



Actuaries & Insurance Management Advisors



CLLAS

Board Presentation – Renewal Strategy

June 19, 2018

# Overview

- Renewal Objectives
- Retention Strategy
- Insurance and Reinsurance Structures
- Insurance and Reinsurance Costs
- Return of Surplus
- Final Remarks

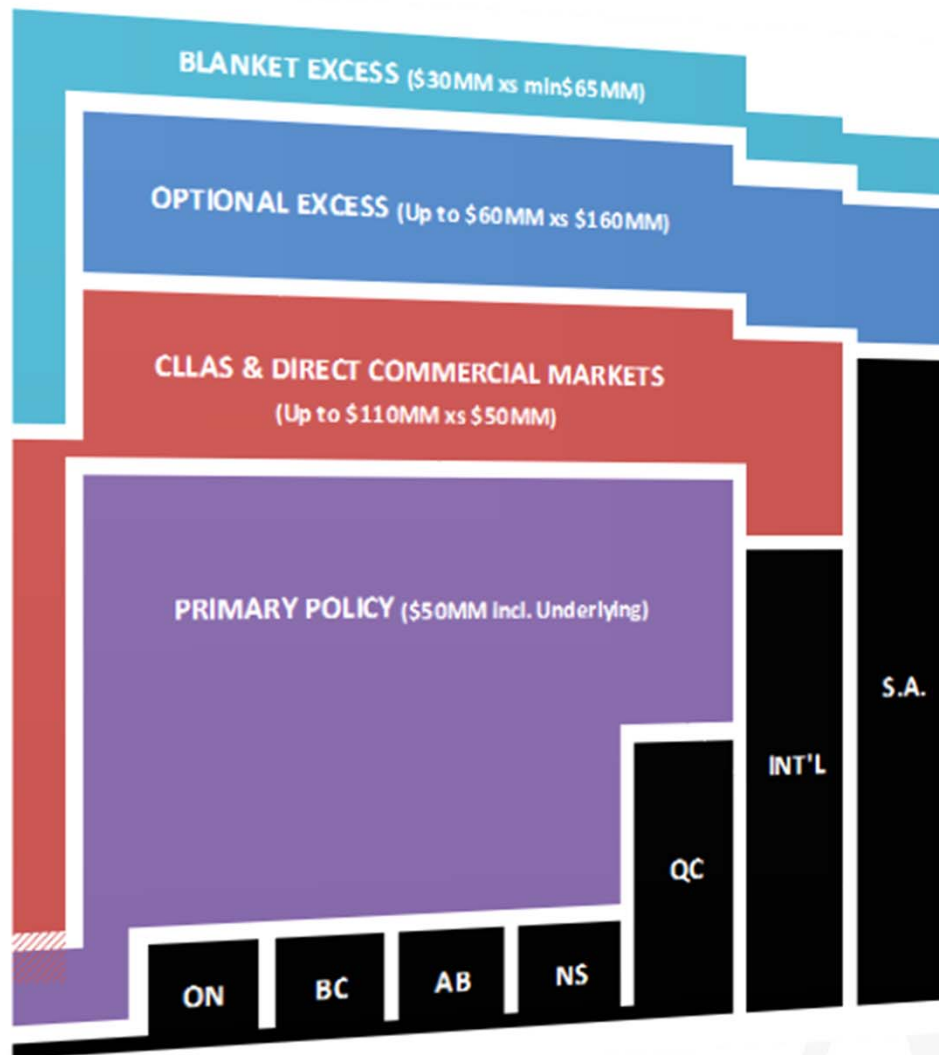
# Renewal Objectives






- Obtain an as-is renewal based on last year's rates
- Attract new markets
- Maintain and enhance existing reinsurer relationships
- Continue to evaluate ability to distribute surplus to members through premium credits

# Retention Strategy

- CLLAS currently retains only the drop-down exposure below \$1,000,000 (maximum exposure of \$975,000, any one loss)
- Colchester's current participation is 20% of the \$49MM xs \$1MM layer, for a per-claim retention of \$9.8MM, however, net retention is just \$700,000 after retrocession
- Colchester also provides an aggregate stop-loss coverage to CLLAS for \$10MM xs \$5MM, which is reinsured excess of \$2.5MM
- On a combined basis, the CLLAS/Colchester per claim retention is expected to be \$1,675,000, which is unchanged from expiring

# Insurance Structure

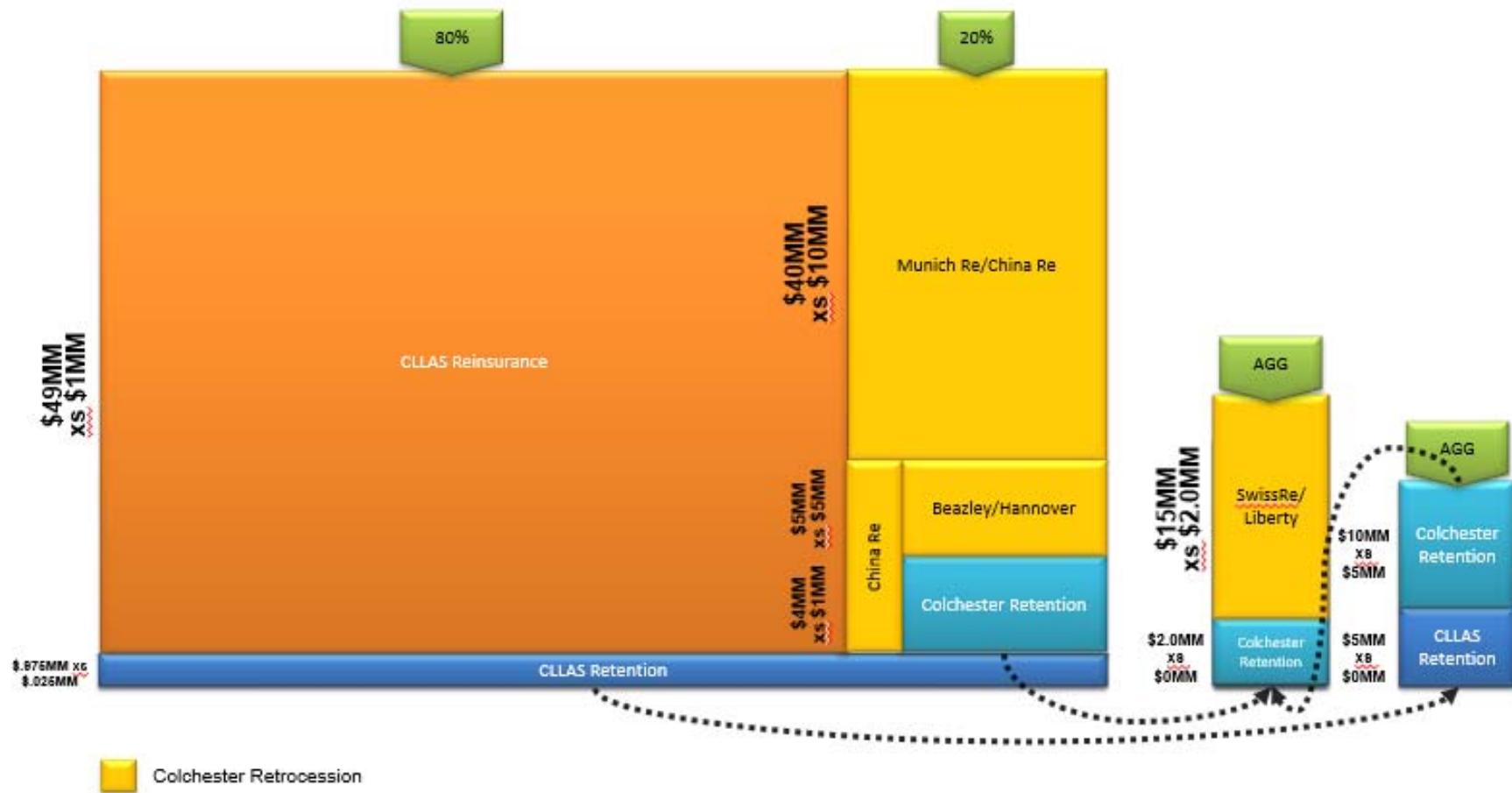


-  **CLLAS Blanket Excess**  
\$30MM per claim, \$60MM annual aggregate, minimum attachment of \$65MM
-  **CLLAS Optional Excess**  
Available in increments of \$10MM up to \$60MM excess of \$160MM
-  **CLLAS & Direct Commercial Markets**  
First \$50MM (min \$15MM): Mandatory, drop down to \$500,000 SIR  
Next \$60MM: Optional
-  **CLLAS Primary**  
\$50MM including underlying, drop down to \$25,000 SIR
-  **Underlying Policies**  
Ontario, B.C., Nova Scotia, and Alberta: \$1MM/\$2MM  
Quebec: \$10MM  
International: US\$30MM  
South Africa: ZAR1,500MM (Fasken Only)

# Insurance Structure

- We opened a dialogue with underwriters regarding adding another layer of optional excess coverage to the structure for 2019/2020
- While CLLAS' overall limit of \$250MM has seemed to be sufficient since 2011/2012, given that 9 of the 10 CLLAS firms will be purchasing the full available limits this year, we felt it worthwhile exploring an additional \$50MM-\$100MM in limits for next year – pricing TBD

# Reinsurance Structure



# Reinsurance Costs for 2018/2019

- Following the significant discounts obtained last year (25%), stability was the core objective, and an as-is renewal is being pursued
- We have a sufficient amount of support at the as-is pricing to be confident that a renewal on that basis will be achieved, however we have had key syndicates express their concern and dissatisfaction with the current rates
- Many markets have been relaxed about providing as-is terms

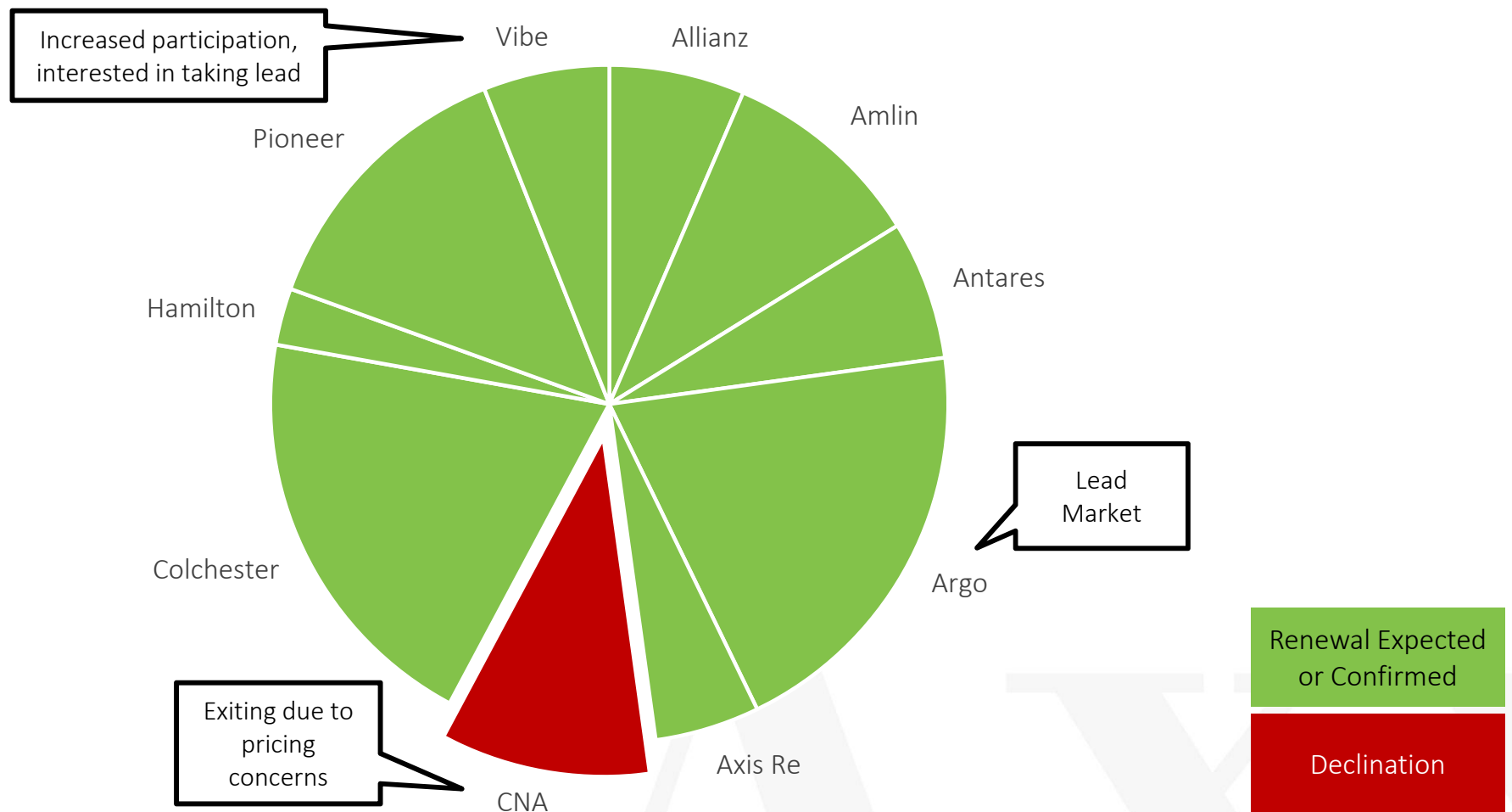


# Reinsurance Costs for 2018/2019

- We have lost a significant domestic player, CNA, for this year, but we are hopeful that we will be able to attract some new capacity in the London market, which remains markedly more aggressive than Canada
- Although unlikely, an increase in Colchester participation may be necessary to get to the goal line

# Reinsurer Participation

\$49MM xs \$1MM - Expiring Lines for Renewal

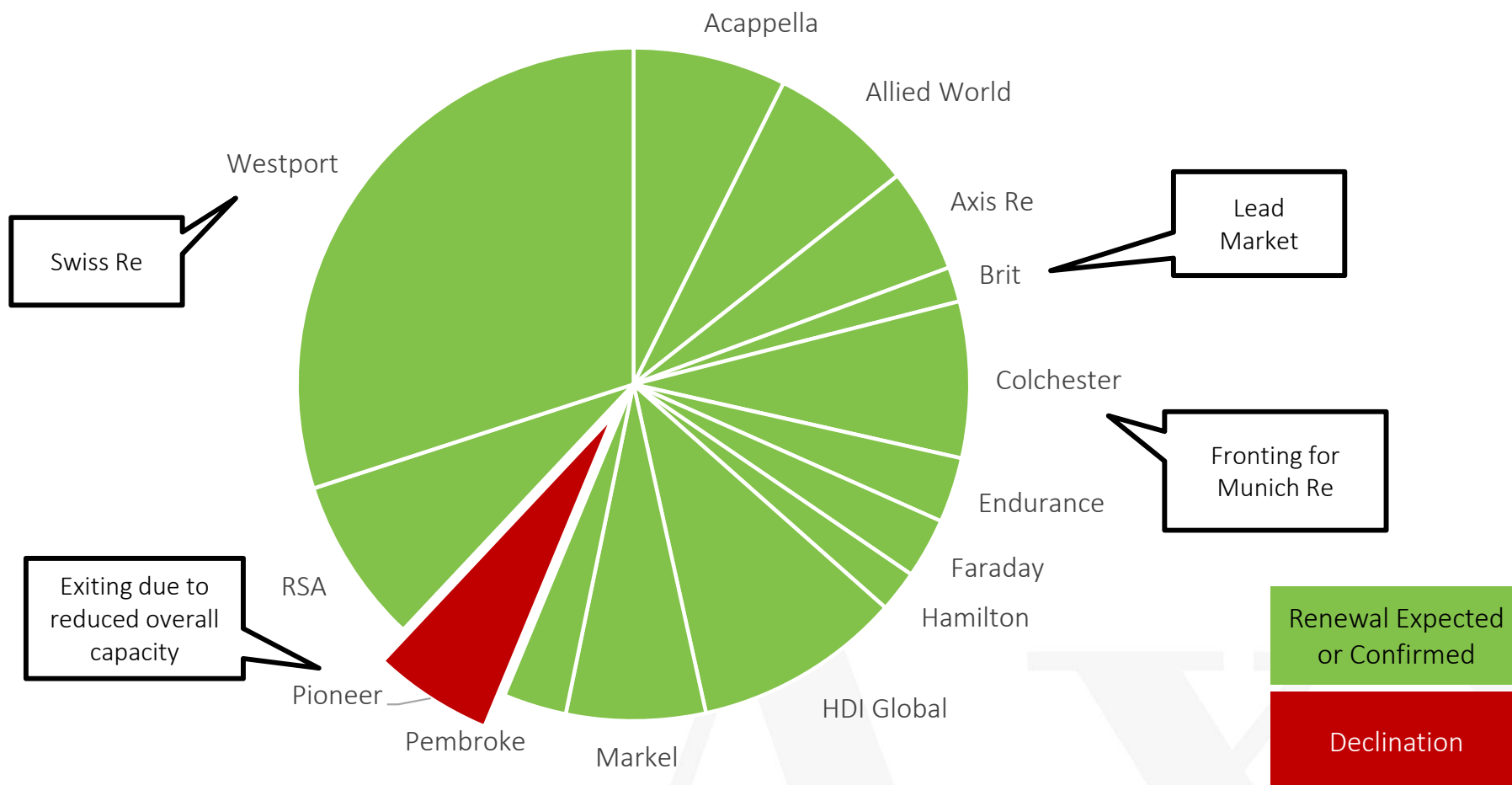


# Reinsurer Participation

- Approaching Probitas and China Re to join
- Vibe has expressed interest in becoming lead, has increased written line from 10% to 15% (currently signed down to 6.01%)
- Sufficient capacity available from other existing participants to absorb the loss of CNA
  - Lloyd's capacity will likely increase from 65% to 75%, resulting in some concentration risk

# Reinsurer Participation

\$60MM xs \$160MM - Expiring Lines for Renewal

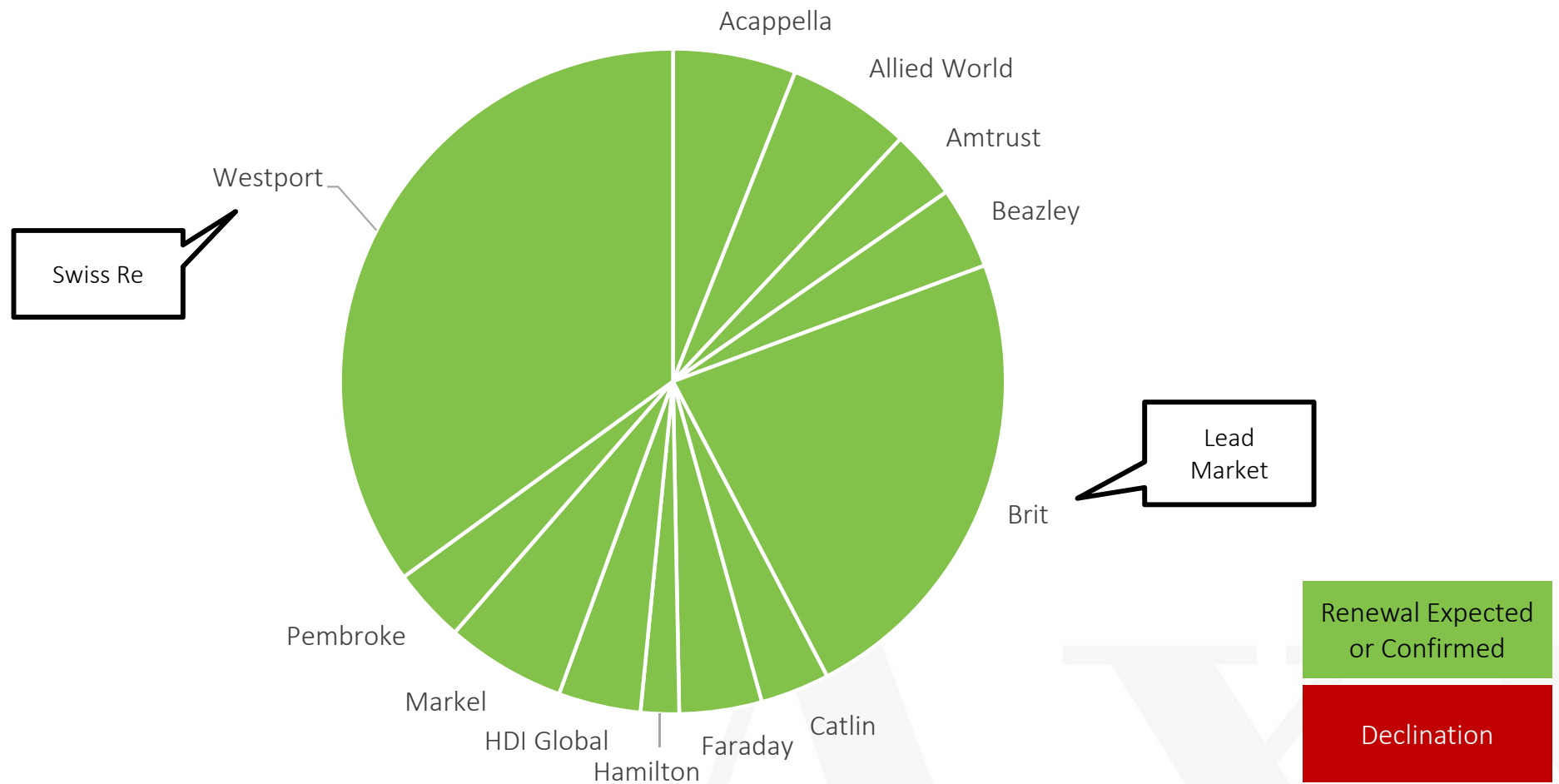


# Reinsurer Participation

- Pioneer was previously using capacity from Liberty and others, has now deployed it's own capacity; due to reduction in overall capacity it has focused on \$49MM xs \$1MM layer
- Pioneer's participation should be easily absorbed by other markets
- Strong domestic participation means concentration risk with Lloyd's is not as significant in this layer
- Colchester was instrumental in achieving our overall pricing goals last year by deploying surplus - upcoming changes to OSFI Reinsurance Security Agreement rules will result in higher capital requirements
  - Confirming with Colchester its ability to maintain current pricing levels in the short and long term

# Reinsurer Participation

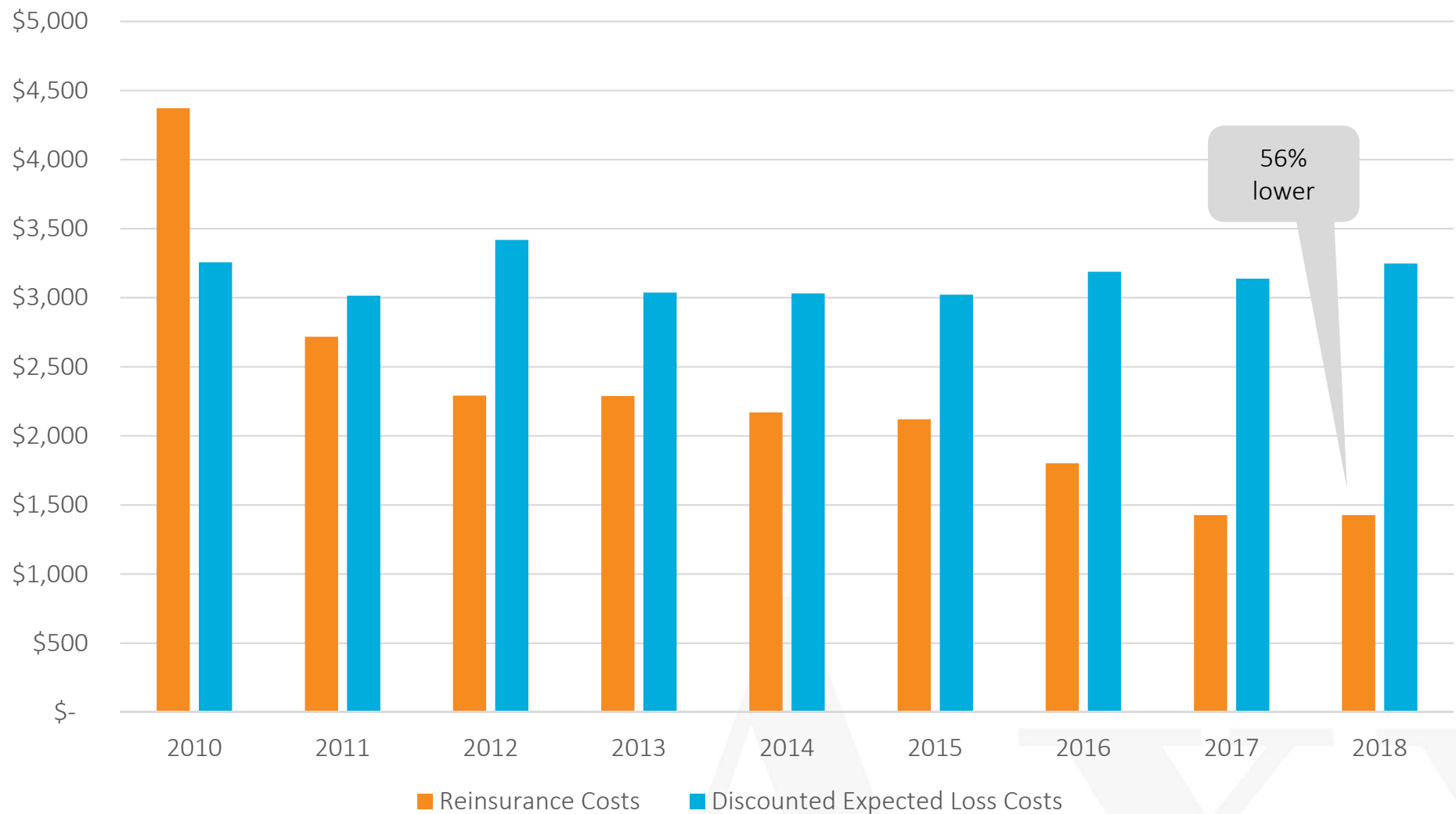
\$30MM xs  $\geq$ \$65MM - Expiring Lines for Renewal



# Reinsurer Participation

- No material resistance to renewal terms in this layer

# \$49MM xs \$1MM Cost Comparison\*

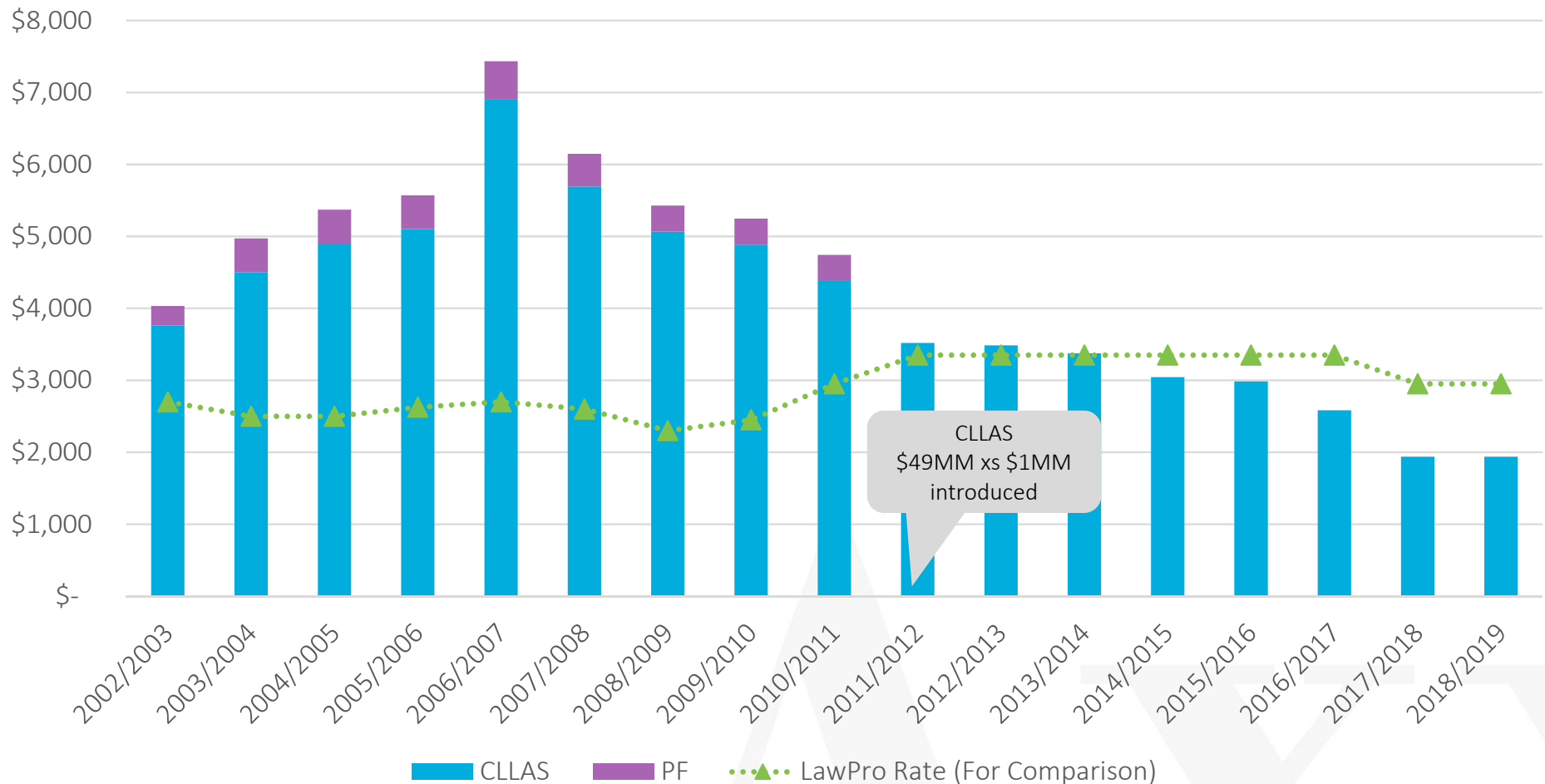


\* Blended costs between Quebec and Rest of Canada lawyers



# \$49MM xs \$1MM Rate History

## Non-Quebec Rates



# Summary

	2017/2018*	2018/2019	\$ Change	% Change
Required Premium	\$7,730,593	\$7,730,593	\$0	0%
Surplus Return	\$700,000	Est. \$700,000	\$0	0%
Premium After Surplus Return	\$7,006,406	\$7,006,406	\$0	0%
Premium per Lawyer***	\$1,957	\$1,957	\$0	0%
Per Claim Retention	\$1,675,000	\$1,675,000	\$0	0%

\* The 2018/2019 lawyer count (669 in Quebec and 2,912.5 in the rest of Canada) is applied to the 2017/2018 policy year rates for the purposes of this summary

\*\* Premiums exclude optional excess layers

\*\*\* The Premium per Lawyer amount is a simple average of total premium divided by total number of lawyers (3,579.5), which yields a result higher than actual for Quebec lawyers, and lower than actual for lawyers in the rest of Canada

# Return of Surplus

- CLLAS' minimum surplus is based on the surplus required to maintain the greater of the Minimum Capital Test ("MCT") and the Alberta Minimum Reserve and Guarantee Fund ("AMRGF")
  - In order to protect CLLAS from large claim development, CLLAS targets a minimum MCT of 210% which is the supervisory minimum in Alberta
  - CLLAS targets 120% of the AMRGF in lieu of the regulatory minimum of 100%
- CLLAS' resulting minimum surplus is \$4.9MM, which we refer to as CLLAS' "Regulatory Surplus"

# Return of Surplus

- CLLAS Surplus as at December 31, 2017 was \$11.5MM, however CLLAS should retain sufficient surplus to be able to distribute the remainder of Blakes' and Dentons' surplus amounts in 2022
  - The most recent estimate of Blakes and Dentons' combined surplus amounts is \$2.2MM
- CLLAS' available surplus is therefore:

\$11.5MM	Total Surplus
-4.9MM	Regulatory Surplus
<u>-2.2MM</u>	Blakes and Dentons' Surplus
\$4.4MM	Available for Distribution

# Return of Surplus

- It is recommended that CLLAS plan for continued distribution of surplus through the next two or more policy years
- It is recommended that a surplus return of \$700,000 be planned for 2018/2019 in order to maintain expiring rates
- The quantum of surplus return should be re-evaluated for subsequent years based on market conditions and emerging surplus
  - Not considered prudent to run at Regulatory Surplus level

# Final Remarks

- Reinsurance rates should be renewed entirely on an as-is basis, which should enable CLLAS to provide as-is rates for 2018/2019
- The final rate will depend on the board's decision regarding the return of additional surplus and the final reinsurance rates