the next few months leading up to the January 1, 2017 renewals (for most Ontario firms), Axxima Insurance Services will be selectively approaching a number of other 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 the medium term, 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.

As referred to above in Section 1.1, competitive pricing for CLLAS' professional liability insurance is an essential factor in attracting new members to CLLAS.

2.11 Number of Insured Lawyers

On June 15, 2015, the combined number of insured lawyers from CLLAS' 11 member firms was 4,282, which is broken down by firm in the following table. As of March 1, 2016, the total number of insured lawyers in the applications for the 2016/2017 renewal is 4,224. A breakdown by firm is also included in the same table. Actual 2016/2017 lawyer count will be provided prior to renewal.

<u>Member Firm</u>	<u>No. of Lawyers June 15, 2015</u>	<u>No. of Lawyers March 1, 2016</u>
Borden Ladner Gervais LLP	695	697
Cassels Brock & Blackwell LLP	192	185
Davies Ward Phillips & Vineberg LLP ⁽¹⁾	237	247
Dentons Canada LLP ⁽¹⁾	514	506
Fasken Martineau DuMoulin LLP ⁽¹⁾	774	712
Goodmans LLP	191	193
McCarthy Tétrault LLP ⁽¹⁾	583	554
McMillan LLP	262	265
Osler, Hoskin & Harcourt LLP ⁽¹⁾	430	437
Torys LLP ⁽¹⁾	316	333
WeirFoulds LLP	88	95
Total	<u>4,282</u>	<u>4,224</u>

⁽¹⁾ These firms have International Policies which cover lawyers in the U.S. and/or lawyers in other international locations who practise foreign law. The lawyers in question are not covered on the CLLAS Primary Policy but are covered on the CLLAS Optional Excess and Blanket Excess Policies except in the case of Dentons where only the Canadian lawyers are covered on the Blanket Excess Policy.

2.12 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 B1** 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 B2** provides details on their foreign law and foreign offices drop-down exposures.

2.13 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.

2.14 Non-lawyer Patent & Trademark 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.

2.15 Non-lawyer Consultants/Professionals

As a result of enquiries from CLLAS members about coverage for employees and non-lawyer consultants/professionals who may not be covered by any specific underlying insurance, CLLAS refined its policy in 2002 to ensure that "Consultant", "Employee" and "Non-Lawyer Consultant" were specifically defined and insured under the policy.

CLLAS asks member firms to list those non-lawyer consultants/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 individuals 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 non-lawyer consultants/professionals do advise clients and act on their own without the supervision of a lawyer, then a full lawyer rate would apply. In between, there may be some non-lawyer consultants/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 covered. 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.

2.16 *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.

2.17 *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. This year, we have expanded the questionnaire to match the questions on the risk management audit survey conducted by John Walker. The responses from the 2016/2017 renewal applications are summarized in **Appendix F**.

2.18 *Claims Administration*

The CLLAS Claims Administration Manual is attached as **Appendix G**. The following summary is a concise description 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 H**.

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 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. Substantial claims receive the benefit of the perspective of a number of senior counsel who can provide valuable analysis, insight of practising litigators and recommendations with respect to claims and whose views carry substantial weight with underlying insurers and/or defence counsel who may be involved in defending claims against lawyers.

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 considerable 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 best described as being realistically conservative.

The December 31, 2015 actuarial report is provided as **Appendix I** 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 expense). 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 referred to in Section 2.1, 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 J**). 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.

2.19 Risk Management

CLLAS' 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;
- Co-ordination with the Law Society Loss Prevention Programs.

Work continues in all areas, as discussed below. In particular:

- John Walker is completing the analysis of the information gathered from the CLLAS firms in the "audit update" process that took place over the past year. As background, Mr. Walker completed risk management audits of all CLLAS member firms about five years ago. He has used the results of those audits to prepare follow up audits on a more focused basis which was completed essentially simultaneously by the CLLAS member firms. He is preparing privileged and confidential final reports for each member firm that will show where that member firm's policies and procedures stand in relation to both the previous risk management audits and to the other CLLAS member firms.
- Over the course of the past year, CLLAS reviewed the future of the e-learning program developed by Mr. Walker with the assistance of Bluedrop Performance Learning. The program is an interactive, computer-based risk management program aimed at the individual lawyer. The program was customized by a number of CLLAS member firms to refer to their internal policies and practices, and has been certified by the Law Societies in Ontario, British Columbia, Québec and New York as a credit for continuing professional development requirements. The program is getting to an age where a decision needs to be made as to how to update/refresh it. After discussion, the CLLAS Board determined that the most effective course was to enable each member firm to freely customize/update the program as it sees fit.
- CLLAS has scheduled a risk management seminar to be held on September 21, 2016 which will be similar in format to the successful seminar held in 2013. Topics on the agenda will include recent developments in conflicts of interest and cyber security. Invitees to the seminar will include Managing Partners, General Counsels, CLLAS Advisory Board members and other representatives of the CLLAS member firms. CLLAS expects that risk management audits will continue to be undertaken periodically in the future.
- 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 K2**.

- 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 is in the process of preparing a practice note on Outside Counsel Guidelines which is intended to raise awareness about the risks associated with these types of provisions.

CLLAS' risk management initiatives are discussed in more detail in **Appendix K1**.

Following the release of the Trillium Motor World decision, Cassels Brock & Blackwell LLP ("CBB") retained experts in the field of law firm risk management in connection with CBB's efforts to make its file opening and conflicts processes and procedures more robust. CBB believes that the steps that it must make are relatively easily addressed and will be implemented. The experts CBB retained are legal counsel who are noted in the area of law firm risk management, and all communications with them are confidential and protected by solicitor-client privilege.

2.20 CLLAS Website

CLLAS maintains a secure website to facilitate the timely access and transfer of materials for CLLAS members. The website has recently undergone a modernization update with a view to streamlining its functions for member firms' use.

CLLAS members 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 pick up renewal applications, the reinsurance submission and the CLLAS Policies.

2.21 Financial Statements

The audited financial statements as of December 31, 2015 are attached as **Appendix L**.

Total subscribers' equity as of December 31, 2015 was \$14,187,466, an increase from \$13,652,613 at December 31, 2014.

3.0 Loss Experience

3.1 General

This section provides details of the CLLAS loss experience to-date since inception on July 1, 1987. The table in Section 3.9 provides a summary claims listing of large losses as of December 31, 2014, December 31, 2015 and March 31, 2016.

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 the Law Societies of Upper Canada, Alberta, British Columbia, Nova Scotia and Québec (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 system.
2. All incurred liabilities, including reserve positions, are **expressed on a ground-up basis unless otherwise specifically noted**.
3. Reserve positions are inclusive of defence 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 has not been restated to exclude former member firm Goodman and Carr LLP which dissolved on July 1, 2007 or Blake, Cassels & Graydon LLP which left CLLAS on June 30, 2012.
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.

3.2 Loss Experience Exhibits

Detailed exhibits illustrating CLLAS’ loss experience for the 1987 to 2015 underwriting years of account inclusive are attached hereto as **Appendix M**. The following is a brief description of the exhibits:

- | | |
|-------------------|---|
| Appendix M | <ol style="list-style-type: none">(1) Annual Net Incurred Claims Reserved and Paid as of December 31, 2015(2) Summary of CLLAS Claims Experience by Year (Ground-up) as of December 31, 2015(3) Summary of CLLAS Claims Experience by Year (Excess of \$1MM) as of December 31, 2015(4) CLLAS Incurred Claims (Excess of \$1MM) as of December 31, 2015(5) Size of Loss Distribution of CLLAS Claims (Ground-up and excess of \$1MM) as of December 31, 2015(6) CLLAS Run-off & Ground-up Development Triangles as of December 31, 2015(7) Claims Experience by Firm (Ground-up) as of December 31, 2015(8) Claims Experience by Firm (Excess of \$1MM) as of December 31, 2015(9) Claims Experience by Area of Law (Ground-up) as of December 31, 2015(10) Claims Experience by Area of Law (Excess of \$1MM) as of December 31, 2015(11) Summary of Adjustments(12) CLLAS Open and Closed Claims Bordereaux as of March 31, 2016 |
|-------------------|---|

3.3 Overview of CLLAS' Loss Experience

CLLAS monitors claim files in the underlying layers which have the potential to penetrate into the CLLAS layer. CLLAS has also reviewed the prior claims experience of the predecessor law firms/lawyers that merged with CLLAS member firms from Québec, Alberta and British Columbia and the claims experience for Lang Michener LLP (which became a member on July 1, 2003). In all cases, the claims experience has been exemplary and no claims would have been incurred in the CLLAS layers had they been part of CLLAS at the time. Claims and lawyer counts for these predecessor firms are not included in the claims statistics provided by CLLAS. On the other hand, the same information for former member firms Goodman and Carr LLP and Blake Cassels & Graydon LLP is included.

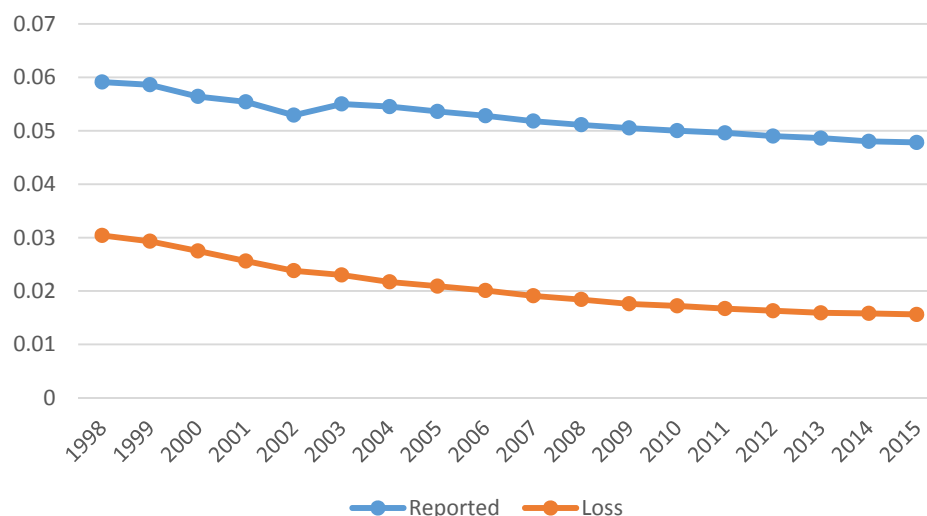
Lang Michener LLP and McMillan LLP merged as of January 1, 2011. Both firms' claims statistics have been consolidated under McMillan LLP.

3.4 Claim Frequency

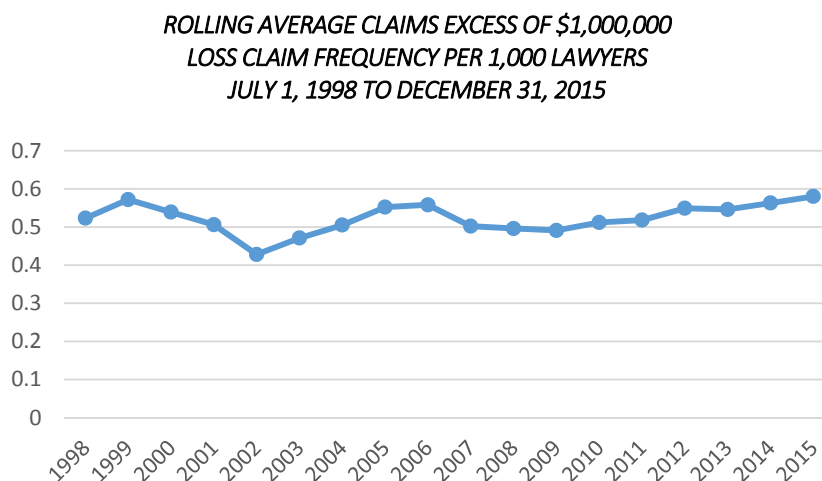
Appendices M(2) and M(3) provide summaries of the CLLAS claims experience by policy year. Since 1987, there have been 4,870 claims reported which results in a Reported Claim Frequency of 0.0478 reported claims per lawyer over the entire period. This translates to an average of one claim per lawyer every 21 years. The Loss Claim Frequency (claims with indemnity payments or a reserve ground-up) is much lower at 0.0156 or one claim per lawyer every 64 years meaning that only one in three claims reported produces a loss. The Loss Claim Frequency of claims in the CLLAS layers (claims excess of \$1,000,000 or \$10,000,000 in Québec) is 0.58 per 1,000 lawyers. Based on the current lawyer count, this translates to 2.4 loss claims per year excess of \$1,000,000.

On a ground-up basis, claim frequency continues to improve. The following chart illustrates how the Reported and Loss Claim Frequencies on a ground-up basis, both of which are rolling averages since inception of the CLLAS Program, have been trending downward since 1998.

**ROLLING AVERAGE GROUND-UP CLAIMS REPORTED
AND LOSS CLAIM FREQUENCIES
JULY 1, 1998 TO DECEMBER 31, 2015**



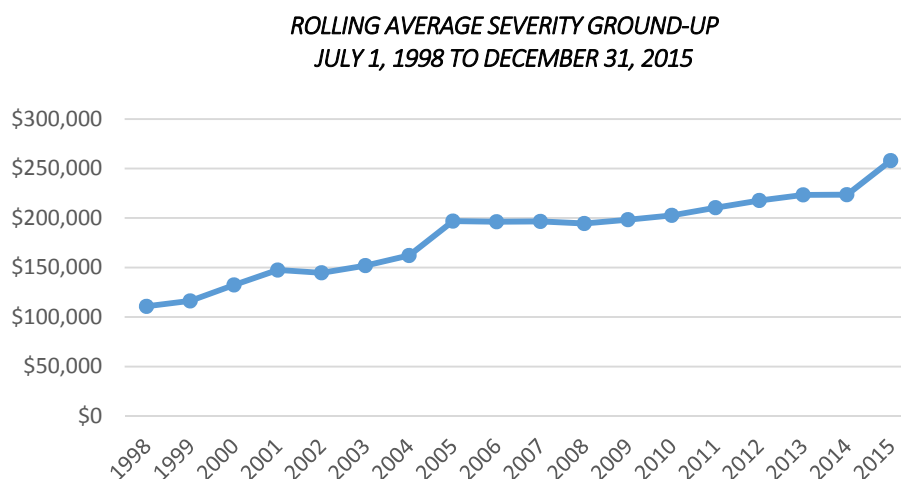
An analysis of claim frequency for claims excess of \$1,000,000 reveals a slightly different picture. The claim frequency for claims excess of \$1,000,000, based on rolling averages since inception of the CLLAS Program, has been relatively flat since 1998. The chart below shows the rolling average claim frequency per 1,000 lawyers for claims excess of \$1,000,000.



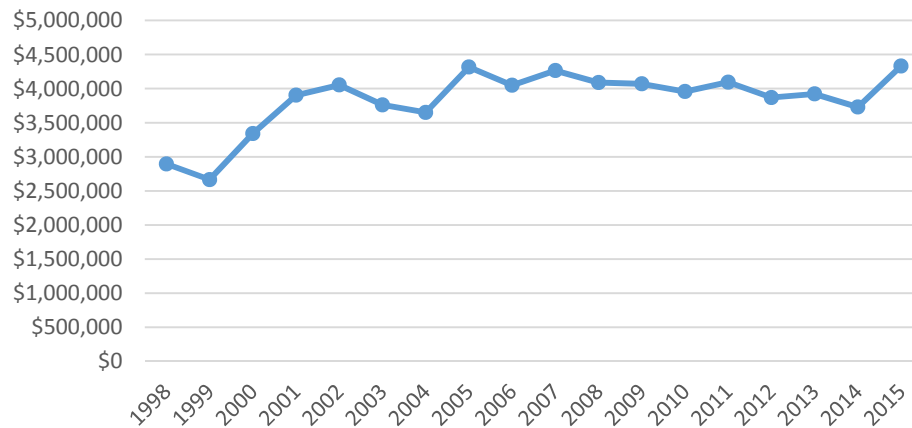
CLLAS has experienced only 59 claims (2 claims per year) in its layers of coverage since the inception of the Program in 1987.

3.5 Loss Severity

Appendices M(2) and M(3) also outline the ground-up and excess of \$1,000,000 loss severities by policy year. The two charts below suggest that claim severity, based on a rolling average from 1998 to 2015, was increasing steadily on a ground-up basis before 2005 then leveled-off from 2005 to 2011. An increasing trend is observed from 2012 to the present with a sharp increase in the most recent year due to one large claim which developed in 2015. On an excess of \$1,000,000 basis, we observed a decreasing severity trend from 2005 to 2014 but the recent large loss which developed in 2015 created a sharp upward movement from 2014 to 2015. It should be noted that year-over-year increases reflect both claims trend and claims development.



**ROLLING AVERAGE SEVERITY EXCESS OF \$1,000,000
JULY 1, 1998 TO DECEMBER 31, 2015**



3.6 Size of Loss Distribution

The Size of Loss Distribution exhibits, **Appendices M(5A) and M(5B)**, indicates that 98.9% of claims reported by CLLAS members are under \$1,000,000. Only 59 out of 4,870 claims were excess of \$1,000,000. Of those, a significant majority, 84.7%, were less than or equal to \$5,000,000. Seven claims were between \$5,000,000 and \$20,000,000 and only two claims in the history of CLLAS were excess of \$20,000,000. The most recent large loss that developed in 2015 (Trillium Motor World) is currently under appeal and, as a risk management initiative, CBB underwent a spot audit as detailed in Section 2.19.

3.7 Loss Development

The loss development triangles (by year and by individual claim) are located in **Appendix M(6)**. Reserving can be very challenging on large loss claims because there are no clear patterns. Two claims that were settled a few years ago demonstrate the extremes of loss development. At one end of the scale, Claim No. 94-001 developed very slowly at first until liability and quantum could be assessed (particularly while we awaited a Supreme Court of Canada decision in an underlying matter that was ultimately unfavourable to us). This assessment took place in Year 7 and the reserve was set at approximately \$17,000,000. It stayed that way for another 7 years until a settlement was reached just under the reserved amount (including expenses). In sharp contrast, Claim No. 2004-194 grew from nothing to \$24,000,000 within 2 years. It can sometimes be difficult to initially predict the ultimate outcome of some of the more complicated lawyers professional liability claims because of the initial sparseness of claims information that CLLAS receives, the complex nature of the services provided by the lawyers themselves, and external factors (such as alternative dispute resolution and insurance issues which arise when other professionals are included) influencing the handling of these claims. Claim No. 2010-059 (Trillium Motor World) is another example where a reserve had to be increased by a sizeable amount suddenly due to a rather surprising judgement. This judgement is under appeal. See also reference to this claim in Section 2.19 above.

The actuarial projection of ultimate settlement values for each year is contained in **Appendix I**.

3.8 Claims Experience by Firm and Area of Law

Appendices M(7) and M(8) provide summaries of the claims experience by firm on a ground-up basis and excess of \$1,000,000 respectively. 13 out of the 14 historical CLLAS member firms have had at least one claim paid or reserved by CLLAS since 1987.

Appendices M(9) and **M(10)** provide summaries by area of law, again on a ground-up basis and excess of \$1,000,000 respectively. On a ground-up basis, the claim frequency (not counting the “Other” category) is greatest in Litigation (21% of claims), followed by Commercial Law (15%) and Real Estate and Mortgage Transactions (13%). The loss severity on a per claim basis is greatest in Corporate Law (\$1,024,000), followed by Tax Matters (\$474,000) and Intellectual Property (\$356,000). These exhibits also show the areas of practice of the member firms on a combined basis.

3.9 *Claims Bordereaux*

For year-to-year comparison purposes, the claims exhibits in **Appendices M(1)** to **M(10)** are as of December 31, 2015. The most recent open and closed claims bordereaux as of March 31, 2016 can be found in **Appendix M(12)**. The table below highlights all claims that were open with a total reserve equal to or greater than \$500,000 from the ground up at some point between December 31, 2014 and March 31, 2016 and the corresponding changes in incurred claims/development during that time period.

Claim No.	Ground-up Incurred (Dec. 31, 2014)	Ground-up Incurred (Dec. 31, 2015)	Ground-up Incurred (Mar. 31, 2016)	3-Month Change in Incurred
2002-007 (O)	\$1,000,000	\$1,000,000	\$1,000,000	\$0
2003-206 (O)	\$1,796,270	\$1,796,270	\$1,796,270	\$0
2005-014 (O)	\$612,891	\$612,891	\$612,891	\$0
2005-128 (C)	\$1,100,000	\$38,338	\$38,338	\$0
2006-177 (C)	\$1,103,432	\$1,053,432	\$1,053,432	\$0
2007-121 (C)	\$438,967	\$692,229	\$709,573	\$17,344
2008-001 (O)	\$3,177,566	\$2,946,896	\$2,889,228	(\$57,668)
2008-113 (O)	\$4,500,000	\$4,500,000	\$4,500,000	\$0
2009-012 (C)	\$1,000,000	\$2,700,000	\$2,546,740	(\$153,260)
2009-102 (C)	\$2,000,000	\$1,907,009	\$1,907,009	\$0
2010-059 (O)	\$4,528,773	\$51,528,773	\$51,528,773	\$0
2010-070 (O)	\$2,500,000	\$2,500,000	\$2,500,000	\$0
2010-127 (C)	\$559,453	\$813,609	\$323,610	(\$489,999)
2010-165 (O)	\$3,000,000	\$3,000,000	\$3,000,000	\$0
2011-008 (O)	\$550,000	\$550,000	\$550,000	\$0
2011-034 (O)	\$900,000	\$900,000	\$900,000	\$0
2011-145 (O)	\$14,050,000	\$14,050,000	\$14,050,000	\$0
2011-193 (O)	\$0	\$565,591	\$1,000,000	\$434,409
2012-002 (O)	\$352,712	\$626,049	\$626,049	\$0
2012-030 (O)	\$500,000	\$500,000	\$500,000	\$0
2012-052 (O)	\$200,000	\$500,000	\$125,000	(\$375,000)
2012-057 (C)	\$2,250,000	\$3,328,754	\$3,356,504	\$27,750
2012-075 (O)	\$1,200,000	\$1,839,746	\$1,839,746	\$0
2012-090 (O)	\$1,000,000	\$757,867	\$757,867	\$0
2012-189 (O)	\$243,074	\$543,074	\$543,074	\$0
2013-020 (O)	\$600,000	\$600,000	\$600,000	\$0
2013-024 (C)	\$60,446	\$1,034,457	\$1,034,457	\$0
2013-036 (O)	\$130,000	\$1,005,000	\$1,005,000	\$0
2013-099 (O)	\$50,000	\$158,190	\$822,231	\$664,041
2013-112 (O)	\$10,000	\$65,649	\$731,064	\$665,415
2013-122 (O)	\$168,280	\$525,000	\$759,885	\$234,885
2013-147 (O)	\$275,000	\$525,000	\$678,164	\$153,164
2014-002 (O)	\$1,000,000	\$500,000	\$500,000	\$0
2014-131 (O)	\$25,000	\$1,755,506	\$1,755,506	\$0
2015-007 (C)	\$207,000	\$608,856	\$608,856	\$0
2015-059 (O)	\$600,000	\$600,000	\$600,000	\$0
2015-064 (O)	\$100,000	\$1,000,000	\$1,000,000	\$0
2016-017 (O)	\$0	\$950,000	\$950,000	\$0
2016-018 (O)	\$0	\$700,000	\$700,000	\$0
2016-039 (O)	\$0	\$1,000,000	\$1,000,000	\$0
2016-050 (C)	\$0	\$750,000	\$0	(\$750,000)
Total	\$51,788,864	\$111,028,186	\$111,399,267	\$371,081

Note: For a few Ontario claims, the December 31 incurred amounts indicated above may not match the amounts in the loss development triangle [Appendix M(6) Exhibit II] as the triangle has been updated with information received from LawPRO subsequent to the preparation of the December 31 bordereaux.

3.10 Claims Précis

A précis of important outstanding claims as of March 31, 2016 can be provided upon request.

4.0 *Proposed Renewal Terms – 2016/2017*

4.1 *Coverage Features*

The CLLAS “stand-alone” policy wording ensures that CLLAS members, some of whom operate out of several provincial jurisdictions, enjoy consistency and somewhat broader coverage throughout the jurisdictions in which they operate. CLLAS member firms have offices in the following Canadian jurisdictions: Alberta, British Columbia, Québec, Ontario and Nova Scotia. All jurisdictions have a compulsory limit of \$1,000,000 per claim/\$2,000,000 annual aggregate per lawyer except for Québec where the compulsory limit is \$10,000,000 per claim. However, Québec restricts inter-jurisdictional exposures to \$1,000,000 per claim.

The current CLLAS structure includes a Primary Policy of \$50,000,000 per claim/per year/per firm inclusive of underlying coverage from the law societies or other applicable professional liability policies. Below are examples of how the CLLAS Primary Policy would respond:

- If a claim is made that would trigger the mandatory policies in Ontario, British Columbia, Alberta or Nova Scotia, the CLLAS Primary Policy would effectively respond as a \$49,000,000 limit excess of a \$1,000,000 compulsory limit provided by the respective law societies in these jurisdictions;
- If a claim is made that would trigger the Québec mandatory coverage relating strictly to acts of Québec lawyers, the CLLAS Primary Policy would effectively respond as a \$40,000,000 limit excess of a \$10,000,000 compulsory limit provided by the Barreau du Québec;
- In the event of a claim triggering a sub-limit in Ontario (e.g. \$250,000 sub-limit for retired lawyer coverage), the CLLAS Primary Policy would effectively respond as a \$49,750,000 limit excess of the \$250,000 sub-limit;
- In the event of no underlying coverage or exhaustion of the underlying coverage, the CLLAS Primary Policy will provide coverage of up to \$49,975,000 excess of a deductible of \$25,000;
- Only that portion of the claim attributable to CLLAS will contribute to the \$50,000,000 annual aggregate per firm including claims that will be under \$1,000,000 which will be fully retained by CLLAS.

A schematic showing the current policy and reinsurance structure is included in **Appendix N**.

The expiring wordings are included in **Appendix O**. CLLAS does not anticipate any coverage changes to its Primary Policy at renewal other than a minor wording amendment as described in Section 4.2.

At renewal, no change is expected to be made to the First Excess Policy.

The First Excess Policy (stand-alone) provides \$15,000,000 excess of the \$50,000,000 CLLAS Primary Policy. The policy would also provide drop-down coverage to \$500,000 for claims not covered by the CLLAS Primary Policy. For example, foreign law and U.S. offices are not excluded in this policy while the CLLAS Primary Policy does have exclusions pertaining to these exposures. All CLLAS member firms are required to subscribe to the First Excess Policy in addition to the CLLAS Primary Policy. On top of the CLLAS Primary Policy and the commercial market policies, CLLAS would continue to provide the Optional Excess Policy and the Blanket Excess Policy as follows:

1. The CLLAS Optional Excess Policy (which follows the First Excess Policy) would provide limit options ranging from \$10,000,000 to \$60,000,000 (with increments of \$10,000,000) aggregate per firm excess of \$160,000,000 aggregate per firm or excess of specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations or excess of \$500,000 per claim self-

insured retention. The limits between the First Excess layer and this layer would be completed in the commercial insurance market.

2. The CLLAS Blanket Excess Policy provides \$30,000,000 per claim/\$60,000,000 aggregate all member firms combined excess of a minimum of \$65,000,000 per firm composed from various underlying insurances as described above. This policy also follows the First Excess Policy and is excess of the Optional Excess Policy and/or excess of specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations.

Note: The above limits are inclusive of costs, charges and expenses except in Québec where costs are not included in the limit.

It should be noted that for the Optional Excess and Blanket Excess Policies, the “designated underlying policy” is the First Excess Policy wording which attaches at \$50,000,000. The First Excess Policy has a drop-down feature in the event that it is broader than the underlying CLLAS Primary Policy and/or the mandatory law society program policies. The principal differences between the CLLAS Primary Policy and the First Excess Policy are:

- a) the First Excess Policy does not exclude coverage with respect to the practice of foreign law;
- b) the First Excess Policy does not exclude coverage for U.S. offices;
- c) the First Excess Policy may be broader in scope with respect to non-lawyer consultants; and
- d) the First Excess Policy contains a “Liberalization Clause” which ensures that it is at least as broad as the underlying CLLAS Primary Policy.

The CLLAS Primary Policy will not respond to claims brought against lawyers from an office in the U.S., whether relating to the practice of Canadian law or foreign law. Except to the extent that the CLLAS International Policy would provide coverage, the First Excess Policy would drop down to provide this coverage, both for claims relating to the practice of Canadian and foreign law, subject to a \$500,000 deductible. The CLLAS Optional Excess and Blanket Excess Policies will follow form and provide the same coverage as the First Excess Policy.

A memorandum furnished to all CLLAS members regarding the drop-down/difference in conditions features of the CLLAS Primary Policy and foreign law exposure is included in **Appendix P1**. The CLLAS Primary Policy and the underlying policies have evolved since this memorandum was prepared in 1996 (most notably the CLLAS policy structure, limits and retentions have changed as described elsewhere in this report) but the general impact of the drop-down exposure remains as described in the memorandum.

While the CLLAS Primary Policy would not respond to claims relating to the practice of foreign law, it will respond to claims that are “incidental” to the practice of Canadian law, within the meaning attributed to that term by CLLAS. The examples of what CLLAS considers “incidental” to the practice of Canadian law can be found in **Appendix P2**.

These two appendices describe the circumstances which would trigger the drop-down/difference in conditions feature and provide typical examples of involvement with foreign law which inevitably arise as an incidental and unavoidable adjunct to the practice of law by large firms with an international client base and domestic clients engaged in international transactions.

4.2 Proposed Coverage and Policy Wording Changes at Renewal

To be consistent with the rest of the wording, CLLAS is proposing to amend the definition of “Service Company” on its Primary Policy slightly as follow:

“Service Company” means a corporation or partnership (other than a **Professional Corporation**) including its officers, directors, partners and **Employees**, providing services exclusively to or through the **Named Insured**.

Other than this, CLLAS is not anticipating any coverage changes at renewal.

The current CLLAS policy wordings are set forth in **Appendix O**.

4.3 *Non-lawyer Patent & Trademark Agents and Non-Lawyer Consultants/Professionals*

As discussed in Sections 2.14 and 2.15, CLLAS also provides coverage to and charges premium on non-lawyer patent and trademark agents and certain non-lawyer consultants/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/professionals by firm extracted from the renewal applications as well as details on the rating of the non-lawyer consultants/professionals are provided as **Appendix Q**. Actual numbers will be provided prior to renewal.

4.4 *Headcount for Premium Calculation*

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

The number of lawyers for rating purposes as at March 1, 2016 is set forth below:

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	124	573	0	697
Cassels Brock & Blackwell LLP	0	185	0	185
Davies Ward Phillips & Vineberg LLP	89	146	12	247
Dentons Canada LLP	86	420	0	506
Fasken Martineau DuMoulin LLP *	207	423	82	712
Goodmans LLP	0	193	0	193
McCarthy Tétrault LLP	136	414	4	554
McMillan LLP	27	238	0	265
Osler, Hoskin & Harcourt LLP	58	361	18	437
Torys LLP	6	292	35	333
WeirFoulds LLP	0	95	0	95
Total	733	3,340	151	4,224

* The member firm’s Paris office was closed on December 31, 2015 although the entity remains open for the time being. Its London, UK, office was downsized with significantly reduced number of lawyers at renewal.

4.5 *Premium Allocation Between CLLAS and CLLAS 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. No matter what foreign law or U.S. office exposures there may be, the First Excess Policy would respond and this is reflected in the premium rating.

If the 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.

4.6 Optional Excess Coverage

Most of the CLLAS member firms purchase the highest limit available in the commercial market as well as the additional and optional layer of coverage offered by CLLAS. Currently, 9 of the 11 member firms purchase the CLLAS Optional Excess coverage as follows. Information as of March 1, 2016 is also shown.

<u>Member Firm</u>	<u>Current Limit Option</u>	<u>No. of Lawyers June 15, 2015</u>	<u>No. of Lawyers March 1, 2016</u>
Borden Ladner Gervais LLP	\$40,000,000	695	697
Cassels Brock & Blackwell LLP	\$60,000,000	192	185
Davies Ward Phillips & Vineberg LLP	\$60,000,000	237	247
Fasken Martineau DuMoulin LLP	\$60,000,000	774	712
Goodmans LLP	\$60,000,000	191	193
McCarthy Tétrault LLP	\$60,000,000	583	554
McMillan LLP	\$60,000,000	262	265
Osler, Hoskin & Harcourt LLP	\$60,000,000	430	437
Torys LLP	\$60,000,000	<u>316</u>	<u>333</u>
Total		<u>3,680</u>	<u>3,623</u>

As indicated in their renewal applications, other than Borden Ladner Gervais LLP who opts to purchase the \$40,000,000 limit, the other member firms will continue to maximize their coverage option. The total estimated number of insured lawyers at renewal for this coverage is 3,623. Actual numbers will be provided prior to renewal.

4.7 Rate Structure and CLLAS Retention

As discussed in Section 2.2, CLLAS has significantly reduced its retention from 25% of Reinsurance Layer 1 and 100% of the \$975,000 drop down to only the drop down since July 1, 2012. 20% of Reinsurance Layer 1 is currently reinsured with Colchester and CLLAS expects that CLLAS or Colchester will continue to retain a similar percentage for the upcoming term.

The table below sets forth the net reinsurance premiums and incurred losses since July 1, 2011, the date that the \$50,000,000 limit structure was first put in place. On an incurred basis, underwriters have experienced five excellent years and are well positioned in the event a significant loss occurs in the future.

Policy Year	Net Reinsurance Premiums	Incurred Losses	Incurred Net Loss Ratio
2011/12	\$9,530,084	\$3,275,006	34.36%
2012/13	\$9,406,090	\$255,847	2.72%
2013/14	\$9,411,065	\$1,000,000	10.63%
2014/15	\$9,094,677	\$10,000	0.11%
2015/16	\$8,738,580	\$0	0.00%
Total	\$46,180,496	\$4,540,853	9.83%

The following table summarizes the incurred loss experience per lawyer at the most recent 5 years, 10 years, 15 years and all years (since CLLAS' inception in 1987) for the \$49,000,000 excess of \$1,000,000 layer of coverage as well as the \$40,000,000 excess of \$10,000,000 layer of coverage (for Québec lawyers) and compares these incurred losses with the proposed rate per lawyer based on recent market intelligence.

Number of Years Claims Experience	Incurred Claims Experience per Lawyer	
	\$49MM xs \$1MM	\$40MM xs \$10MM
All Years (Since 1987)	\$2,512	\$999
<i>All Years (Since 1987) *</i>	<i>\$1,623</i>	<i>\$321</i>
Most Recent 15 Years	\$2,606	\$1,234
<i>Most Recent 15 Years *</i>	<i>\$1,233</i>	<i>\$189</i>
Most Recent 10 Years	\$2,445	\$1,089
<i>Most Recent 10 Years *</i>	<i>\$1,252</i>	<i>\$163</i>
Most Recent 5 Years	\$236	\$0
<i>Most Recent 5 Years *</i>	<i>\$236</i>	<i>\$0</i>
<i>Expiring Net Reinsurance Rate</i>	<i>\$2,340</i>	<i>\$1,121</i>
<i>Net Market Rate</i>	<i>\$1,800</i>	<i>\$840</i>
<i>Proposed Net Reinsurance Rate</i>	<i>\$1,990</i>	<i>\$940</i>

* For illustration purpose, we have also excluded the two largest CLLAS claims on the 5, 10, 15 and all years incurred per lawyer numbers.

While the more recent five years are not fully developed, CLLAS has seen a steadily improving claims experience in recent years probably due to a more desirable geographical spread of risk and an improved/more effective risk management strategy. Note that the 15-year incurred claims experience includes the two largest losses ever suffered by CLLAS. The 10-year claims experience includes the most recent large loss suffered by CLLAS.

Market intelligence suggests that for a Canadian law firm as at January 1, 2016, a \$49,000,000 excess of \$1,000,000 layer may be priced at \$1,800 net per lawyer (lower in Alberta, British Columbia and Nova Scotia) and that the \$40,000,000 excess of \$10,000,000 layer may be priced at \$840 net per lawyer. This has been validated by various sources, including information from the CLLAS broker who places the middle insurance market layers. Based on the incurred claims experience outlined above and the disparity between the CLLAS rates and the market rates, we are proposing a 15% reduction in rates for the \$49,000,000 excess of \$1,000,000 layer as well as the Optional Excess and Umbrella layers. Based on the significant disparity between the CLLAS rates and the market rates in the \$40,000,000 excess of \$10,000,000 layer, we are proposing a 16% reduction in rates. As noted in Sections 1.1 and 2.10, we believe that this reduction will maintain CLLAS' competitive position in the Canadian market and will facilitate the renewal commitment of its member firms in 2017 as well as being attractive to potential new members of CLLAS.

The following reinsurance coverage and retention is therefore being proposed:

Type:	Excess Lawyers Professional Liability Reinsurance
Reinsured:	Canadian Lawyers Liability Assurance Society
Original Insured:	CLLAS member firms as set forth in this report
Period:	From: July 1, 2016 To: July 1, 2017 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:	\$49,000,000 each claim excess of \$1,000,000 each claim except \$40,000,000 each claim excess of \$10,000,000 each claim when the underlying limit provided by the Barreau du Québec is \$10,000,000 each claim AND \$49,000,000 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: \$7,335,620 Actual premium to be determined based on the following rates and the actual headcount as of June 15, 2016: <ul style="list-style-type: none">• \$940/lawyer in Québec• \$1,990/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 plus Colchester (subject to Colchester approval) to assume a proportionate share of the risk (approximately 20%) 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 Optional Excess Layer:	The Optional Excess layer is expected to be 100% reinsured. There have been no losses in this layer over CLLAS' 29-year history and CLLAS is therefore seeking a 15% reduction over expiring rates. Estimated annual premium for lawyers: \$615,061 Actual premium to be determined based on the following rates against the member firms' limit option and the actual headcount as of June 15, 2016:

- \$10,000,000 – \$48/lawyer and certain non-lawyer consultants
- \$20,000,000 – \$83/lawyer and certain non-lawyer consultants
- \$30,000,000 – \$107/lawyer and certain non-lawyer consultants
- \$40,000,000 – \$131/lawyer and certain non-lawyer consultants
- \$50,000,000 – \$155/lawyer and certain non-lawyer consultants
- \$60,000,000 – \$179/lawyer and certain non-lawyer consultants
- 25% of the respective rates for certain non-lawyer consultants and patent & trademark agents

CLLAS Blanket Excess Layer:

The Blanket Excess layer is expected to be 100% reinsured. There have been no losses in this layer over CLLAS' 29-year history and CLLAS is therefore seeking a 15% reduction over expiring rates in this layer.

Estimated annual premium for lawyers: \$375,936

Actual premium to be determined based on the following rates and the actual headcount as of June 15, 2016:

- \$89/lawyer and certain non-lawyer consultants
- 25% of the above rate for certain non-lawyer consultants and patent & trademark agents

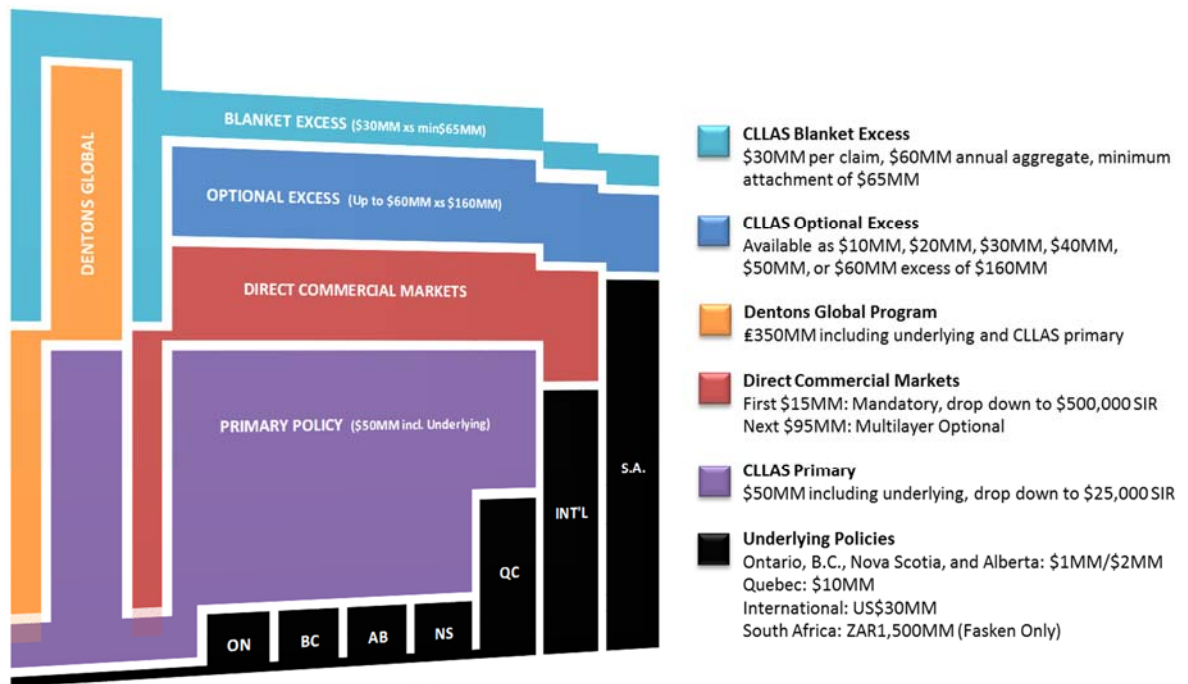
Commission:

Reinsurance rates and premiums are net of commission and/or brokerage.

Premium Taxes:

Applicable provincial premium taxes payable by CLLAS.

The following schematic sets forth the structure for the 2016/2017 policy year which is unchanged from the current structure:



4.8 *Proposed Changes to Reinsurance Contracts at Renewal*

We do not anticipate any changes to the reinsurance contracts at renewal.

5.0 Renewal Applications

Renewal applications are available upon request. Member firms provide details of any joint ventures or associations through Appendix D of the application.