



Actuaries & Insurance Management Advisors



CLLAS

Board Presentation – Renewal Strategy

June 22, 2021

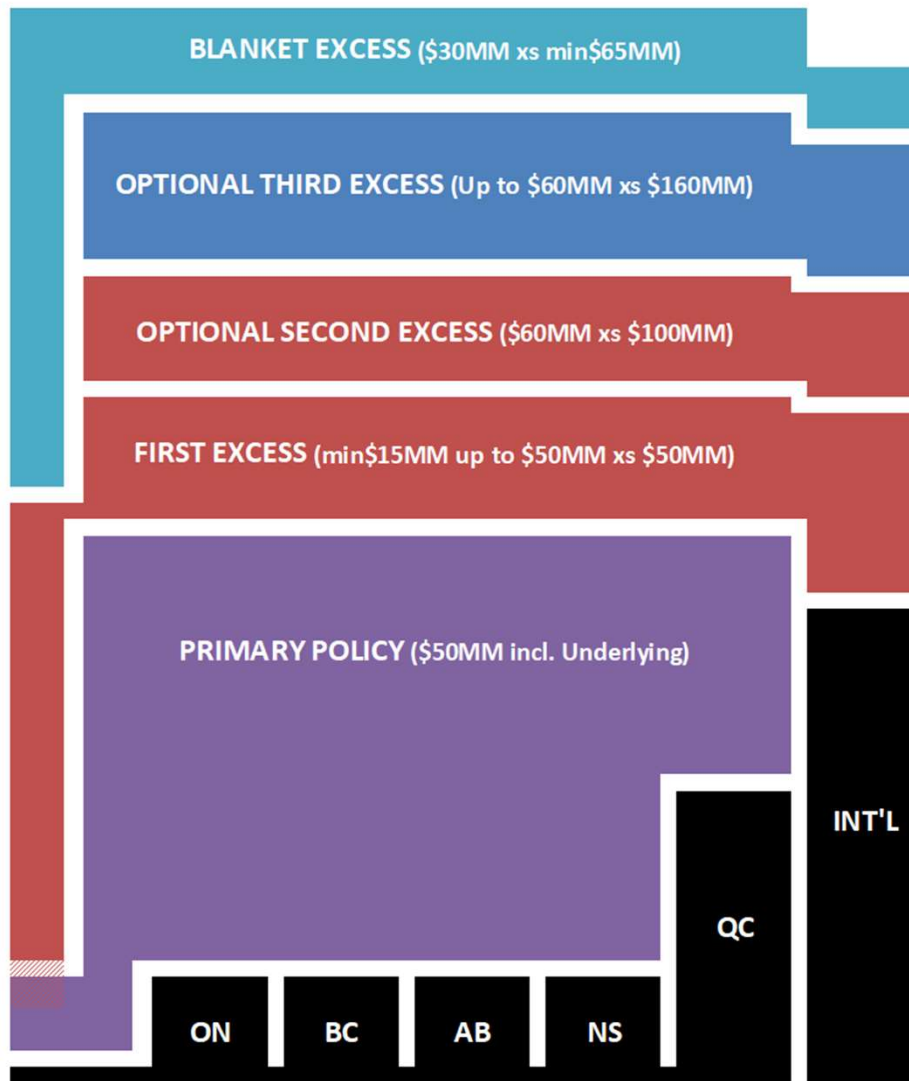
Overview

- Renewal Objectives
- Insurance and Reinsurance Structures
- Retention Strategy
- Reinsurance Rates
- CLLAS Rates and Return of Surplus
- 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

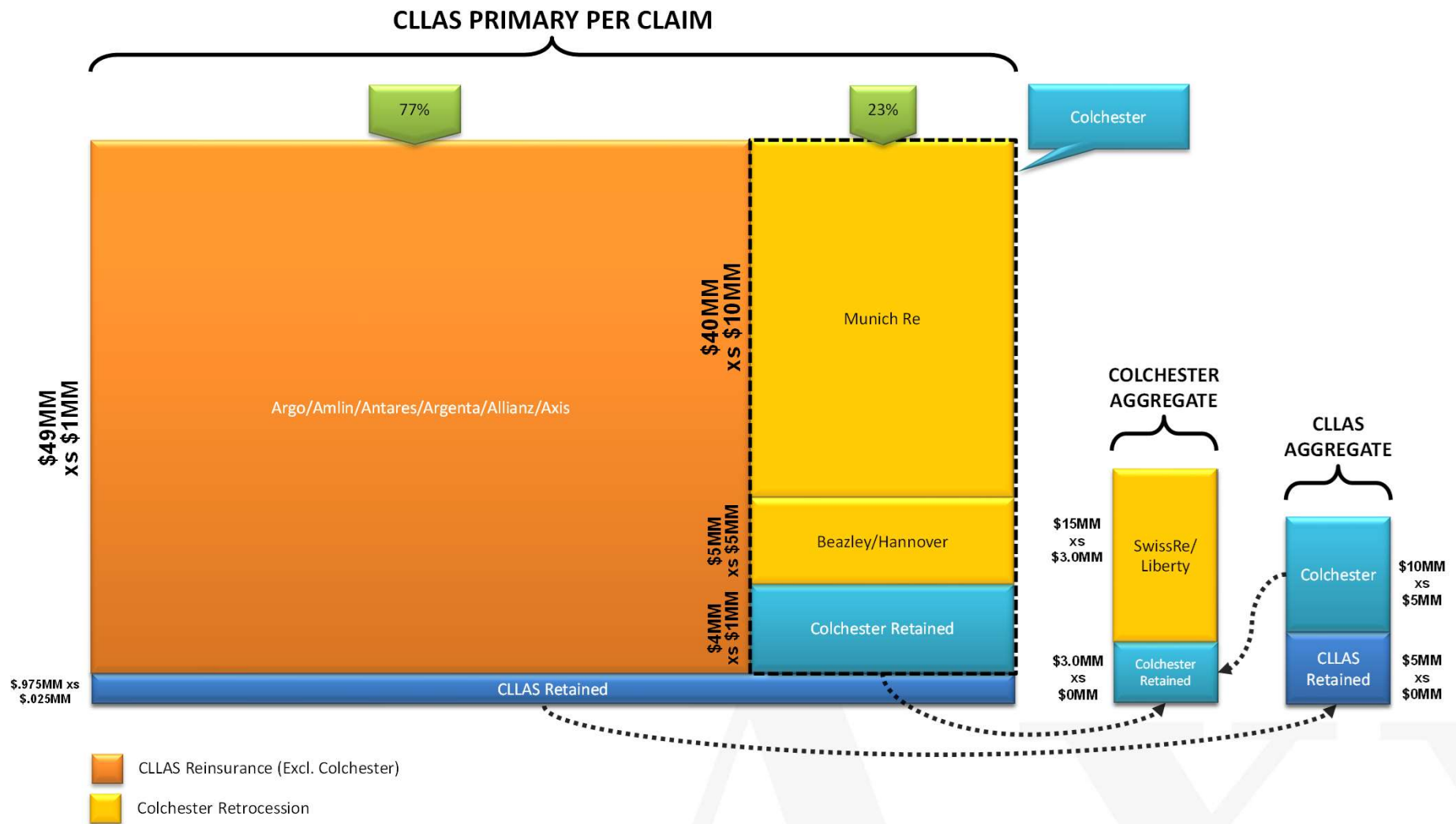


- **CLLAS Blanket Excess**
\$30MM per claim, \$60MM annual aggregate, minimum attachment of \$65MM
- **CLLAS Optional Excess**
Available in increments of \$10MM up to \$60MM excess of \$160MM
- **CLLAS & Direct Commercial Markets**
First \$50MM (min \$15MM): Mandatory, drop down to \$500,000 SIR
Next \$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: ZAR 500MM (Fasken Only)

Insurance Structure

- A new optional umbrella layer of \$50MM x \$250MM is being pursued, but due to scarcity of capacity, we are striving to place this for August 1, 2021 so as not to negatively impact the renewal
- The new layer will be announced once available – for now, renewal terms will be provided on the expiring \$250MM limits

Reinsurance Structure



Retention

- 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 23% of the \$49MM x \$1MM layer, for a per-claim retention of \$11.27MM, however, net retention is just \$920,000 after retrocession
- Colchester also provides an aggregate stop-loss coverage to CLLAS for \$10MM x \$5MM, which is retroceded excess of \$3MM
- On a combined basis, the CLLAS/Colchester per claim retention, as expiring, is \$1,895,000

Reinsurance Updates

- Negotiations have been smoother with our lead markets than in the last two renewals, but strong upward pressure on rates remains a key driver
 - Argo Syndicate is the lead on the \$49MM x \$1MM, Primary Layer
 - Brit Syndicate is the lead on the Optional Excess and Umbrella Layers
 - Swiss Re provides significant capacity on the excess layers
- On the primary layer, Argo has agreed to a 10.0% increase, but this may have to increase to 12.5% in order to a.) attract following capacity, and b.) retain cyber coverage for third party claims
- On the excess layers, we have lead agreement at 20%, driven by Swiss Re and Brit

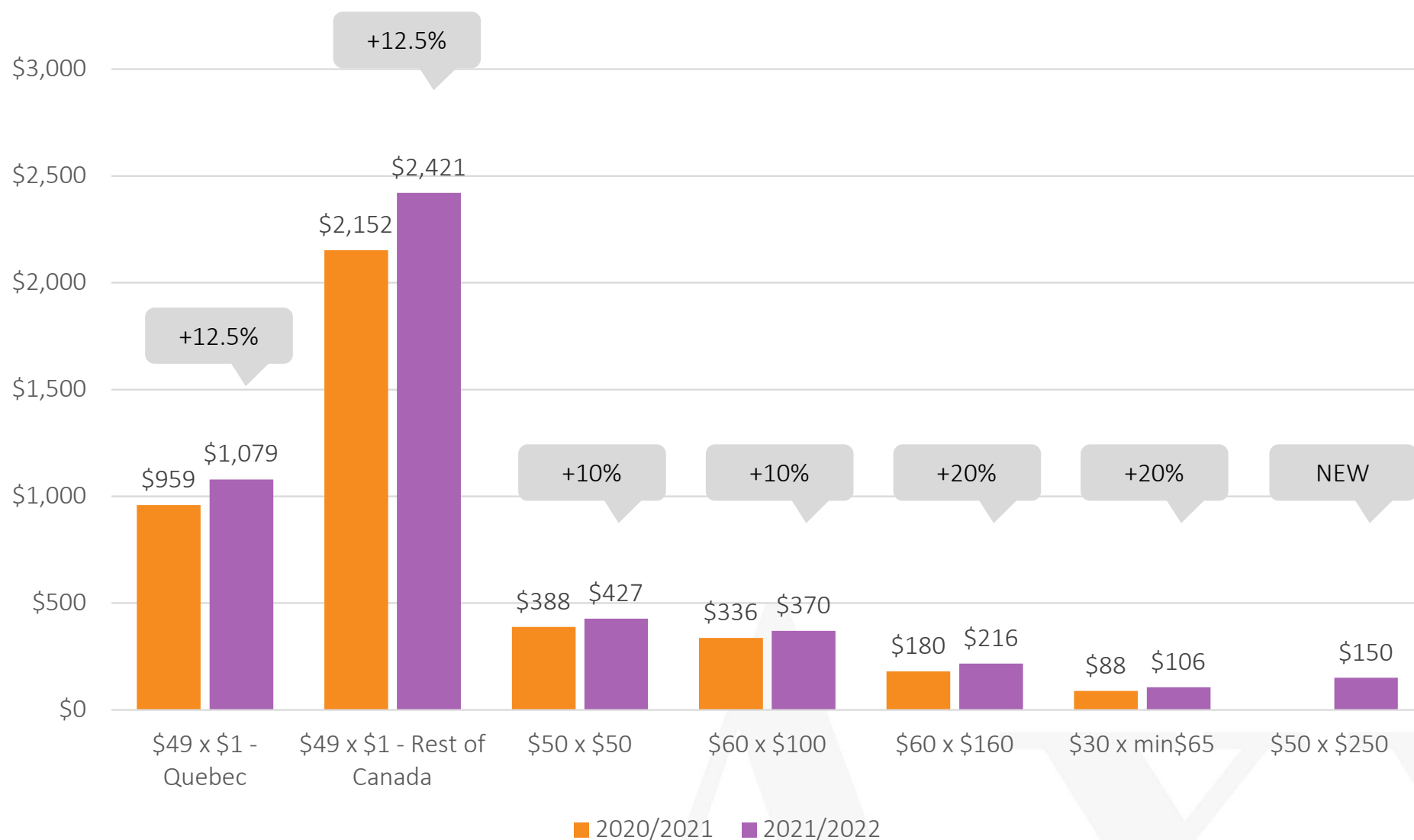
Reinsurance Updates

- A challenging decision on a case involving SNC-Lavalin out of Quebec is causing at least one of our markets to consider non-renewal – we are working with the underwriter to persuade management to support renewal
- Cyber has become a key concern with markets across the placement in London (domestically, there does not seem to be much concern)
 - CLLAS has affirmative coverage for third-party professional liability claim arising out of the use of computer systems as well as malicious cyber acts – we are working to maintain this coverage within CLLAS, we may require the adoption of a market-standard cyber endorsement (similar to common nuclear and war and terrorism endorsements), albeit with adjustment to mirror CLLAS' current coverage
- Allianz has exited professional liability, which has left 12.5% of the primary \$49MM x \$1MM layer without support - Colchester will likely increase its participation from 23% to 35% to make up the shortfall

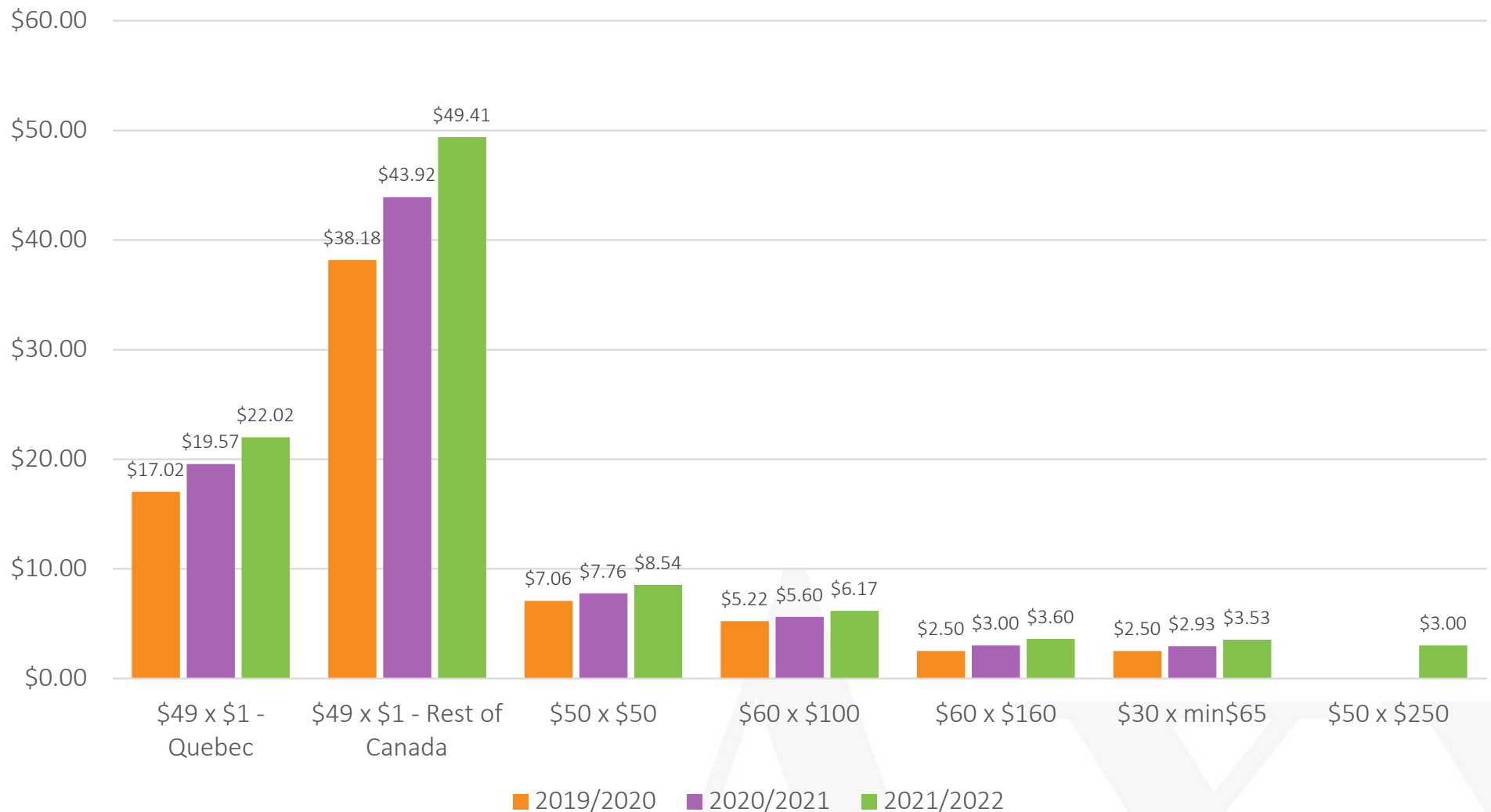
Reinsurance Updates

- As we are still in the process of confirming reinsurer participations, the figures contained herein are best estimates of the renewal reinsurance and CLLAS rates

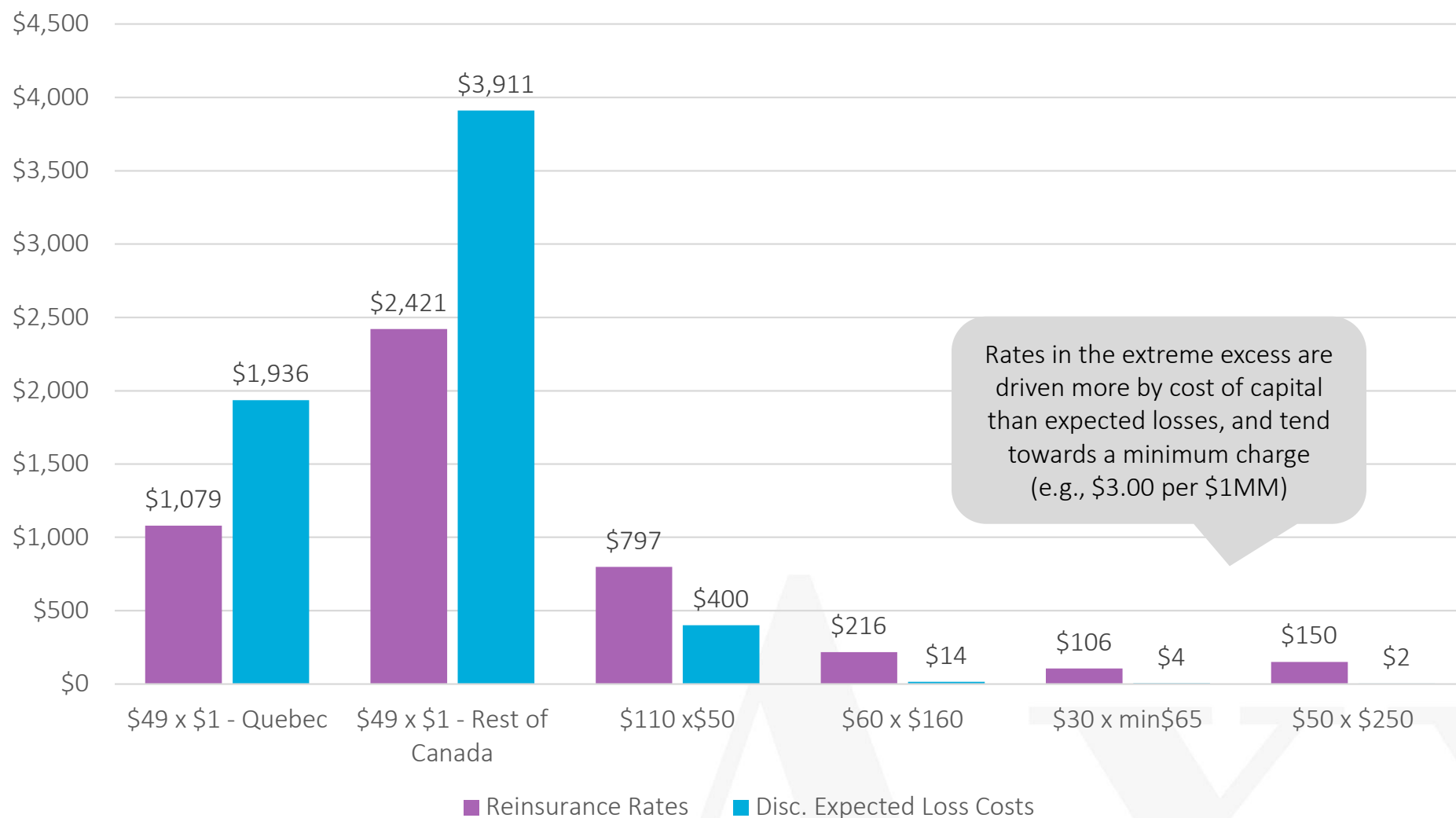
Reinsurance Rates



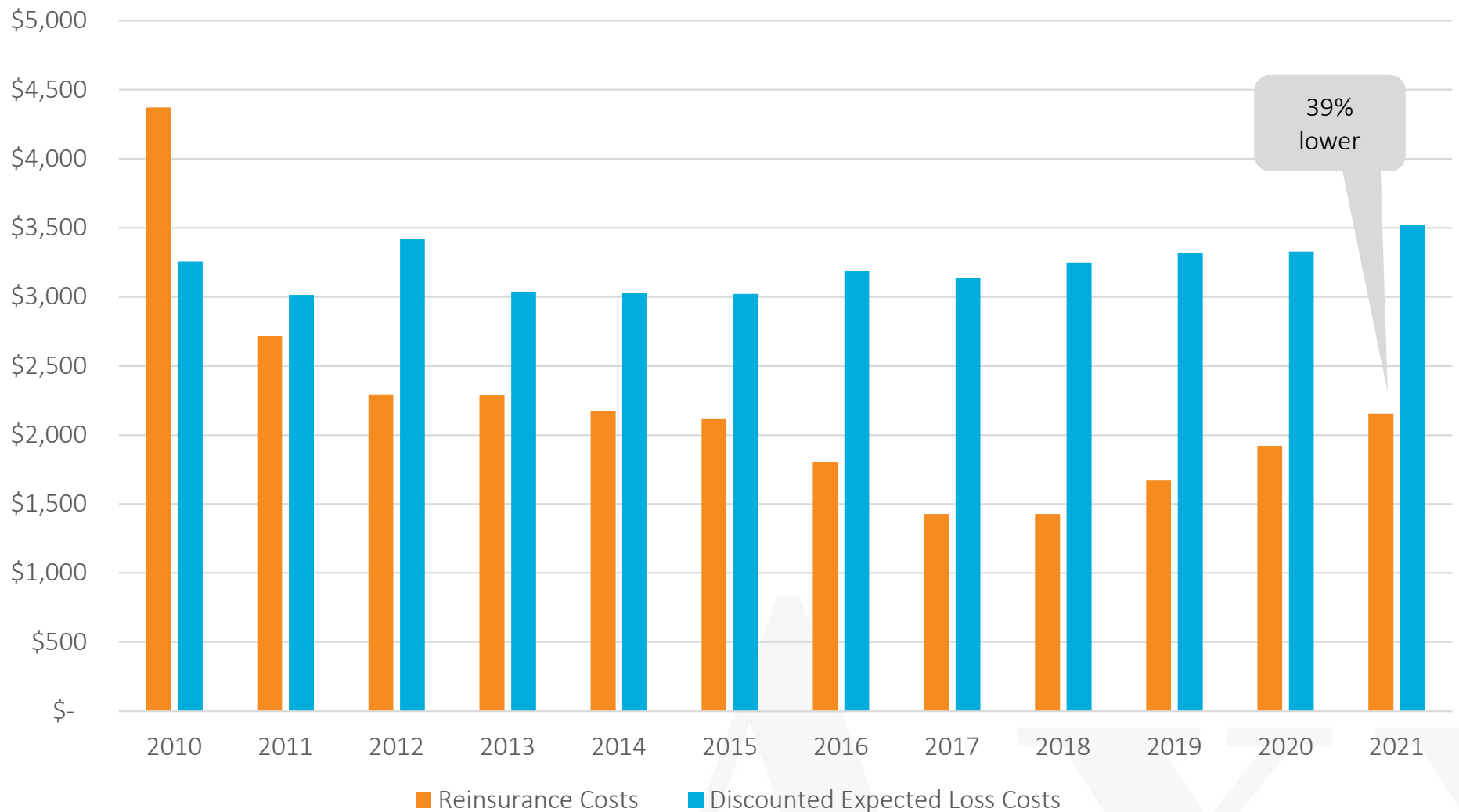
Reinsurance Rates per \$1MM



Reinsurance Rates vs. Loss Costs



\$49MM x \$1MM Reinsurance Cost Comparison*



* Blended costs between Quebec and Rest of Canada lawyers

CLLAS Rates

- CLLAS \$49MM x \$1MM rates are established by combining the following expense and surplus components:
 - Expected Loss Costs (where risk is retained)
 - Expected Risk Transfer (where risk is ceded)
 - Reinsurance Costs
 - Administrative Costs
 - Return of Surplus
 - Premium Tax
- Optional Excess (\$60MM x \$160MM) and Umbrella (\$30MM x min\$60MM) layers are simply expense loaded by 5%

Return of Surplus

- CLLAS' available surplus is calculated as follows:

Total CLLAS Surplus (12/31/2020)	\$12.5MM
Less: Surplus Required by Regulators	(4.9MM)
Less: Blakes and Dentons' Surplus	<u>(3.2MM)</u>
Surplus Available for Distribution	\$4.4MM

- CLASS' actuary recommends distributing no more than 50% of the available surplus, or \$2.2MM, as it is not prudent to operate at the regulatory surplus level
- We are recommending the board approve a \$700,000 distribution, in line with prior years

Colchester Rate for \$49MM x \$1MM

- In order to match the commercial reinsurer rates, Colchester must implicitly release surplus to match the rates
- Last year, Colchester distributed a small amount to further lower rates relative to the remainder of the market in order to stabilize rate increases experience by the firms
- Colchester is not expected to distribute additional surplus this year

Return to Technical Rates

- In the past 5 years, CLLAS' rates have moved by fixed percentages (e.g. -25% in 2017, +20% in 2019, +13.7% in 2020) in all layers
- While the total premium collected has been accurate in aggregate, we returned to technical pricing by layer last year
- This year, we are returning to technical pricing by jurisdiction
 - Quebec lawyers are charged a different rate than the Rest of Canada by reinsurers , and by CLLAS, as a result of the Barreau's \$10MM mandatory insurance limit

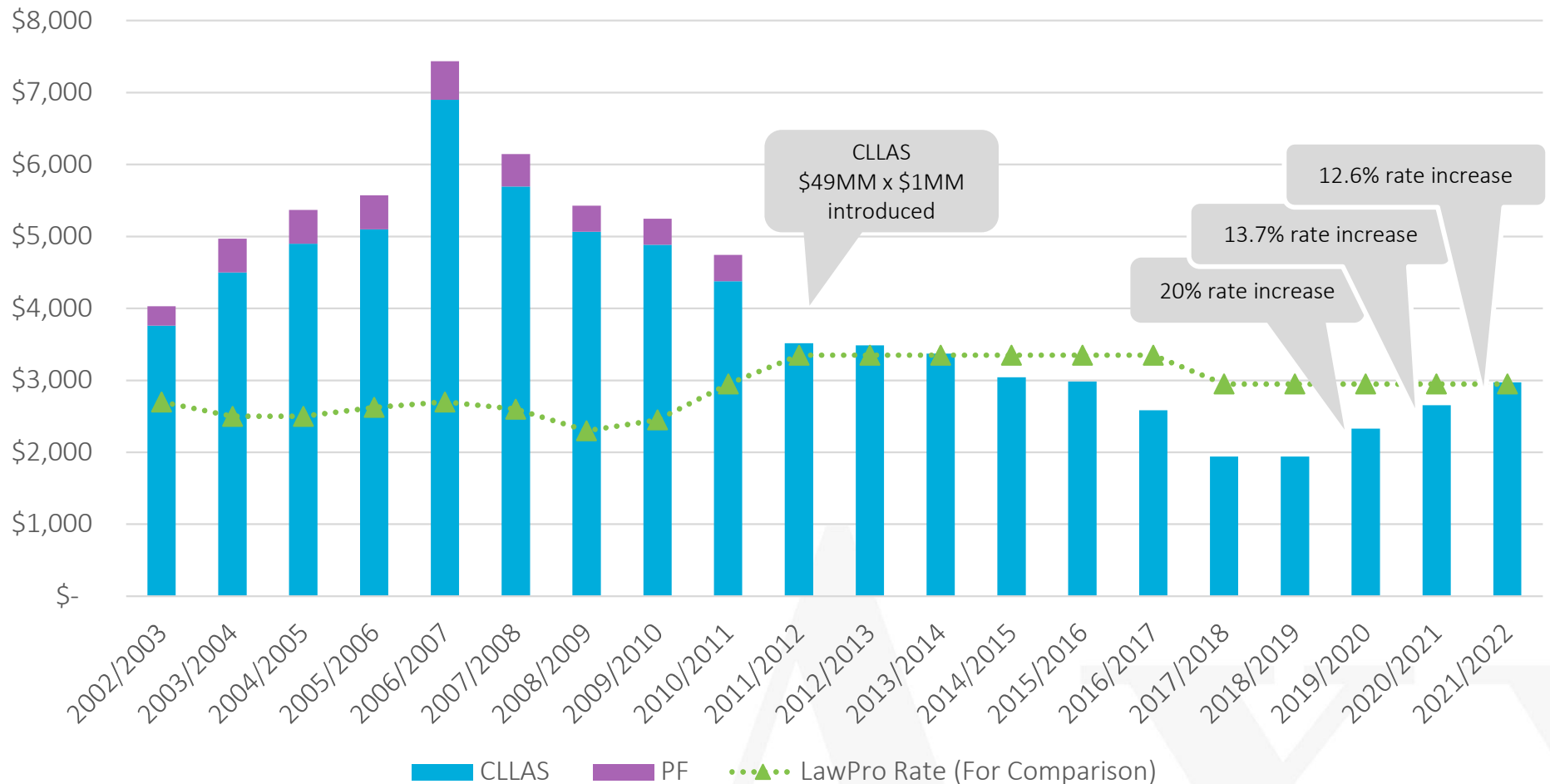
CLLAS Rates

Layer	2019/2020	2020/2021	2021/2022	% Change
\$49MM x \$1MM – Quebec	\$1,062	\$1,206	\$1,283	+6.4%
\$49MM x \$1MM – Rest of Canada	\$2,327	\$2,643	\$2,975	+12.6%
\$30MM x \$50MM	\$392	\$431	\$474	+10.0%
\$50MM x \$50MM	\$271	\$298	\$328	+10.1%
\$60MM x \$100MM	\$348	\$374	\$411	+9.9%
\$60MM x \$160MM	\$176	\$188	\$228	+21.3%
\$30MM x min\$65MM	\$89	\$92	\$111	+20.6%
\$50MM x \$250MM	n/a	n/a	\$150	n/a

Firms will experience cost per lawyer increases of 12.9% on average

\$49MM x \$1MM Rate History

Non-Quebec Rates



Final Remarks

- CLLAS Rates should be renewed on the technical basis discussed earlier in this presentation
- The final rate will depend on the board's decision regarding the return of additional surplus and the final reinsurance rates
- Small adjustments may be required as we finalize the reinsurer participations