



Actuaries & Insurance Management Advisors

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CLLAS

Board Presentation – Renewal Strategy

June 25, 2019

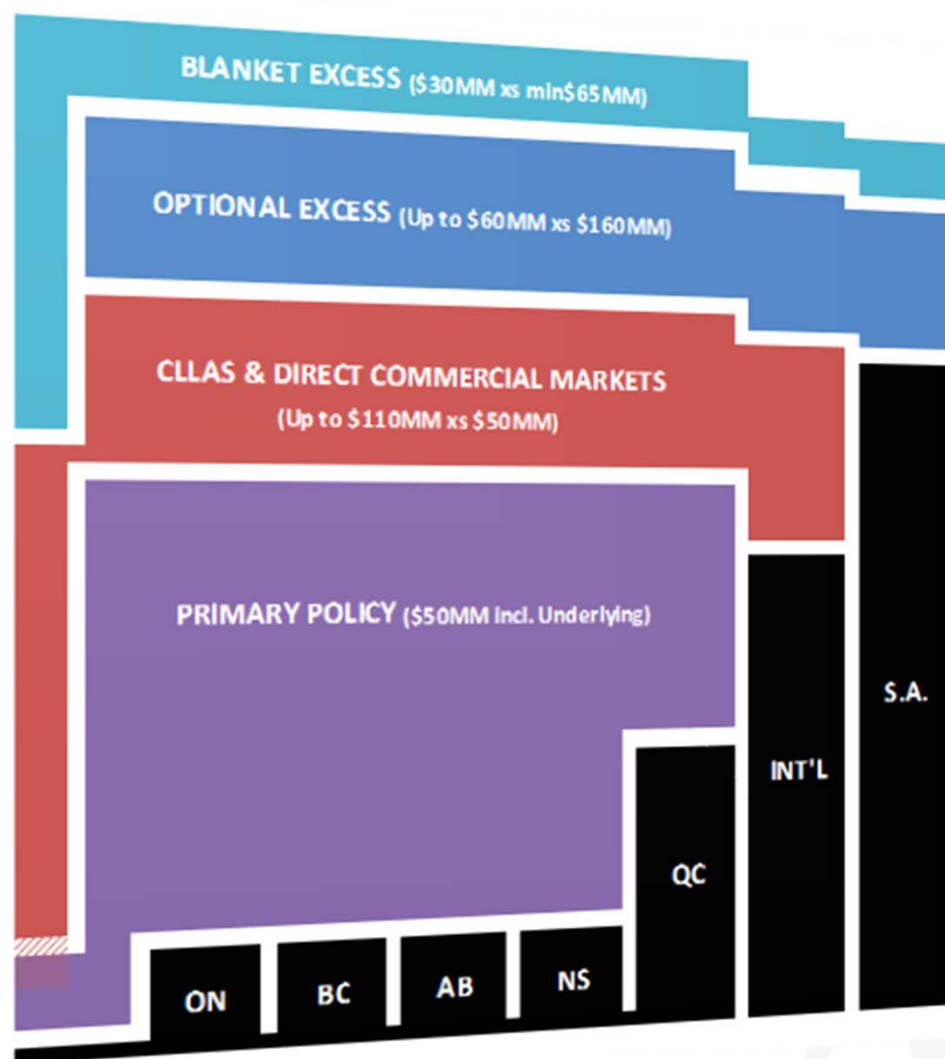
Overview






- Renewal Objectives
- Insurance and Reinsurance Structures
- Retention Strategy
- Reinsurance Costs
- Reinsurer Participations
- Rating:
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 - Colchester Premium Credits
 - Rate History
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- Final Remarks

Renewal Objectives

- Obtain the best renewal terms possible given current (re)insurance market conditions
- Attract new markets
- Maintain and enhance existing reinsurer relationships
- Continue to evaluate ability to distribute surplus to members through premium credits

Insurance Structure

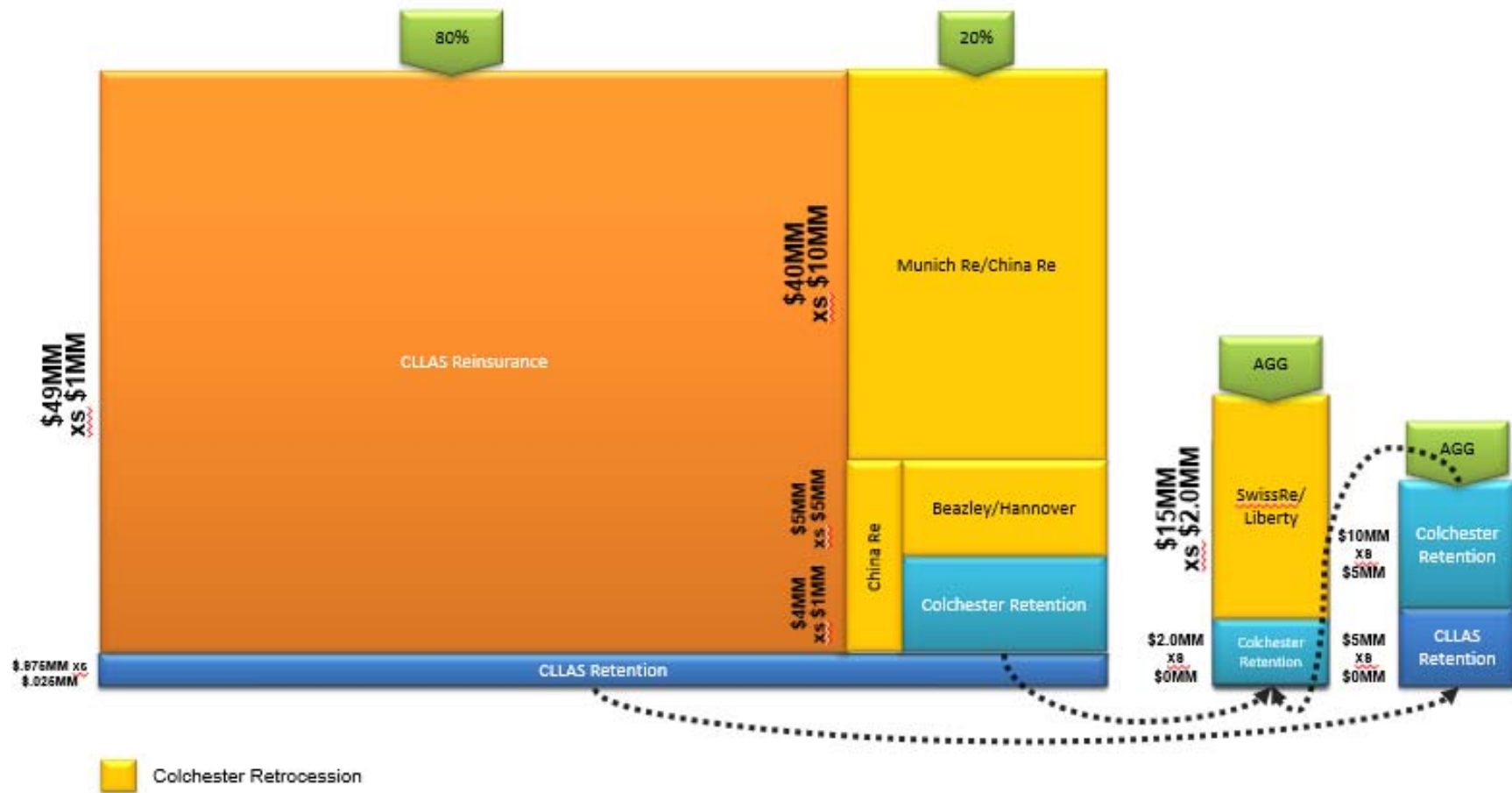


-  **CLLAS Blanket Excess**
\$30MM per claim, \$60MM annual aggregate, minimum attachment of \$65MM
-  **CLLAS Optional Excess**
Available in increments of \$10MM up to \$60MM excess of \$160MM
-  **CLLAS & Direct Commercial Markets**
First \$50MM (min \$15MM): Mandatory, drop down to \$500,000 SIR
Next \$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, but the market has rapidly changed, and additional coverage was not pursued for this renewal
- CLLAS' overall limit of \$250MM remains competitive, although some large international firms are carrying higher limits
- We will revisit additional limits once the market has stabilized

Expiring Reinsurance Structure



Retention Strategy

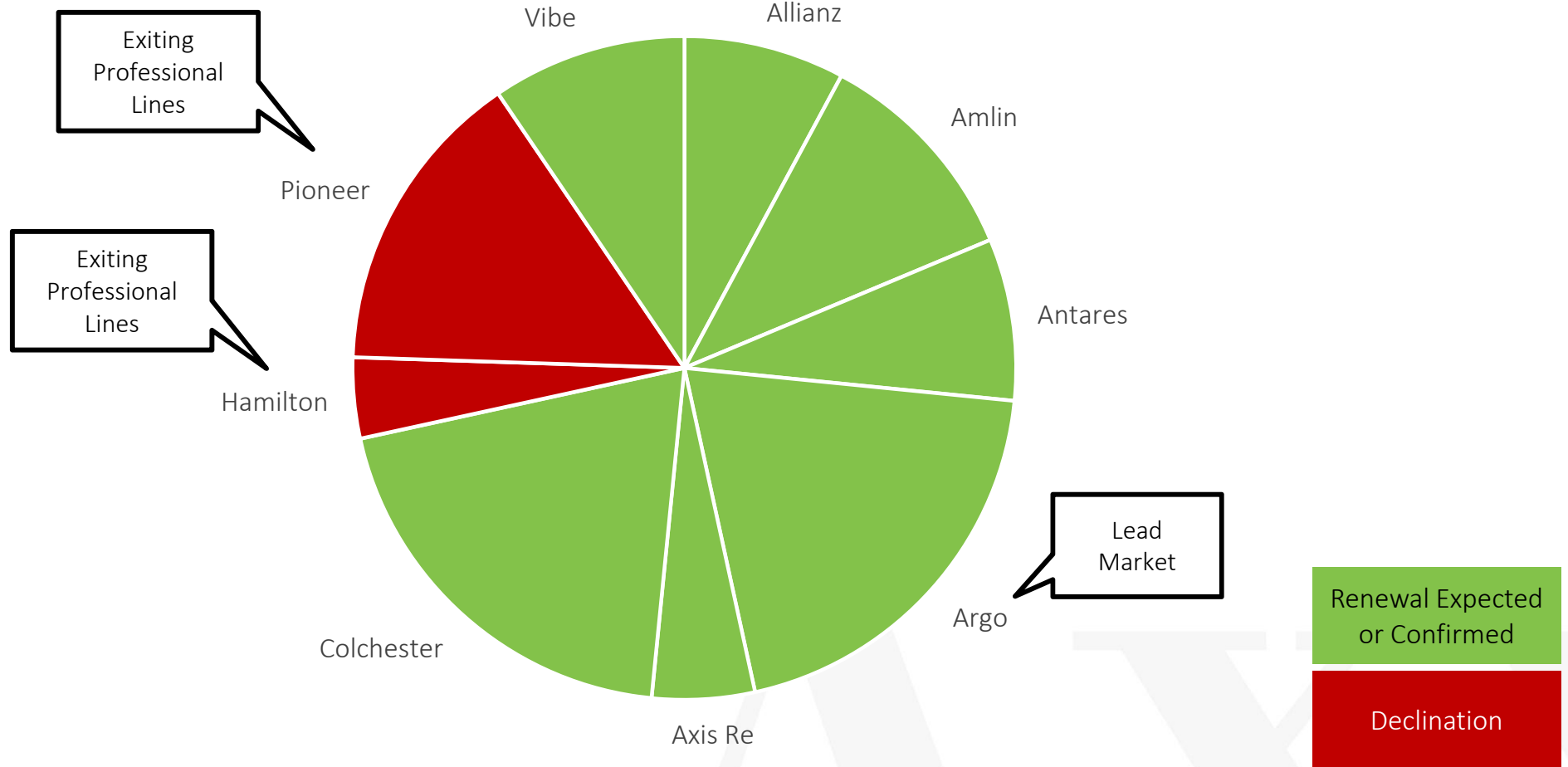
- CLLAS currently retains only the drop-down exposure below \$1,000,000 (maximum exposure of \$975,000, any one loss)
- Colchester's current participation is 20% of the \$49MM xs \$1MM layer, for a per-claim retention of \$9.8MM, however, net retention is just \$700,000 after retrocession
- Colchester also provides an aggregate stop-loss coverage to CLLAS for \$10MM xs \$5MM, which is reinsured excess of \$2MM
- On a combined basis, the CLLAS/Colchester per claim retention, as expiring, is \$1,675,000

Reinsurance Costs for 2019/2020

- Following a successful renewal last year at as-is rates, the market has begun to harden through a combination of:
 - Significant catastrophe losses impacting capacity and reinsurance rates
 - Significant losses in several key lines of business, including professional liability
- After cordial meetings in May, negotiations have been very difficult with our key markets (Argo – lead on the \$49MM xs \$1MM, Swiss Re – significant capacity on the excess layers)
- On the primary layer, which Argo leads, Argo's actuary recommended an increase in rate of 70%, ultimately agreeing to 17.5%
- On the excess layers, we have lead agreement at 5%, however Swiss Re, which provides 30% of the capacity, is arguing for 20% to 30% increases

Reinsurer Participation

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



Reinsurer Participation

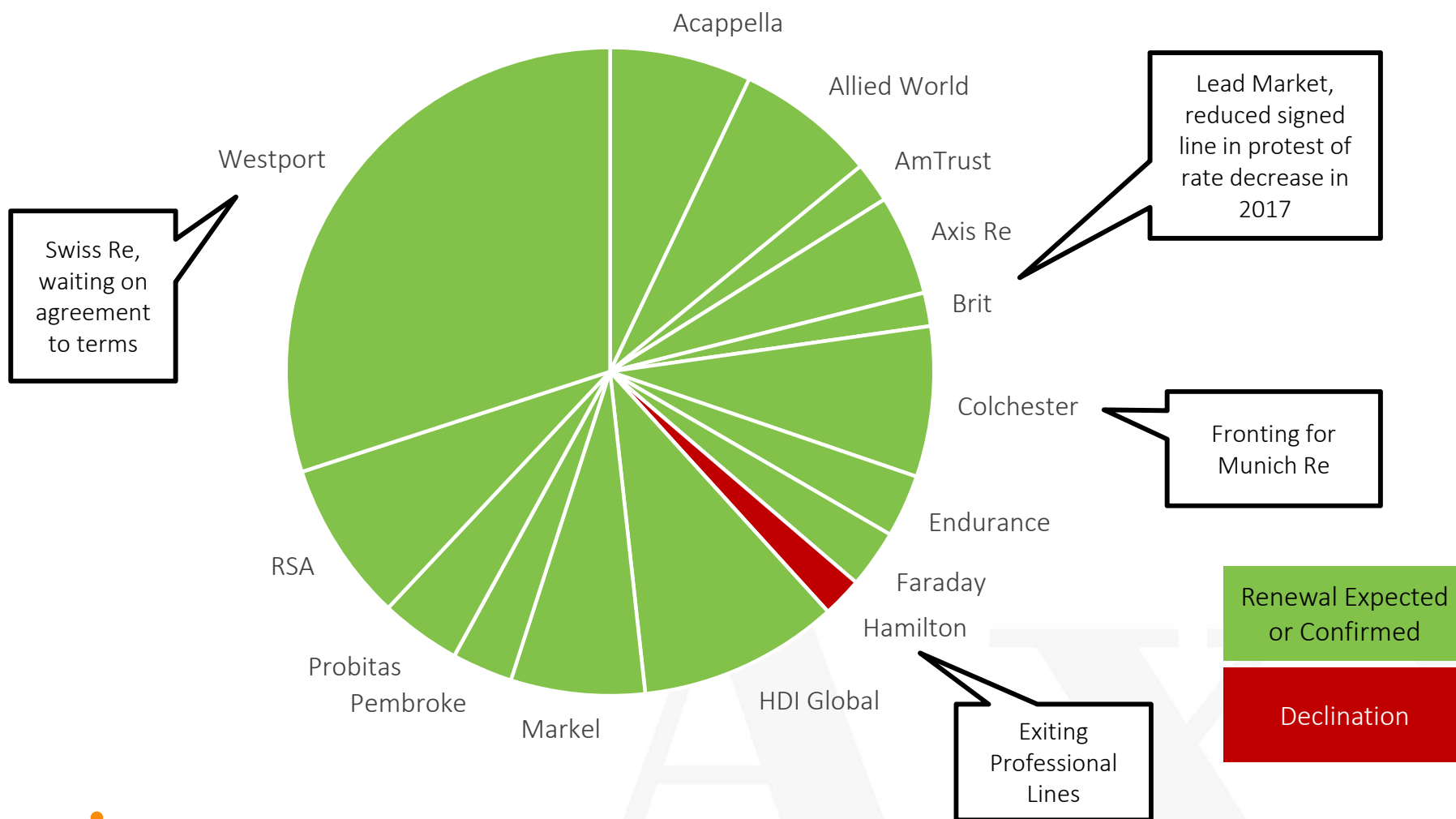
- \$49MM xs \$1MM:
 - China Re is expected to join as a CLLAS reinsurer, formerly participated as a Colchester retrocession market
 - We have lost two syndicates this year as a result of their exiting the writing of professional lines business
 - Pioneer (15%)
 - Hamilton (4%)
 - Several markets are willing to increase their capacity to help make up for the shortfall, however, an increase in Colchester participation may be necessary to get to the goal line (up to 25%)

Reinsurer Participation

- \$49MM xs \$1MM:
 - While we may lose our over-placement in this layer, we expect to be able to complete the placement despite the loss of 19% of our capacity
 - Lloyd's participation will likely decrease from 75% to 70%, improving concentration risk

Reinsurer Participation

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

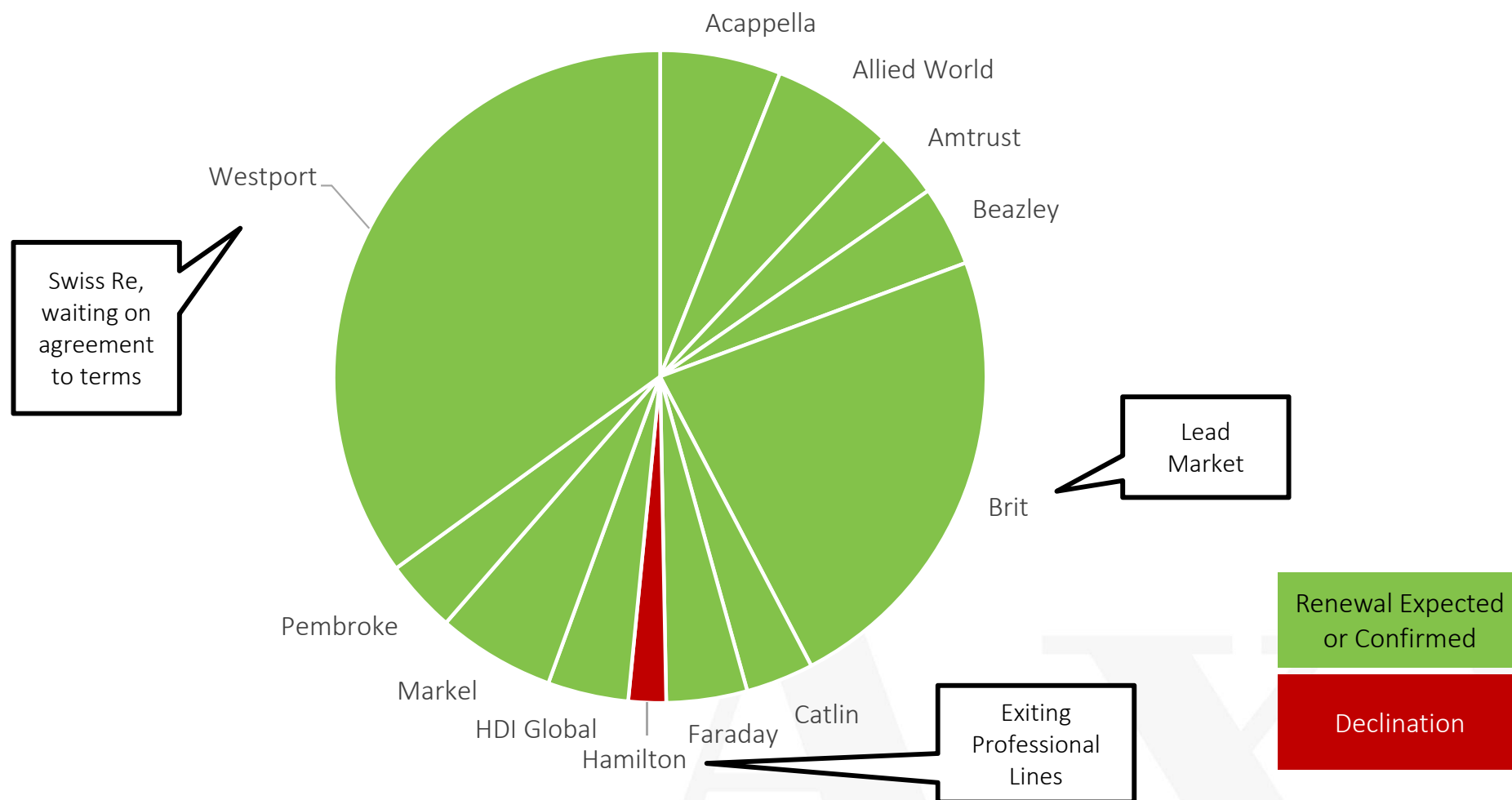


Reinsurer Participation

- \$60MM xs \$160MM:
 - An increase of 5% has been agreed by most markets
 - Working with Swiss Re to overcome their pricing objections – they are seeking 20% to 30% increases
 - Significant capacity from other markets means that we may be able to place this layer without Swiss Re's support, however, we would like to find a way to keep them on the layer as their capacity is significant, and it is strategically helpful for us to maintain a material placement with them

Reinsurer Participation

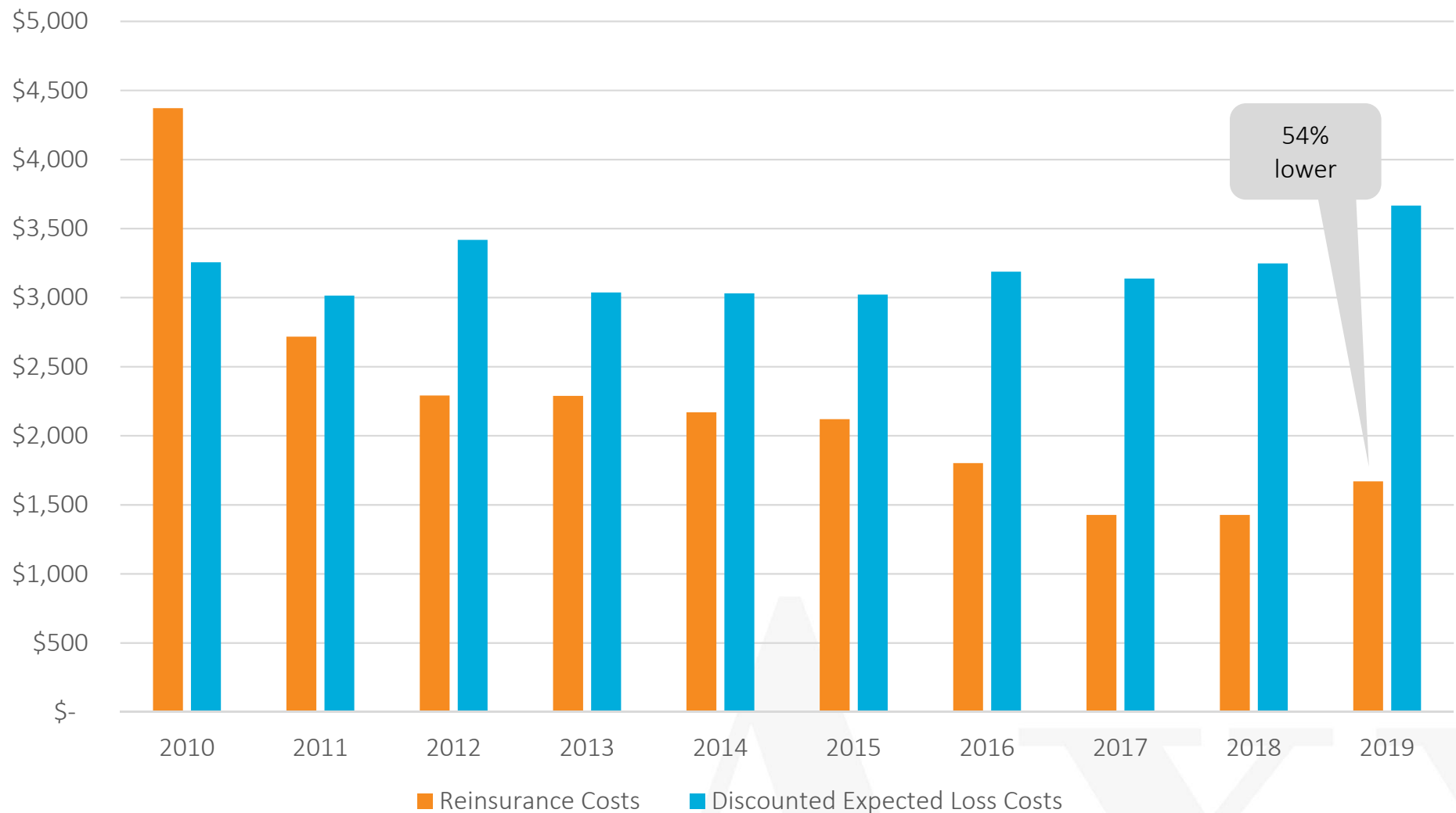
\$30MM xs \geq \$65MM - Expiring Lines for Renewal



Reinsurer Participation

- \$30MM xs \geq \$65MM
 - A 5% increase has been agreed by most markets
 - Without Swiss Re, we are not likely to be able to reach 100%
 - Rate may need to move up marginally to satisfy enough markets to complete this placement

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



* Blended costs between Quebec and Rest of Canada lawyers

Colchester Premium Credits

- The final rate is highly dependent upon the amount of surplus Colchester elects to return as premium credits on Colchester's reinsurance rates
- If Colchester deploys the same amount of surplus as it did in 2018/2019 (i.e. \$1.62MM), then the resulting CLLAS rate increase will be 14.2% over last year
- If Colchester deploys only enough surplus to match the rate offered by other reinsurers (+17.5%), then the resultant rate increase will be 24.3% over last year
- In essence, Colchester's discretionary premium credit level (i.e. the amount over and above that which is necessary to match the reinsurance rate) provides a marginal rate reduction of up to 10.1% using last policy year's credit as a ceiling

Colchester Premium Credits

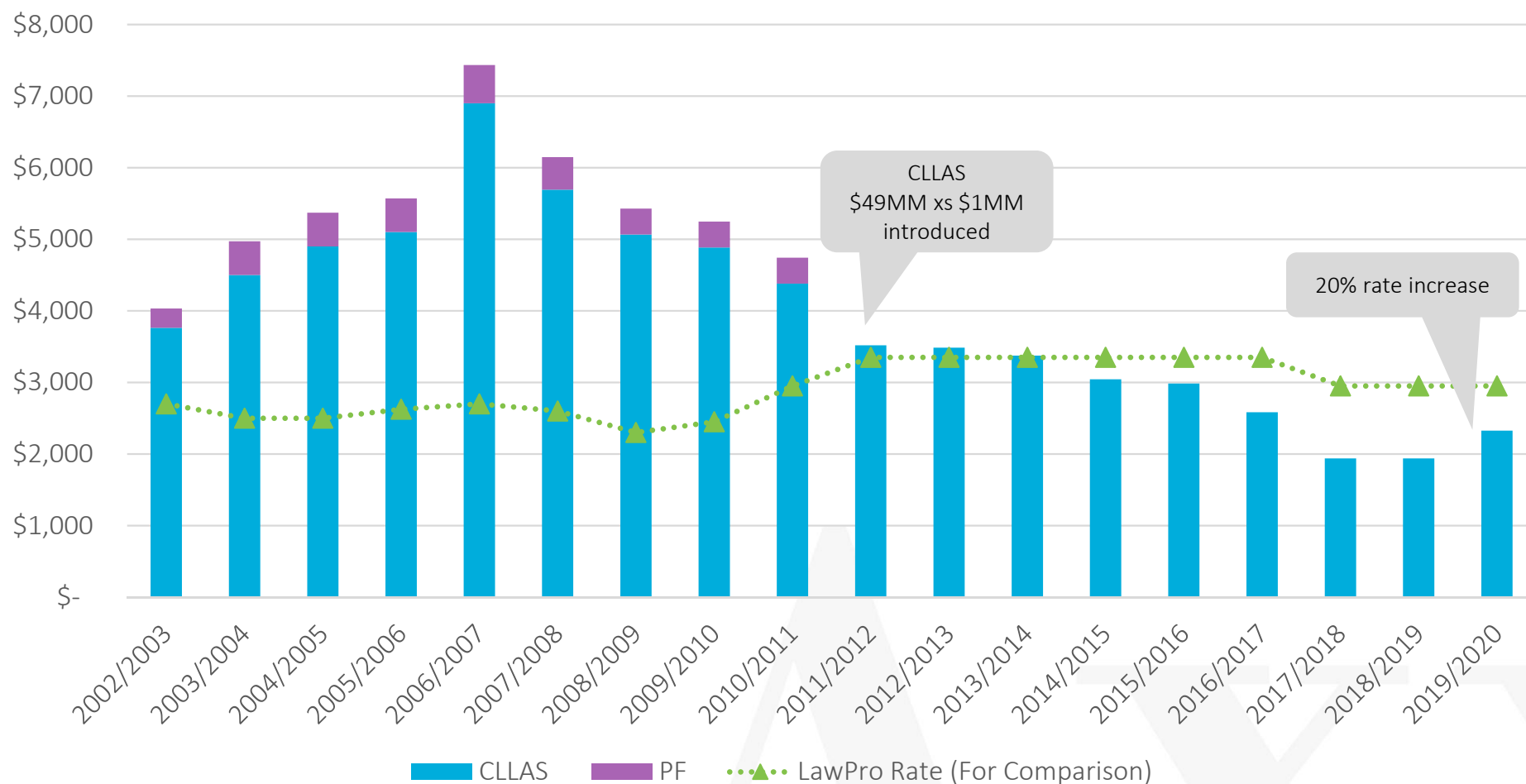
- Colchester's "free" surplus, which drives Colchester's premium credit offering has been impacted by:
 - Adverse claims developments in 2018
 - Change in Reinsurance Security Agreement requirements which currently require 115% of gross claims liabilities - moving moving to 120% in 2020
 - Return of surplus to departing shareholders
- The proposed approach is to request a step-down of the level of surplus deployed by Colchester to smooth the rate changes experienced by CLLAS member firms

Colchester Premium Credits

- In light of the present market – it is felt that a 20% rate increase in CLLAS rates will balance:
 - Maintaining market-level rates
 - Smoothing of rates for CLLAS firms over the longer term
 - Retention of some of the savings (25%) experienced by firms during the 2017/2018 renewal
- While it is feasible to offer a rate increase below 20%, it is not sustainable over the longer term
- A 20% increase is Axxima's recommendation to the CLLAS board
- Achieving this rate will require Colchester to offer their reinsurance rates with a discretionary premium credit of roughly half that offered last year

\$49MM xs \$1MM Rate History

Non-Quebec Rates



Rate and Premium Summary

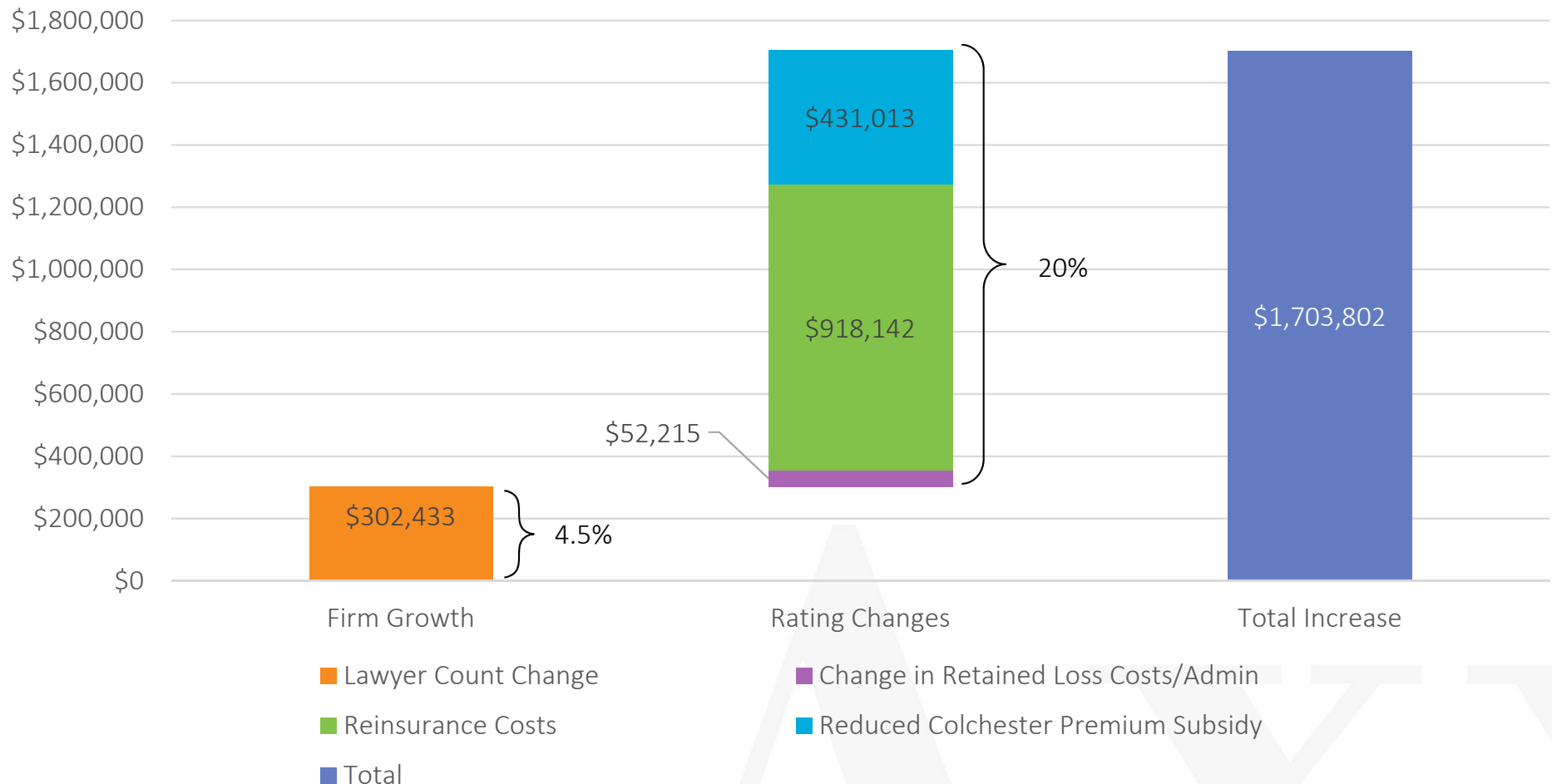
	2018/2019	2019/2020	\$ Change	% Change
Lawyer Count (ROC / QC)	3,692.4 (2,994.7 / 697.7)	3,896.5 (3,120.5 / 749)	177.1 (125.8 / 51.3)	4.8% (4.2% / 7.4%)
Rate per Lawyer (ROC / QC)	\$1,814 (\$2,013 / \$959)	\$2,171 (\$2,416 / \$1,151)	\$357 (\$403 / \$192)	19.7% (20% / 20%)
Required Premium*	\$6,697,425	\$8,401,227	\$1,703,802	25.4%
CLLAS Surplus Return	\$700,000	\$700,000	\$0	0.0%
Per Claim Retention	\$1,675,000	\$1,675,000**	\$0	0.0%

* Premiums exclude optional excess layers

** Based on as-expiring Colchester participation (20%), may increase marginally

Rate and Premium Summary

Contributions to Rate Change



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 \$5.0MM, which we refer to as CLLAS' "Regulatory Surplus"

Return of Surplus

- CLLAS Surplus as at December 31, 2018 was \$12.3MM, 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:

\$12.3MM	Total Surplus
-5.0MM	Regulatory Surplus
<u>-2.2MM</u>	Blakes and Dentons' Surplus
\$5.1MM	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 2019/2020
- 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

- CLLAS rates recommended to be renewed with a 20% increase
- The final rate will depend on the board's decision