

Cyber Program Update

Presentation to Advisory Board – May 4, 2022

Overview

- Background
- Key Terms of Proposed Program
- Impact on CLLAS Financials
- Status and Next Steps



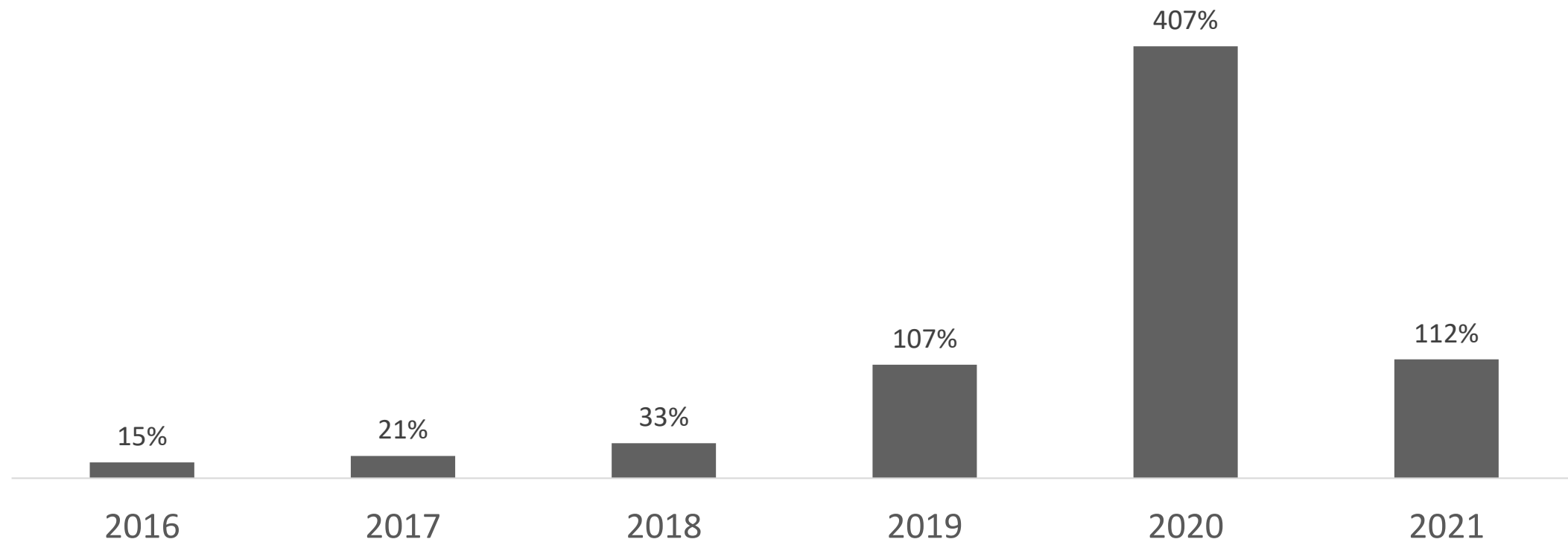
Background - Industry

Beginning in spring of 2021, on the back of significant losses under cyber coverages in the insurance marketplace, the terms and conditions of cyber insurance became unstable. Price increases were significant, and coverages, such as crime-related coverages (social engineering fraud and computer fraud), were removed from cover.

To highlight the issue from insurer perspective, see the chart on the following slide based on claims and premium figures available from the Office of the Superintendent of Financial Institutions (OSFI)

Background - Industry

Cyber Liability Loss Ratio - Domestic and Foreign Insurers Combined
(Source: OSFI)

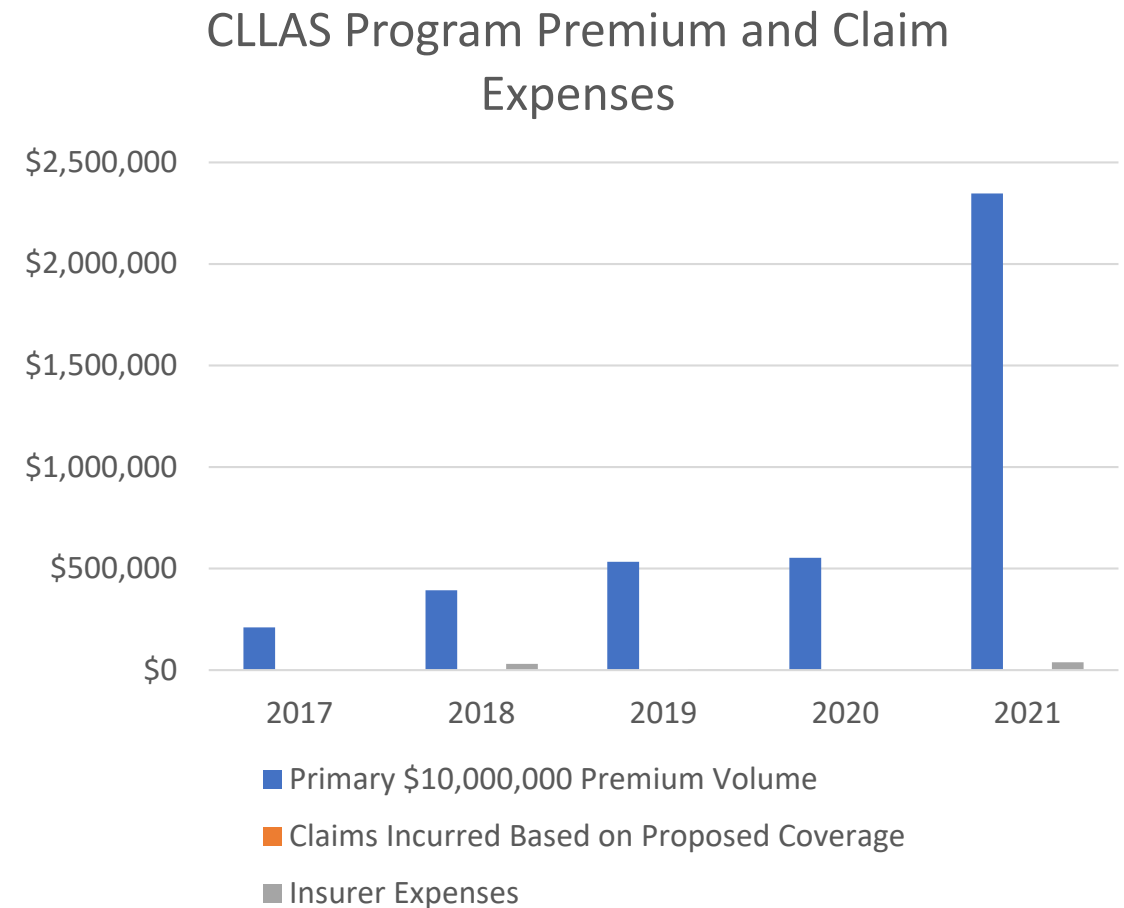


Background - Industry

- Insurers have scrambled to correct for this in four key ways:
 - Increases in rate – upwards of 300%-400% in many cases
 - Exit from specific industry verticals (e.g. public sector)
 - Coverage reductions
 - Increases in deductibles/retentions and co-insurance clauses
 - Lowering of available limits/capacity (overall and via sub-limits)
 - Removal of insuring agreements (e.g. Crime coverage)
 - Underwriting to controls and using perimeter scans
 - Focus on Multi-Factor Authentication
 - Endpoint protection (i.e. next-gen antivirus)
 - Training, including simulations
 - Backups

Background – 2017-2021 Program

- CLLAS firms were already ahead of the curve, with controls in place
- Lack of capacity was driven by risk appetite from insurers for large law firm risk as a result of experience elsewhere which indicated that law firms were quick to pay ransoms in order to reduce reputation risk
- The CLLAS program has not had the same loss experience as the industry – in fact, based on the proposed coverage (deductibles and insuring agreements), claims have been nil



Background – 2017-2021 Program

- The CLLAS cyber program's loss experience has largely tracked with the frequency of claims, including breakout of claim types, highlighted in presentations by insurers (e.g. Coalition)
 - Business Email Compromise: 3 incidents, no losses excess of proposed deductibles
 - Social Engineering Fraud: 2 incidents, one loss which involved client funds (already covered under CLLAS Professional Liability) and one which was resolved under the deductible
 - Data Breach: 1 incident related to a vendor, potential breach only, appears to have been resolved under the deductible

Background – CLLAS Cyber

- Why implement a CLLAS solution:
 - Market instability is making the coverage difficult to acquire, and pricing is erratic when it is
 - Underwriting process is challenged by moving targets on controls
 - CLLAS can resolve these issues, thoughtfully retain risk with the expectation of underwriting profitability
 - CLLAS can provide stability in both pricing and coverage

Background – CLLAS Cyber

- At the February 2022 the board authorized Axxima to investigate implementing a CLLAS cyber program
 - Refine the coverage terms/policy wordings
 - Developing a rating structure, including further developing loss modeling
 - Design and document claim management structure
 - Secure reinsurance terms/indications
 - Apply for appropriate provincial licensing for CLLAS
 - Review and develop recommendations for necessary subscriber agreement amendments
- Target implementation date: July 1, 2022 or October 15, 2022

Key Terms/Features of Proposed Program

- Deductibles consistent with current commercial policies
 - Firms with less than 150 lawyers: \$100,000
 - Firms with 150 or more lawyers: \$250,000
- Primary policy limits of \$10 million per firm
 - Per-claim quota-share reinsurance excess of \$1 million
 - CLLAS retains first \$1 million inclusive of deductible
 - Explore aggregate stop loss for retained losses once quota-share reinsurance terms are confirmed to further limit CLLAS downside risk
- Excess coverage above the CLLAS primary layer placed directly with commercial insurers – retain access to competitive intel
- CLLAS-specific claims management, including CLLAS-selected panel of providers, consistent incident response year-over-year, faster claims response times than commercial insurers

Key Terms/Features of Proposed Program

Total CLLAS premiums of \$2.5 million (similar to current level of total premiums paid by CLLAS firms to commercial insurers)

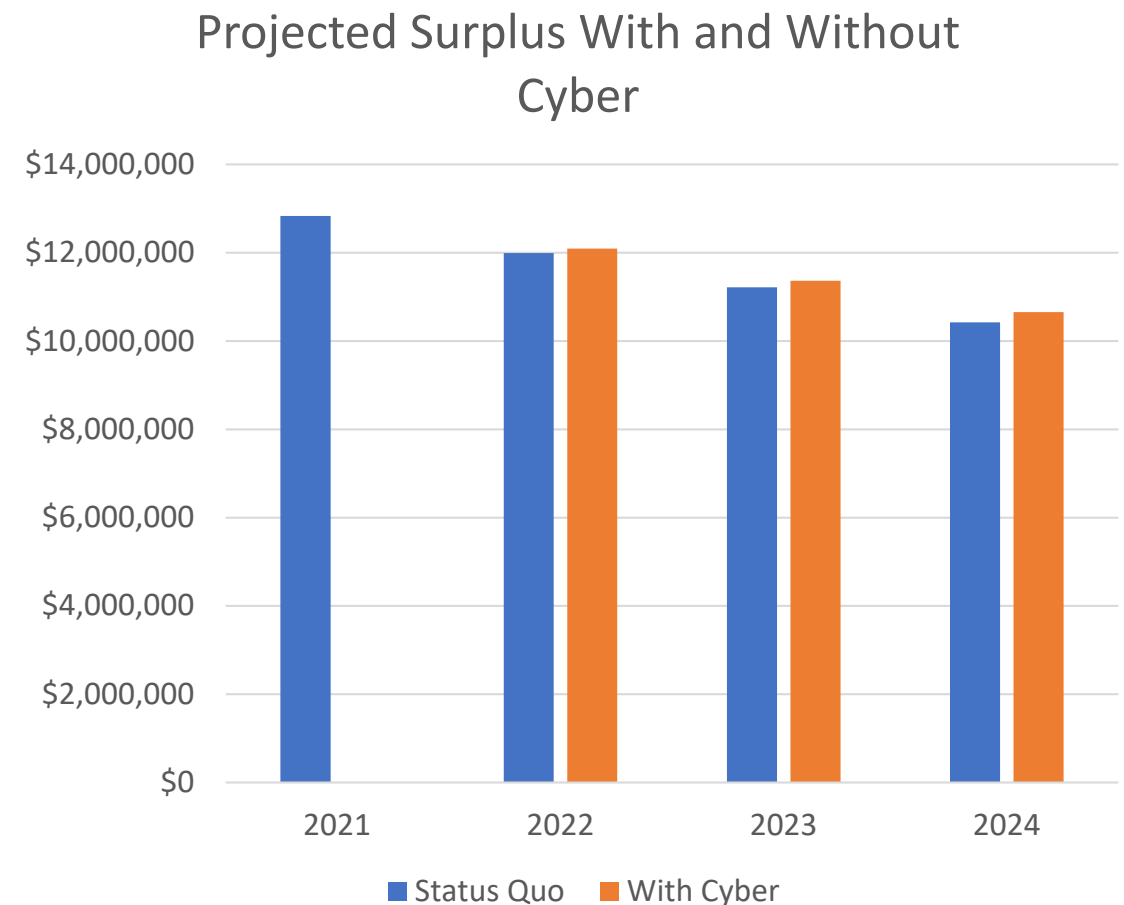
Reinsurance costs estimated at \$1.53 million

Retained losses actuarially estimated at 75% of retained premium (notwithstanding that actual claims experience suggests 1 claim every 12 years, per firm, with 80-90% of losses falling within the firm deductibles)

Operating expenses estimated at 17% of retained premium

Impact on Financials

- The CLLAS Cyber Program in development is expected to have minimal effect on CLLAS' overall financial performance
- The impact on CLLAS' surplus is nominally positive and is expected to keep CLLAS well above its internal targets and regulatory expectations
 - Assumes net incurred losses of 408,000 in 2022, \$780,000 in 2023, and \$756,000 in 2024





Status and Next Steps

Licensing

Apply for appropriate provincial licensing for
CLLAS

PENDING APPROVAL

- AB reviewing business plan
- ON reviewing licence application
- Expect to be fully licenced by July 1st
 - October 15th remains a good fall-back date in the event regulators are slow to provide approvals

Coverage Terms

Policy wording and coverage details

IN PROCESS

- Draft wording complete, provided to regulators
- May require changes based on the reinsurance negotiations

Coverage Terms - Preliminary

BREACH RESPONSE

- Breach Response Costs (\$10MM)
- Business Interruption Loss:
 - Resulting from Security Breach (\$10MM)
 - Resulting from System Failure (\$10MM)
- Dependent Business Loss:
 - Resulting from Dependent Security Breach (\$2.5MM)
 - Resulting from Dependent System Failure (\$1MM)
- Cyber Extortion Loss (\$10MM)
- Data Recovery Costs (\$10MM)

LIABILITY

- Data & Network Liability (\$10MM)
- Regulatory Defense & Penalties (\$10MM)
- Payment Card Liabilities & Costs (\$10MM)
- Media Liability (\$10MM)

Coverage Terms

ECRIME – FIRM FUNDS ONLY

- Fraudulent Instruction (\$250,000)
- Funds Transfer Fraud (\$250,000)

OTHER

- Criminal Reward (\$50,000)
- Reputation Loss (\$1,000,000)
- Computer Hardware Replacement Cost (\$1,000,000)

Rating Structure

Develop a rating structure, including further developing loss modeling

IN PROCESS

- Rating structure has been developed to mirror market rates, but based on FTE lawyer count
- \$30,000 base policy premium
- Decreasing rate per lawyer as firm size increases:
 - First 100: \$750
 - Next 150: \$450
 - Next 250: \$150
 - Above 500: \$50
- Resulting premiums are on average within 2% of expiring
- Apply CLLAS principals - all firms pay the same rate, underwriting will be strict, but developed in conjunction with industry experts and CLLAS information security working group
- Loss modeling provided by actuaries for business plan

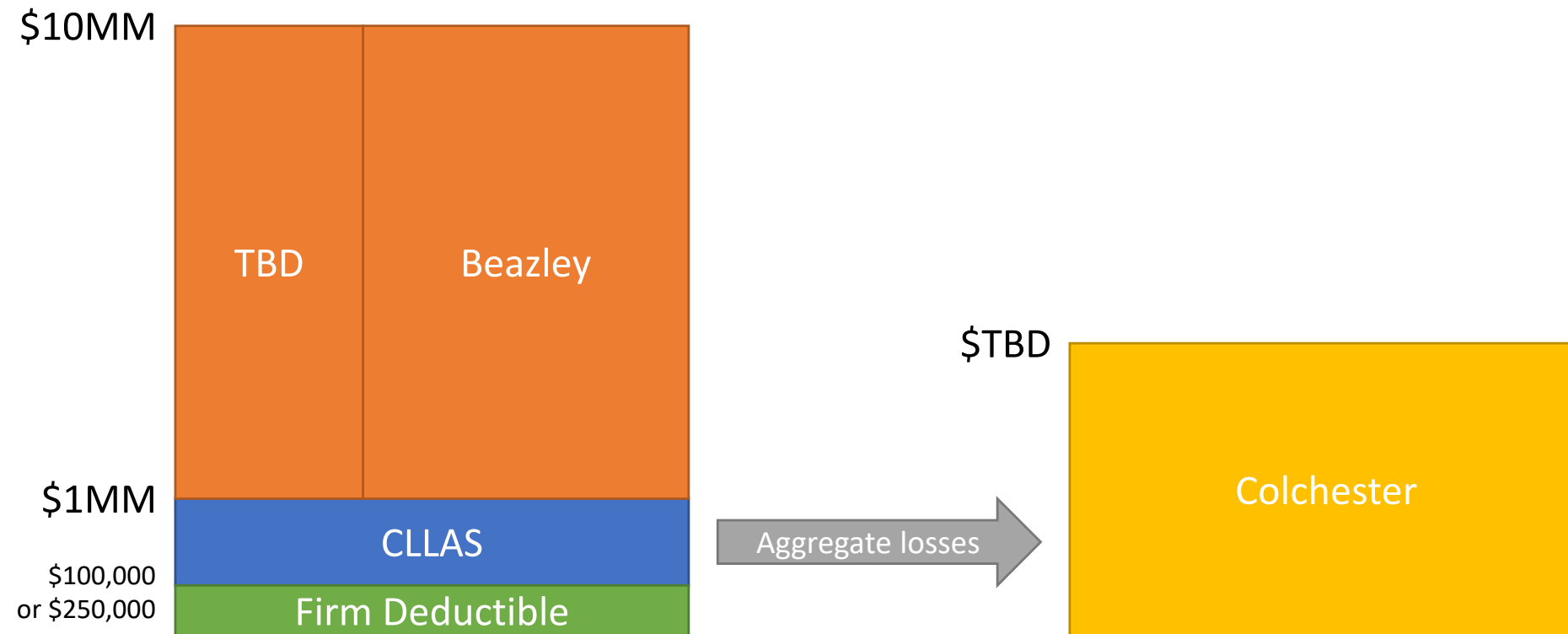
Reinsurance

Securing reinsurance terms

IN PROCESS

- Currently working with incumbent insurer, Beazley
- High level submission provided, with terms and conditions, as outlined herein
- Expect to hear back from Beazley this week, additional support to be secured once lead terms established
 - Note: Beazley insists on using their wording as base wording, would like to provide input in risk management initiatives and claims process
- Once quote-share reinsurance terms are known, CLLAS will approach Colchester on stop loss

Reinsurance Structure



Subscriber Agreement

Review and develop recommendations for necessary subscriber agreement amendments

MAY START

- Agreement does not need to be amended to allow CLLAS to provide cyber insurance
- Agreement should be amended to provide for separate accounting for the cyber program
- Amendment to be drafted in May

Claim Management

Design and document claim management structure

IN PROCESS

- Working on claim management structure
 - Engage external cyber expertise for claim adjusting
 - Select panel based on reinsurer and breach coach recommendations, incorporate additional panel provides with firm input
 - Axxima will provide file oversight, maintain claims data

Next Steps

Board to provide instructions:

- Continuation of implementation
- Target date for launch
- Input on proposed terms and conditions

If proceeding for July 1, 2022 launch:

- Applications will be prepared and sent to the firms for completion (may only require updates from firms already insured under the Program)
 - New ransomware application likely required
- Final approval to launch possible at June board meeting

If proceeding for October 15, 2022 launch:

- Continue implementation process
- Defer applications
- Provide status updates at June and September board meetings ahead of launch