



Actuaries & Insurance Management Advisors



CLLAS

Board Presentation – Renewal Strategy

June 21, 2022

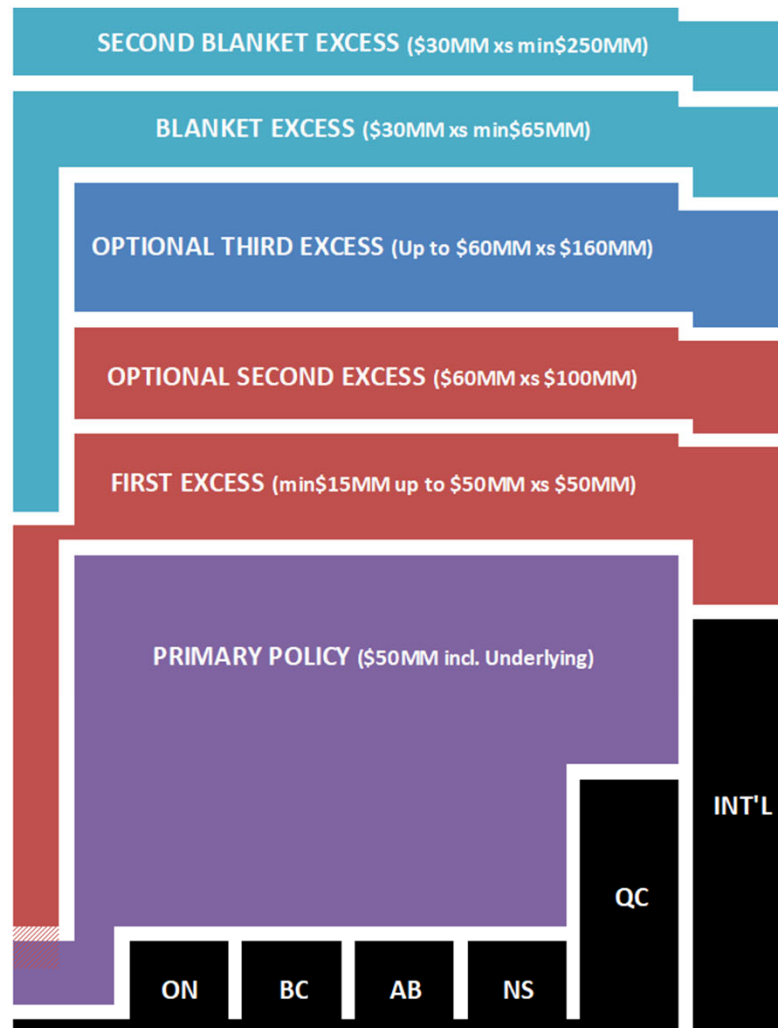
# Overview

- 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

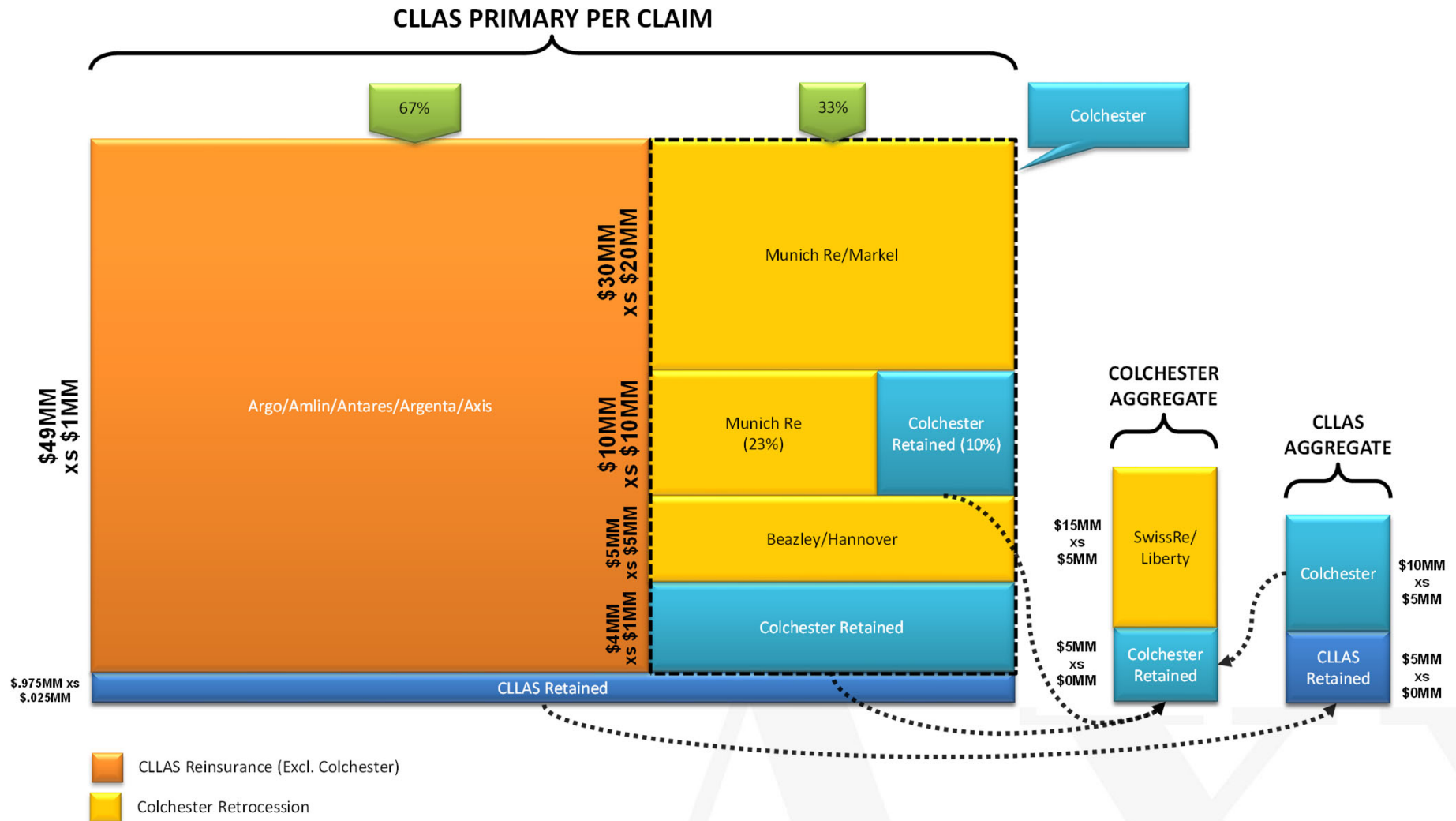


- CLLAS Blanket Excess**  
 \$30MM per claim, \$60MM annual aggregate, minimum attachment of \$65MM  
 Next \$30MM: Optional, excess of \$250MM
- CLLAS Optional Excess**  
 Available in increments of \$10MM up to \$60MM excess of \$160MM
- CLLAS & Direct Commercial Markets**  
 First \$50MM (min \$15MM): 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: USD \$30MM  
 South Africa: ZAR R500MM (Fasken Only)

# Insurance Structure

- A new optional umbrella layer of \$30MM x \$250MM has been placed, as announced in December 2021
- Rates are yet to be determined, but we are optimistic they be confirmed at \$100 per lawyer for the Reinsurance, with a final rate of \$105 per lawyer
- There is a minimum premium requirement for this layer, but based on the applications, enough firms are indicating they will purchase that we should meet this requirement

# 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 per-claim participation is 33% of the \$49MM x \$1MM layer, for a per-claim retention of \$16.17MM, however, net retention is just \$2.32MM after retrocession
- Colchester also provides an aggregate stop-loss coverage to CLLAS for \$10MM x \$5MM, which is retroceded excess of \$5MM
- On a combined basis, the CLLAS/Colchester per claim retention, as expiring, is \$3,295,000

# Reinsurance Updates

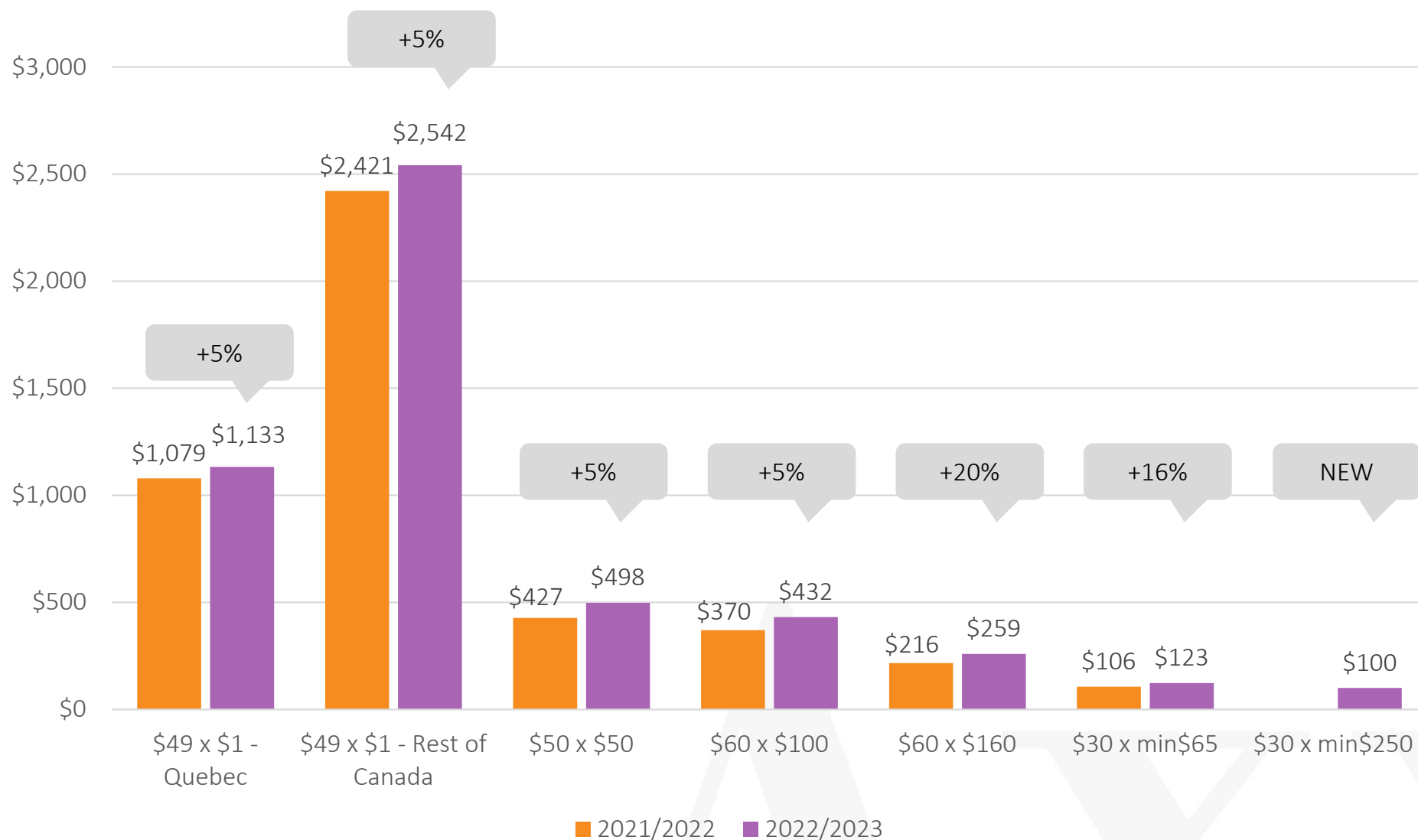
- Negotiations have been smoother with our lead markets than in the last three renewals, but upward pressure on rates remains, especially as a result of rising inflation
  - Argo Syndicate is the lead on the \$49MM x \$1MM, Primary Layer
  - Brit Syndicate is the lead on the Optional Excess and Umbrella Layers
  - Swiss Re provides significant capacity on the excess layers
- On the primary layer, Argo has agreed to a 5.0% increase, but this may have to increase to 7.5% in order to attract necessary following capacity who are being challenged by their actuaries
- On the excess layers, we have had to agree to 20% and 16% on the optional excess and umbrella layers, respectively
- We have not lost any capacity for 2022/2023, which is the best indication of the improved stability in the market relative to past renewals



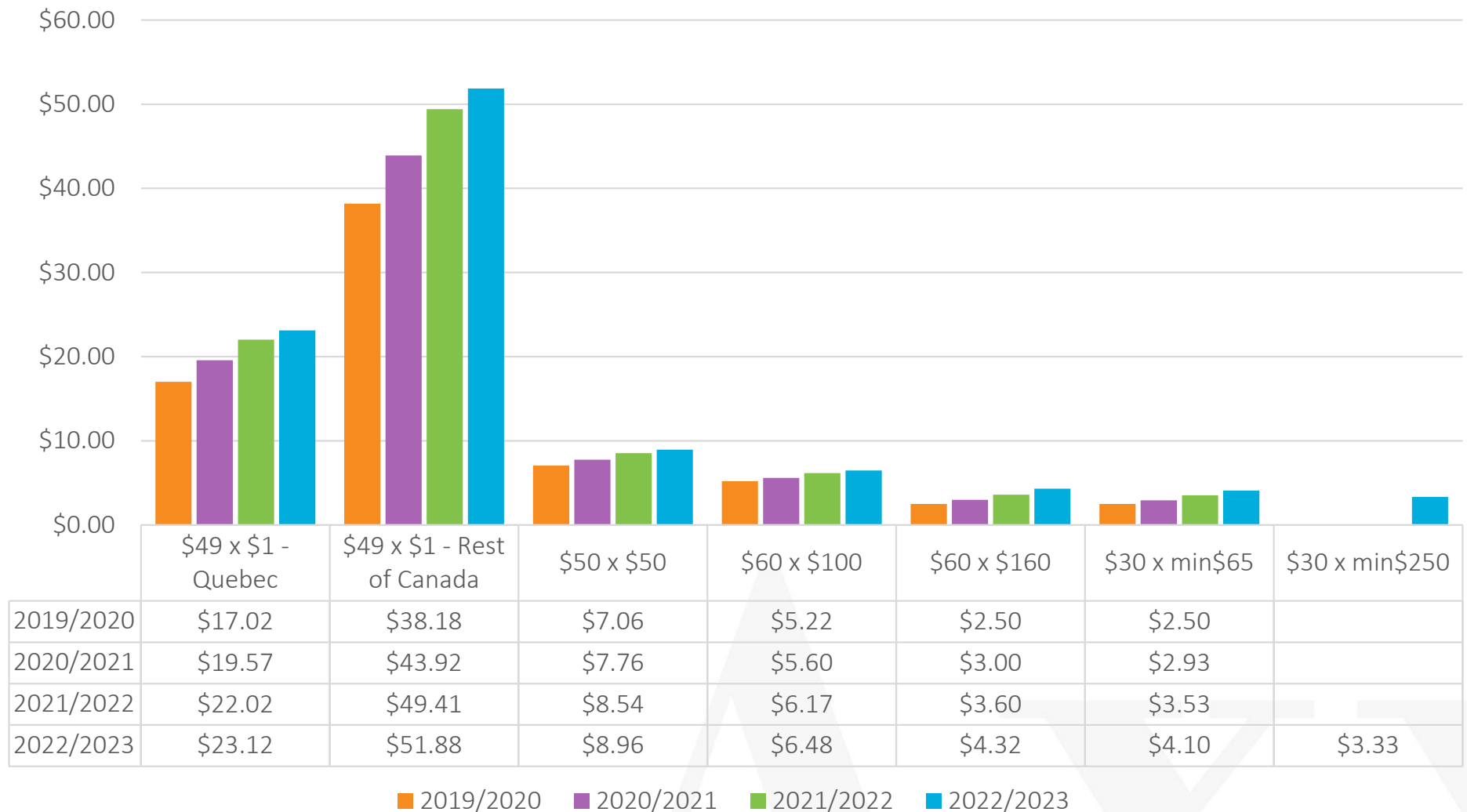
# Reinsurance Updates

- 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

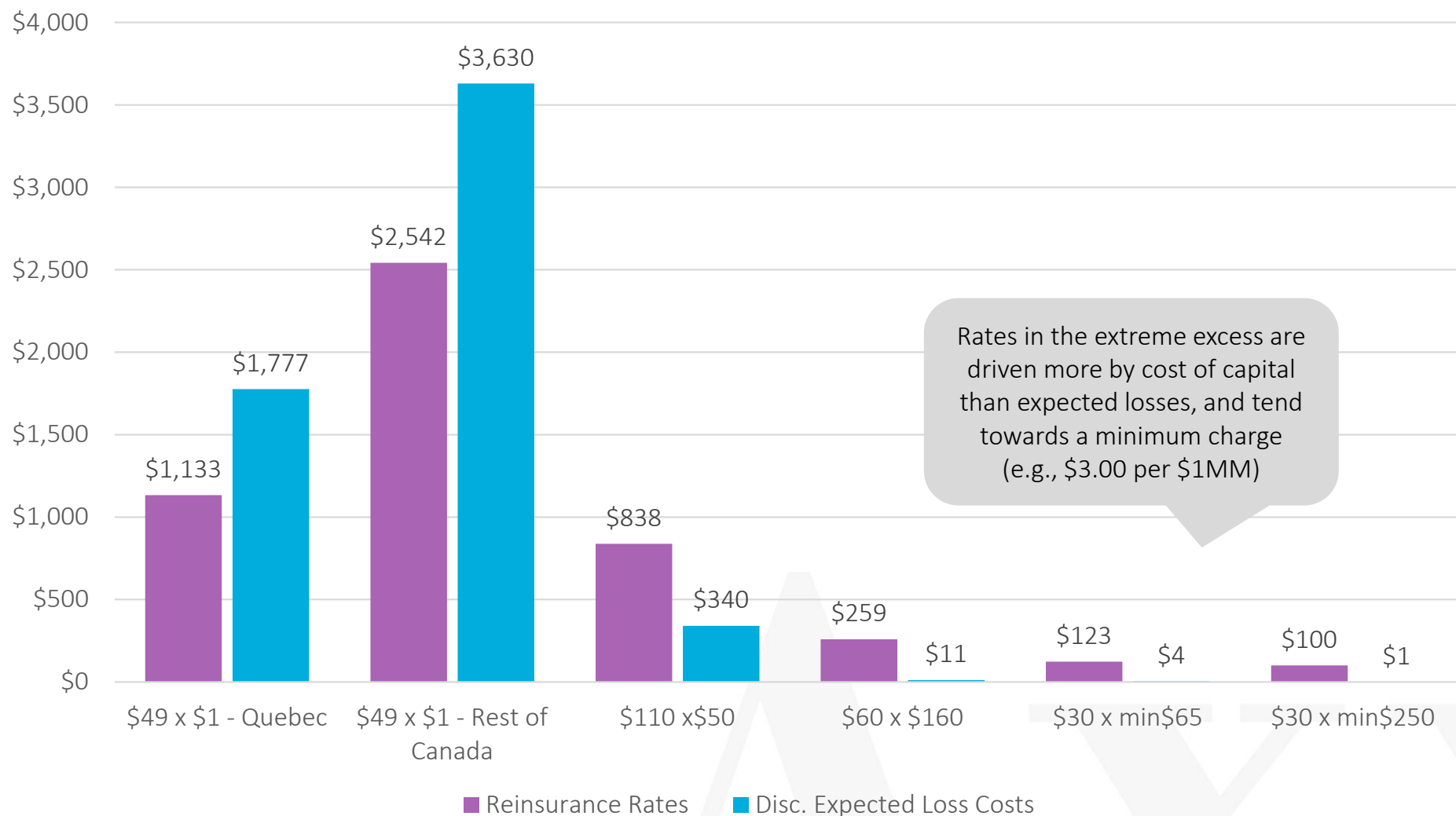
# Reinsurance Rates



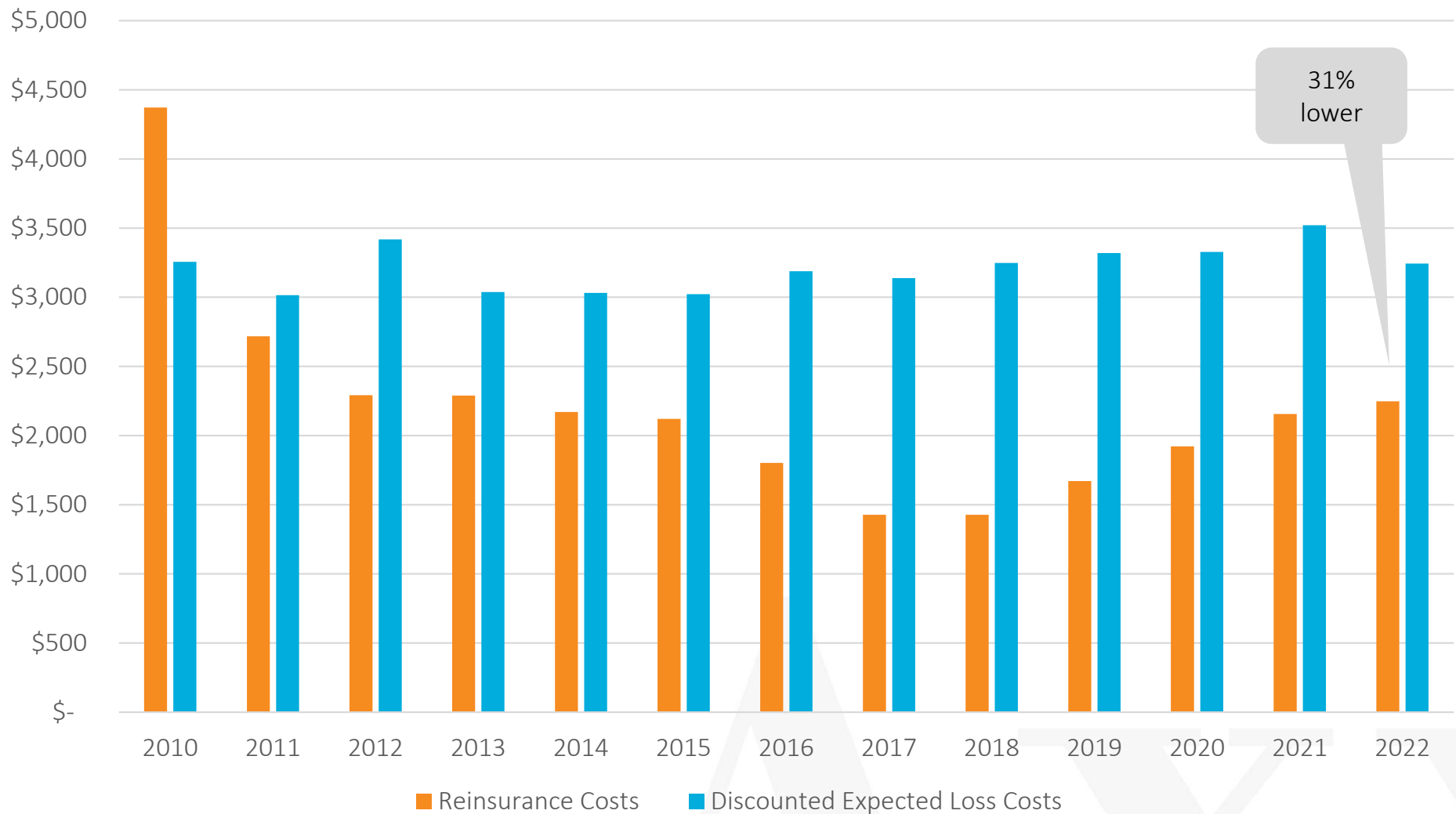
# Reinsurance Rates per \$1MM



# 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 and Umbrella layers are simply expense loaded by 5%

# Return of Surplus

- CLLAS' available surplus is calculated as follows:

Total CLLAS Surplus (12/31/2020)	\$12.8MM
Less: Surplus Required by Regulators	(4.8MM)
Less: Blakes and Dentons' Surplus	<u>(3.2MM)</u>
Surplus Available for Distribution	\$4.8MM

- CLASS' actuary recommends distributing no more than 50% of the available surplus, or \$2.4MM, 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
- Colchester is not expected to distribute any additional surplus this year of that which is required to match the rates



# CLLAS Rates (Expected)

Layer	2019/2020	2020/2021	2021/2022	2022/2023	% Change
\$49MM x \$1MM – Quebec	\$1,062	\$1,206	\$1,283	\$1,363	+6.2%
\$49MM x \$1MM – Rest of Canada	\$2,327	\$2,643	\$2,975	\$3,150	+5.9%
\$30MM x \$50MM*	\$271	\$298	\$328	\$344	+4.9%
\$50MM x \$50MM*	\$392	\$431	\$474	\$498	+5.1%
\$60MM x \$100MM*	\$348	\$374	\$411	\$432	+5.1%
\$60MM x \$160MM	\$176	\$188	\$228	\$272	+19.3%
\$30MM x min\$65MM	\$89	\$92	\$111	\$129	+16.2%
\$30MM x \$250MM	n/a	n/a	n/a	\$105	n/a

\* Commercial layer, included for completeness

Firms will experience cost per lawyer increases of 6.8% or \$251, on average

# CLLAS Rates

- There is a potential for an increase in rates on the primary layer to up to 7.5% due to following market requirements
- This could impact the costs per lawyer by a further +1.4% overall, and represents a reinsurance cost increase to CLLAS of \$232,000
- Given the relatively small change, and in light of CLLAS' improved surplus position, we recommend funding the minor increase in reinsurance rate with an increase in surplus distribution, if necessary
- The rates without the additional surplus distribution are shown on the following slide

# CLLAS Rates (7.5% primary)

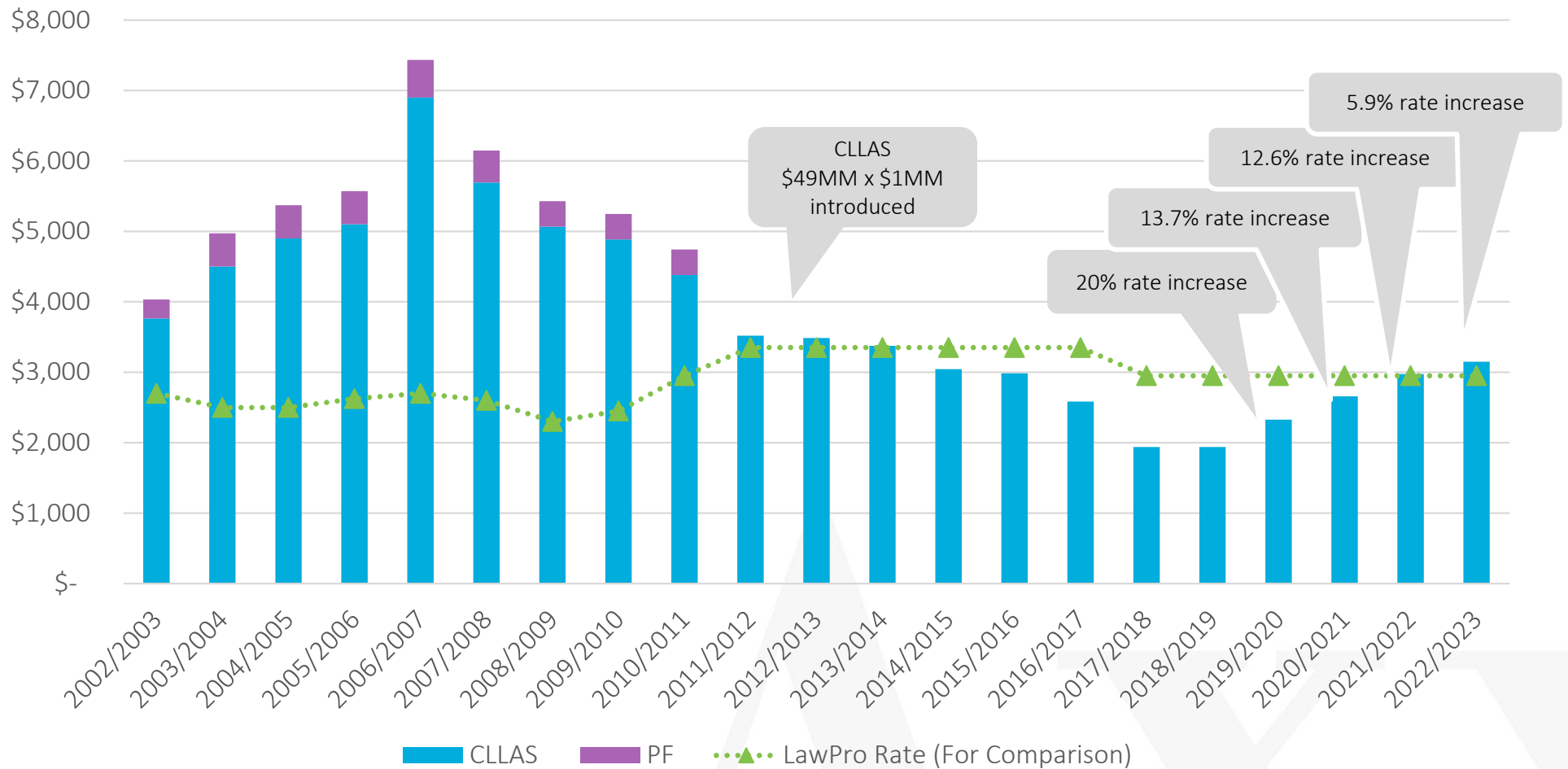
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# \$49MM x \$1MM Rate History

## Non-Quebec Rates



# Final Remarks

- 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