



Actuaries & Insurance Management Advisors

**CLLAS**

Board Presentation – Renewal Strategy

June 25, 2024

# Overview

## CLLAS Professional Liability

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- Insurance and Reinsurance Structures
- Retention Strategy
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## CLLAS Cyber

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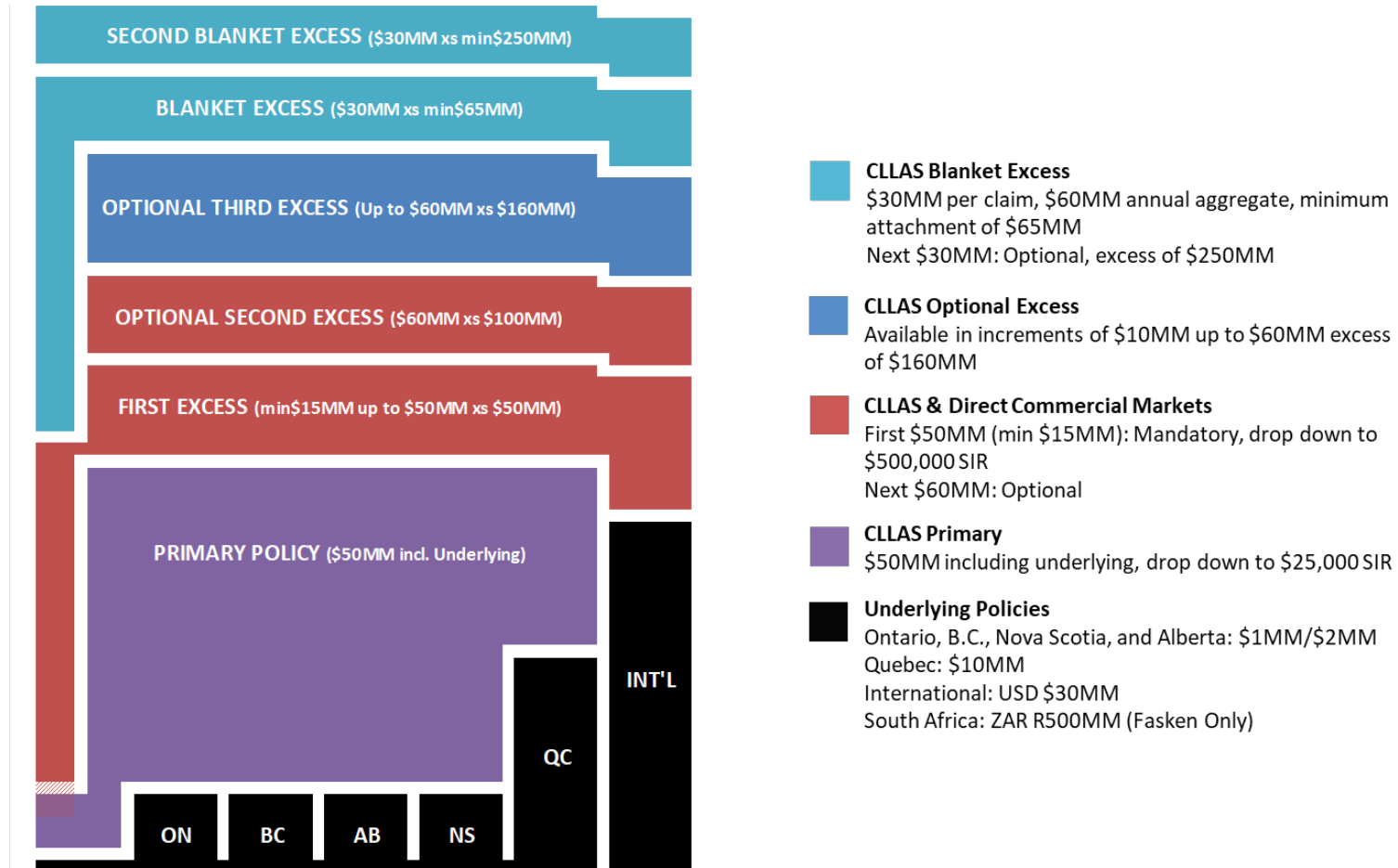
# CLLAS Professional Liability



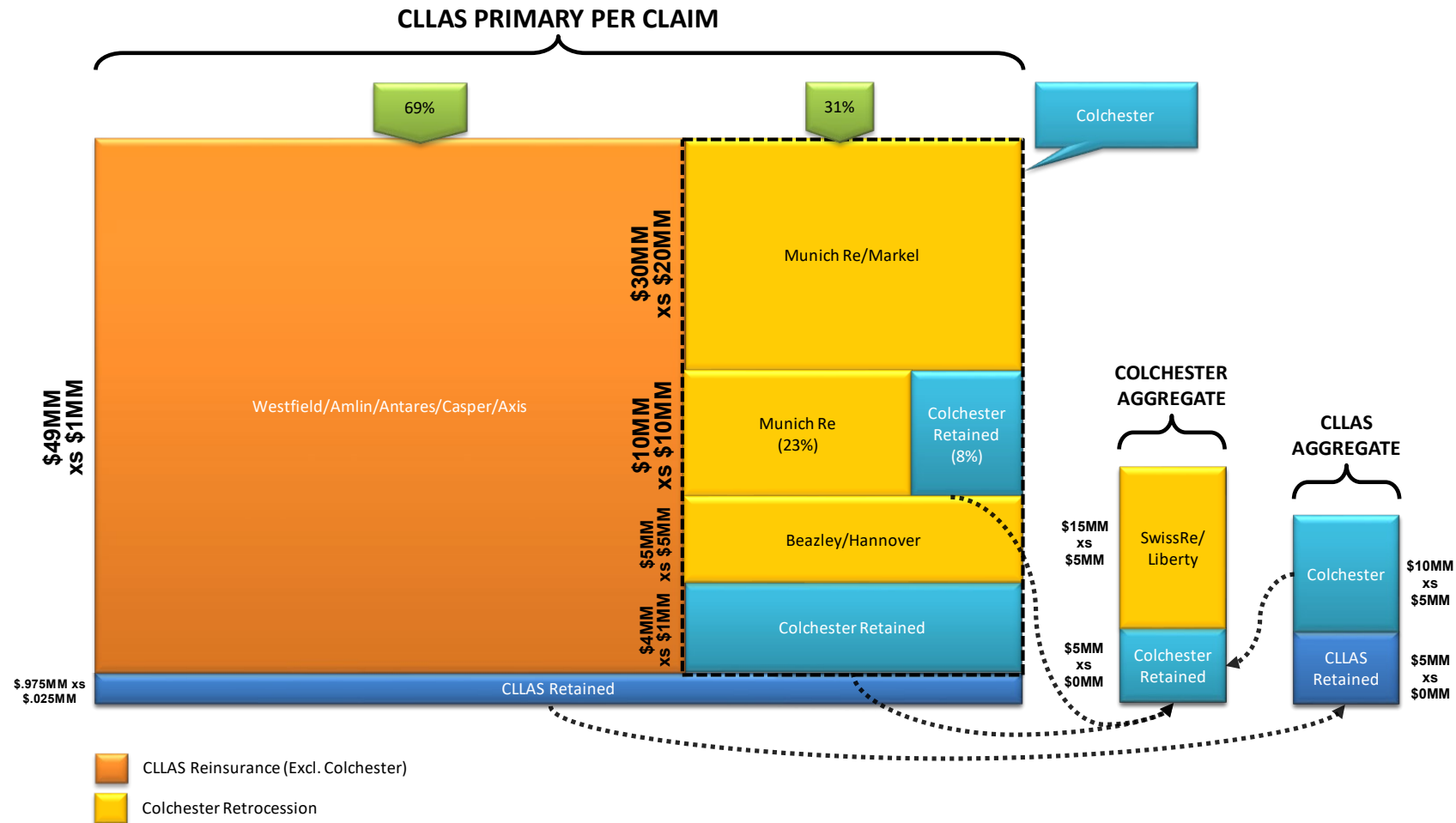
# Renewal Objectives

- Obtain the best renewal terms possible given current (re)insurance market conditions
- Maintain and enhance existing reinsurer relationships
- Reduce Colchester participation on the 49x1 by attracting new capacity.
- Reduce concentration risk in the reinsurers with the largest liability shares (if possible)
- Continue to evaluate ability to distribute surplus to members through premium credits

# Insurance Structure



# 2023 Expiring Reinsurance Structure

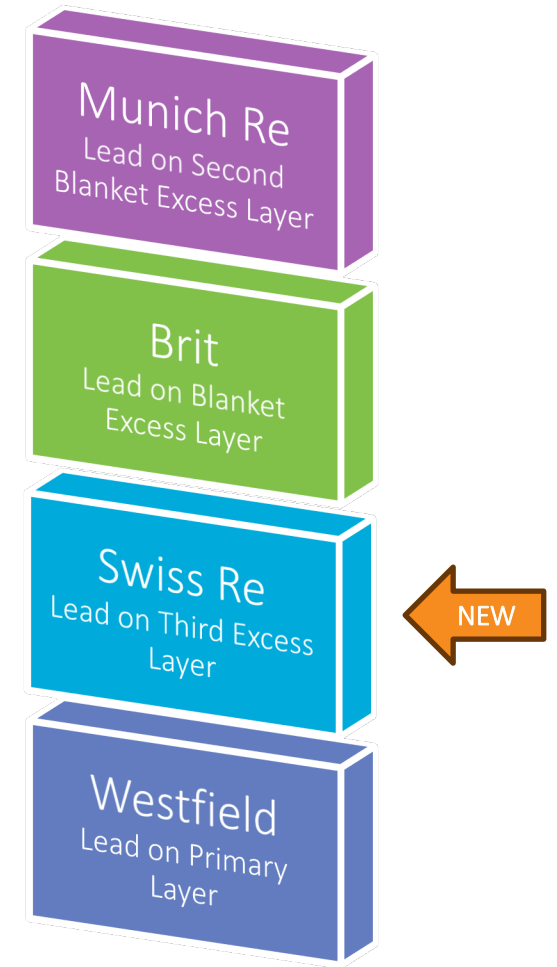


# Retention

- CLLAS currently retains the drop-down exposure below \$1,000,000 (maximum exposure of \$975,000, any one loss)
- Colchester's current per-claim participation is 31% of the \$49MM x \$1MM layer, for a per-claim retention of \$15.19MM, however, net retention is just \$2.04MM 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, at expiring, is \$3,015,000

# Reinsurance Updates

- Negotiations have progressed very well, and the market is noticeably softening
- While inflation remains a concern, softer market conditions are bringing competitive pressures to the market, which is driving a desire for premium retention and overall growth
- Westfield has agreed to a 2.5% increase on the Primary layer, as proposed
- Brit pressed for double-digit increases on their layers, we have replaced their capacity on the Optional Third Excess layer and kept them on the Umbrella with a 17% rate increase
  - The Optional Third Excess layer renewed as expiring, as proposed
- Munich Re has led a flat renewal on the Second Blanket Excess layer

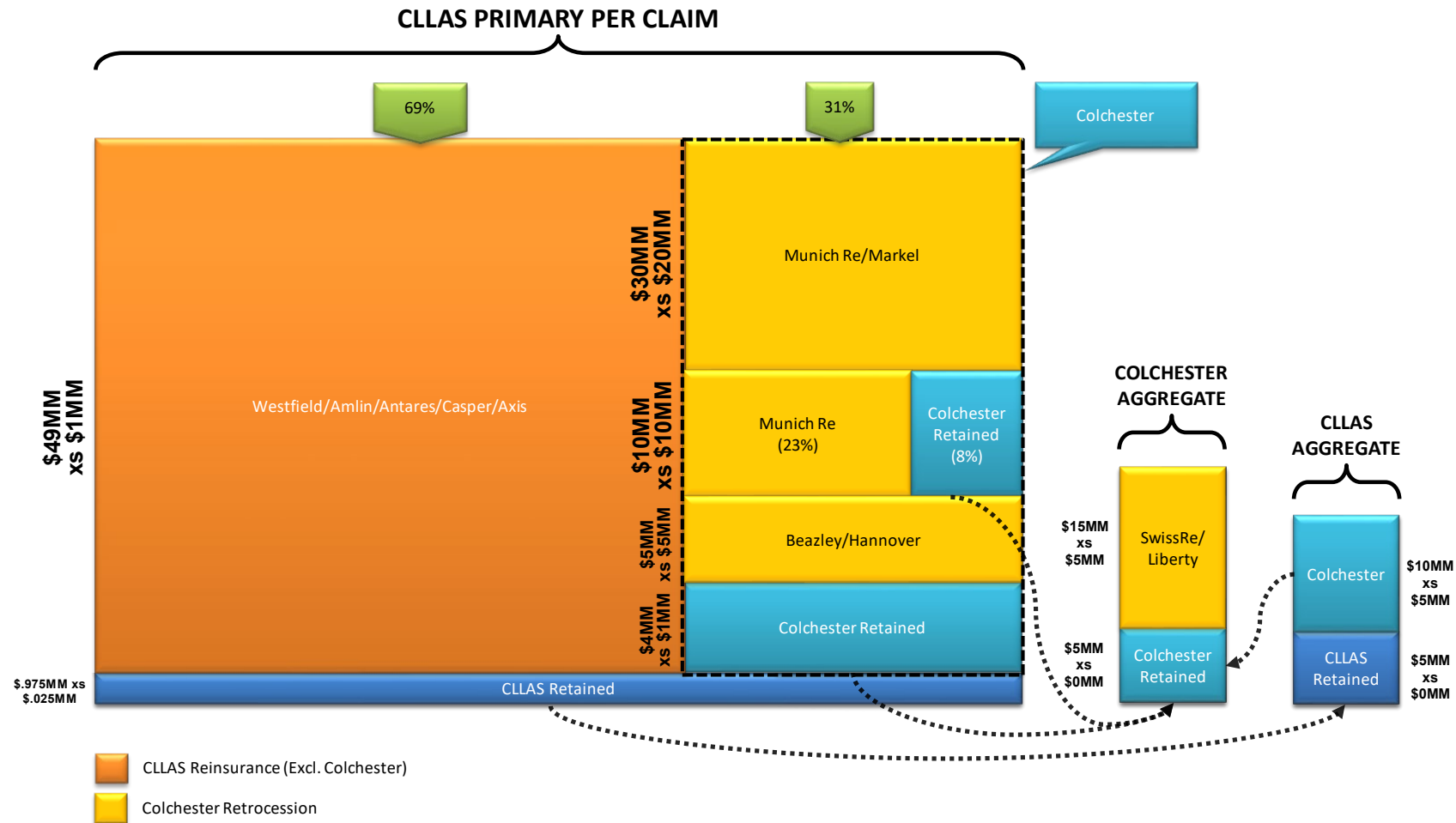




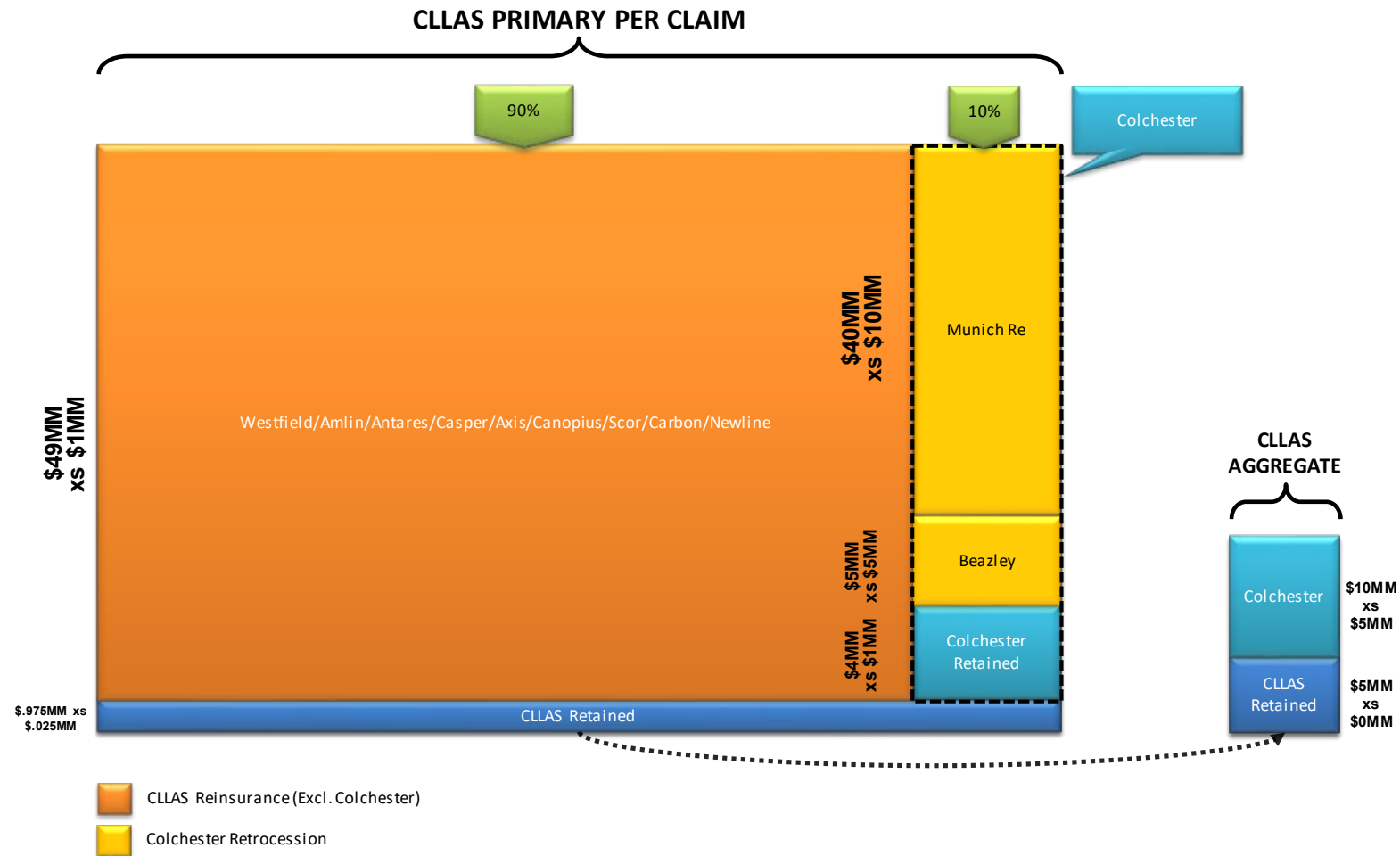
# Reinsurance Updates

- Due to the softer market conditions, CLLAS was able to attract the following new markets to participate on the Primary layer
  - Canopus (previously only an excess layer participant)
  - Carbon Underwriting
  - Scor Syndicate
  - Newline
- CLLAS has been able to diversify the reinsurer participations, and reduce reliance on Colchester to 10%
  - We met with Colchester's management to ensure they could support the proposed terms

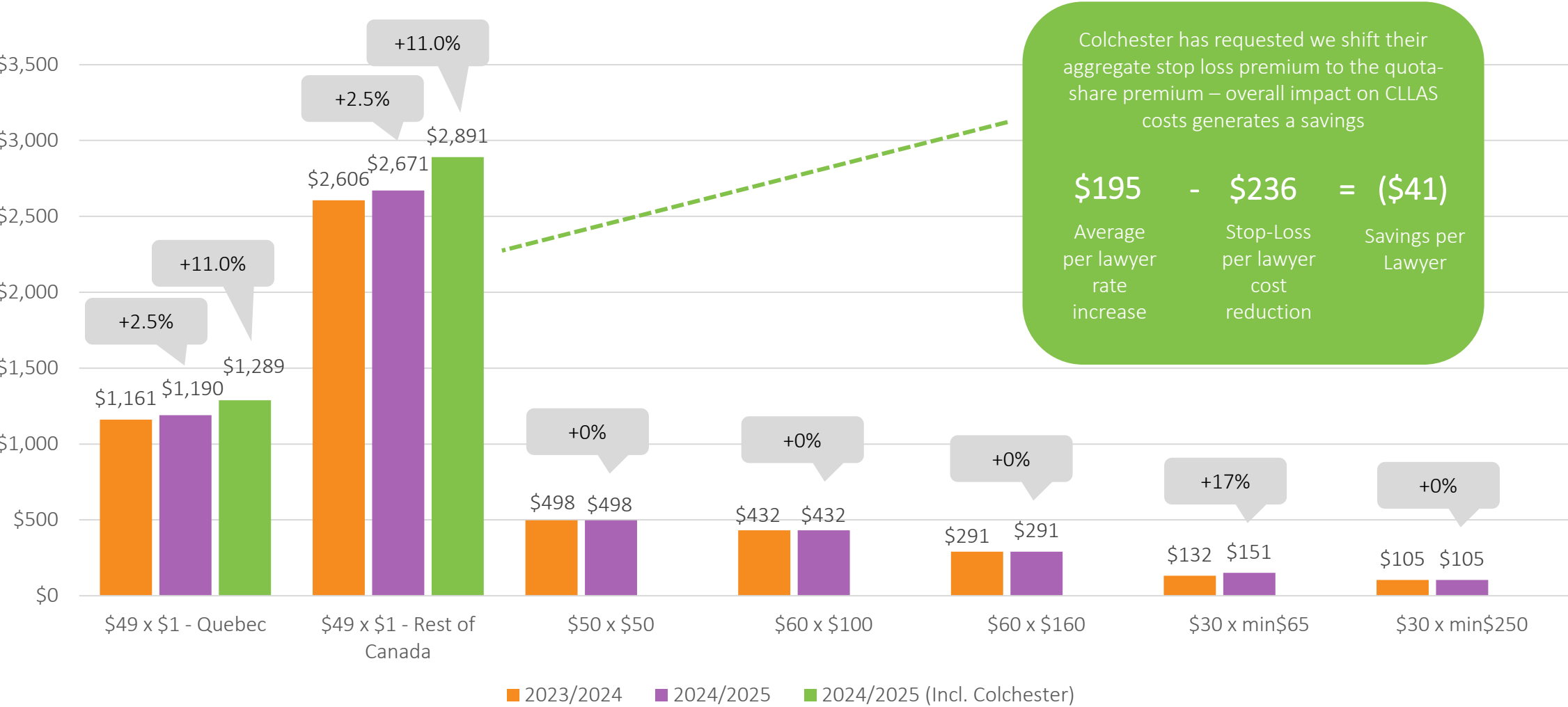
# 2023 Expiring Reinsurance Structure



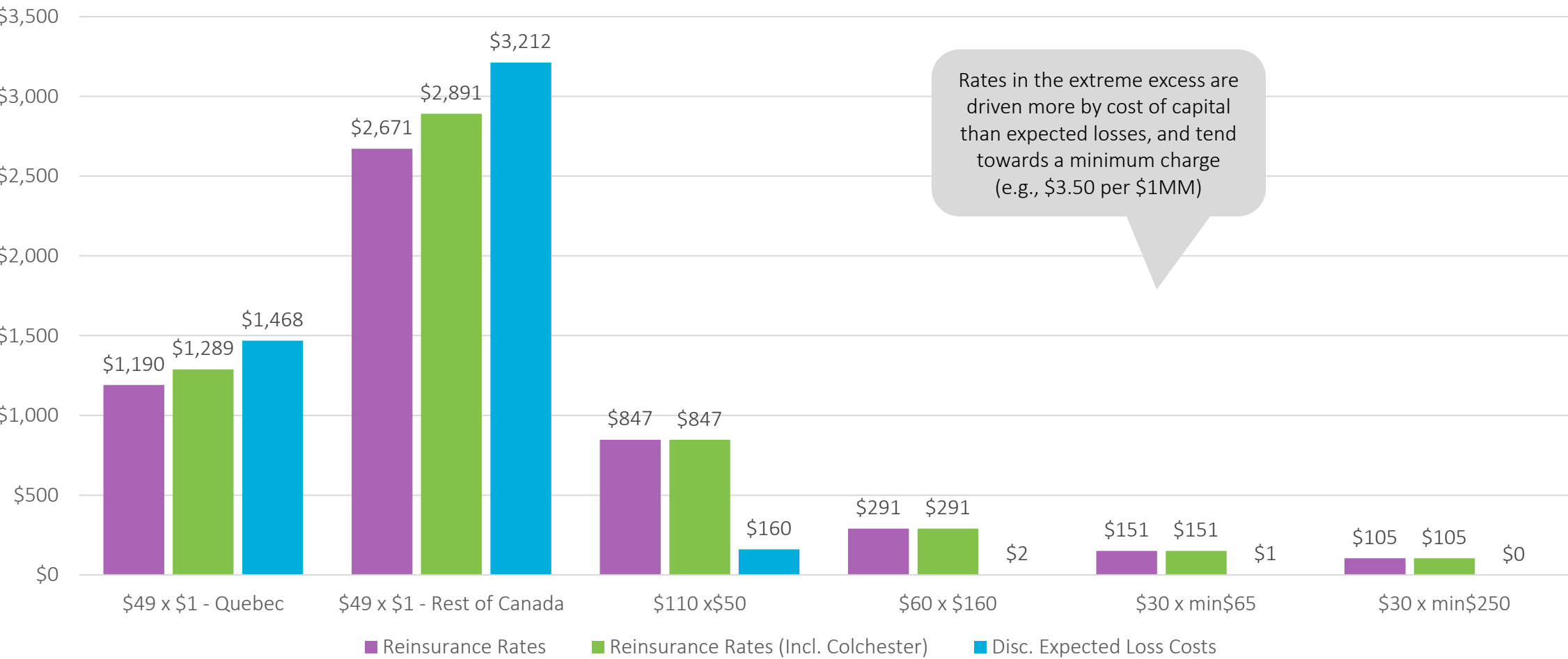
# 2024 Proposed Reinsurance Structure



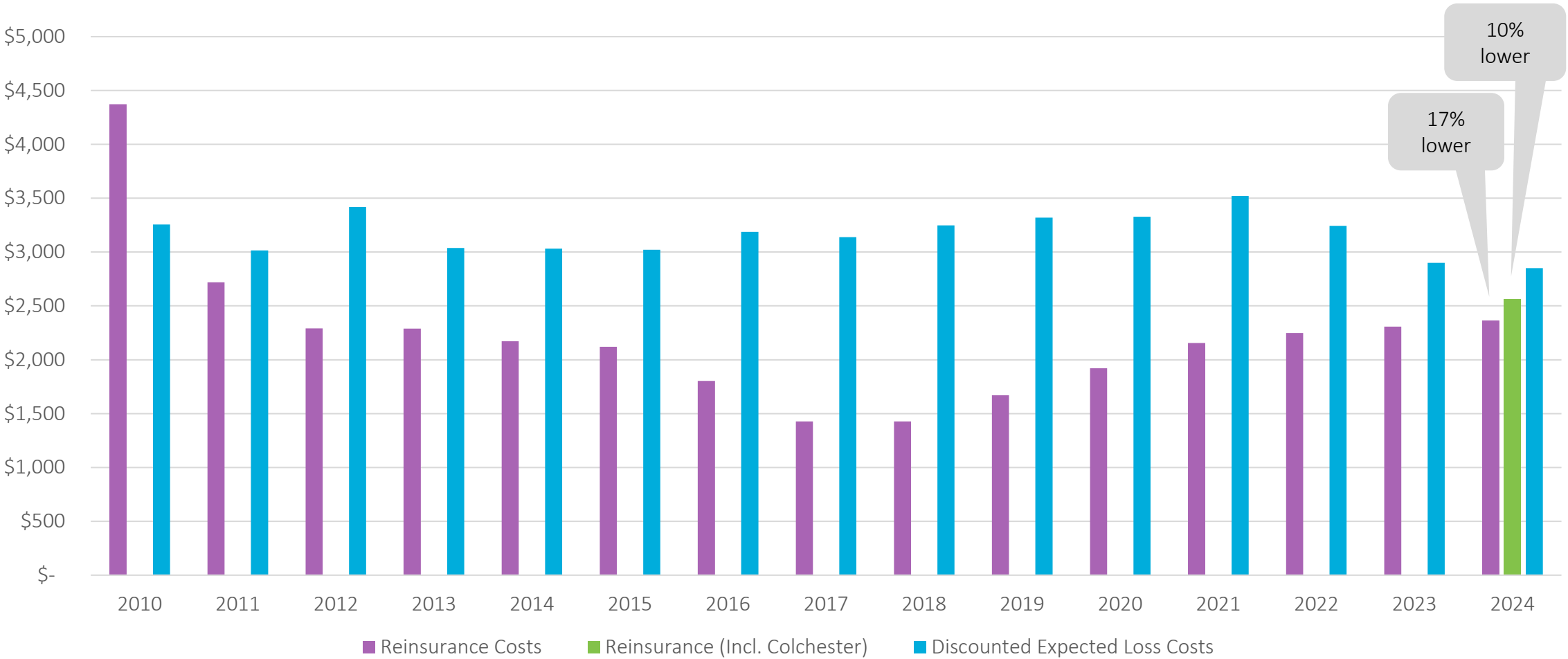
# Reinsurance Rates



# 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

# Return of Surplus

- CLLAS' available surplus is calculated as follows:

Total CLLAS Surplus (03/31/2024)	\$ 15.00MM
Less: Surplus Required by Regulators	(5.40MM)
Less: Blakes and Dentons' Surplus (06/30/2023)	<u>(1.35MM)</u>
Surplus Available for Distribution	\$ 8.25MM

- CLLAS' actuary recommends being conservative with surplus distribution as surplus for departed subscribers may have increased since their last evaluation
- In light of an overall stable renewal, as presented on the following slides, we are recommending the board approved a \$550,000 surplus distribution for 2024/2025



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

- Due to its internal cost structure, Colchester needed to implicitly release surplus to match the rates charged by the other markets on the quota share layers (e.g. \$49 x \$1)
- For 2024/2025, as was the case in 2023/2024, Colchester requires additional surplus to meet capital requirements
- In order to meet actuarial thresholds for the definition of insurance, Colchester is moving its surplus collection to the quota share (i.e. Primary layer) rates, and decreasing its stop loss protection rates
- The overall impact on the firms is positive, when combined with the reduction of Colchester's participation

# CLLAS Rates (Proposed)

Layer	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	% Change
\$49MM x \$1MM – Quebec	\$1,062	\$1,206	\$1,283	\$1,363	\$1,508	\$1,503	-0.3%
\$49MM x \$1MM – Rest of Canada	\$2,327	\$2,643	\$2,975	\$3,150	\$3,455	\$3,461	+0.2%
\$30MM x \$50MM*	\$271	\$298	\$328	\$344	\$344	\$344	+0%
\$50MM x \$50MM*	\$392	\$431	\$474	\$498	\$498	\$498	+0%
\$60MM x \$100MM*	\$348	\$374	\$411	\$432	\$432	\$432	+0%
\$60MM x \$160MM	\$176	\$188	\$228	\$272	\$306	\$306	+0%
\$30MM x min\$65MM	\$89	\$92	\$111	\$129	\$136	\$159	+16.9%
\$30MM x \$250MM	n/a	n/a	n/a	\$105	\$110	\$110	+0%

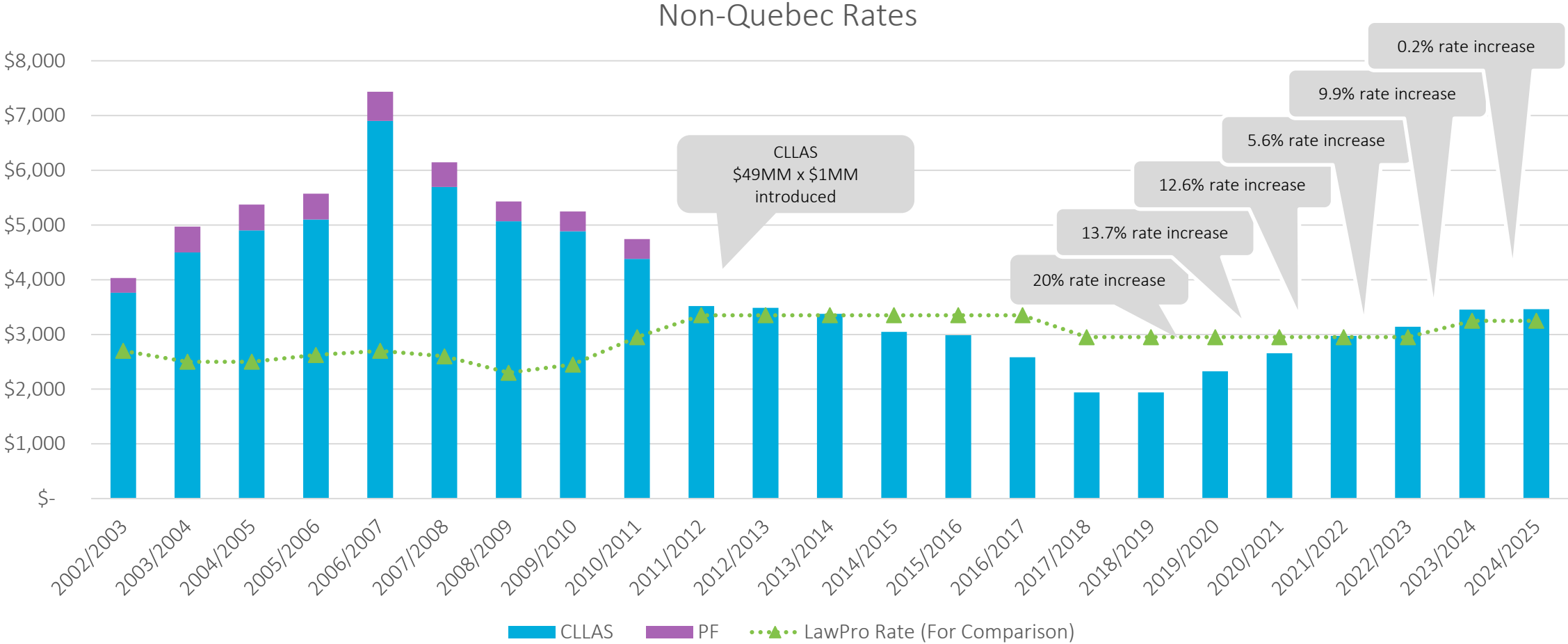
\* Commercial layer, included for completeness

Firms will experience cost per lawyer cost increases of 1.13% or \$51, on average

# CLLAS Rates

- As previously suggested, the rates include CLLAS providing an additional surplus distribution of \$550,000, but depending on the final reinsurance and Colchester retrocession terms, additional surplus distribution may be required

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



# 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

# CLLAS Cyber



# Market Update

- The cyber insurance marketplace has softened along with other lines of business, despite ransomware attack frequency being up 100% year-over-year
- MFA, endpoint protection, training, and backups, which are the minimum standards for insurability, have drastically improved claims experience over 2020-2021
- Renewals are tending towards as-is through 2024, and some insured are seeing rate reductions or savings from alternative carriers



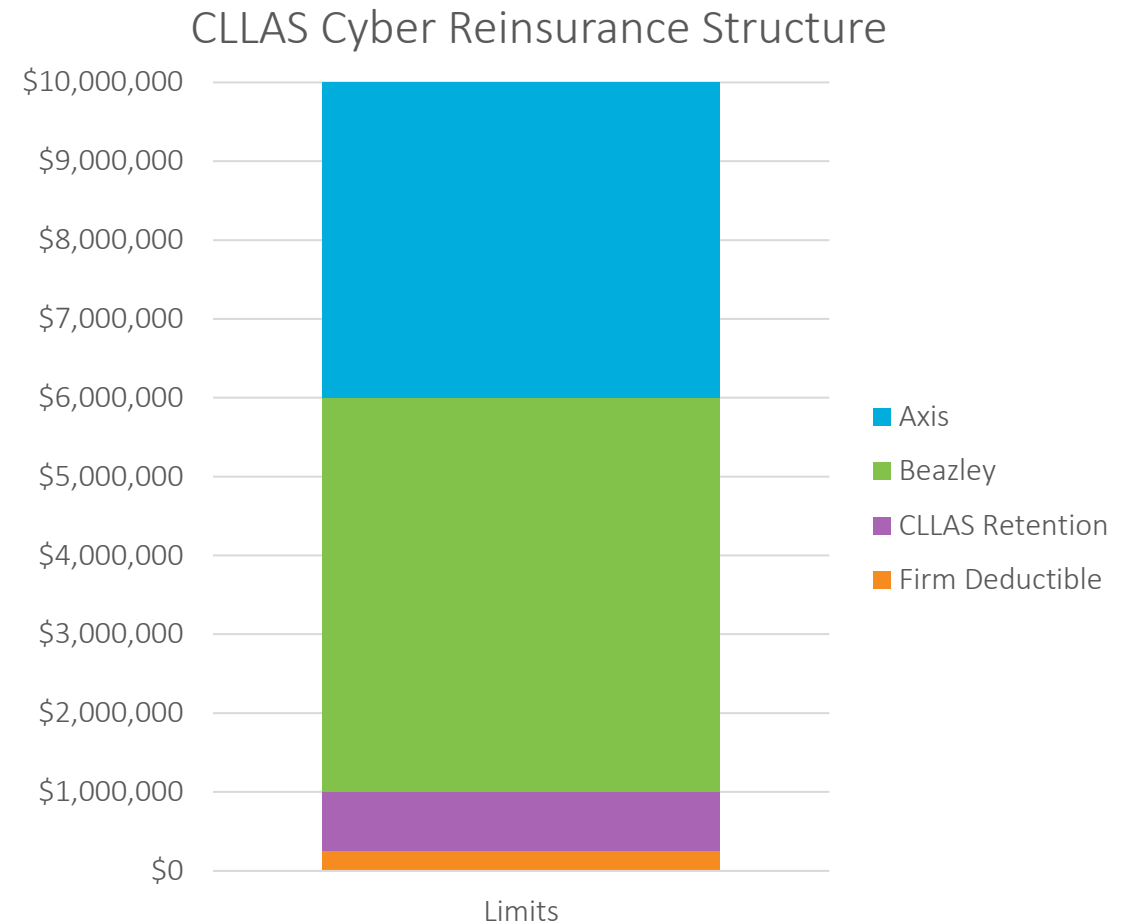
# CLLAS Program Update

- The second year of the cyber program has, thus-far, been successful and has enjoyed favourable claims experience
  - While the Program has received some incident reports, all matters have resolved within the firm deductible
- 10 of 11 firms will renew on October 15, 2024, with the remaining firm renewing July 1, 2024



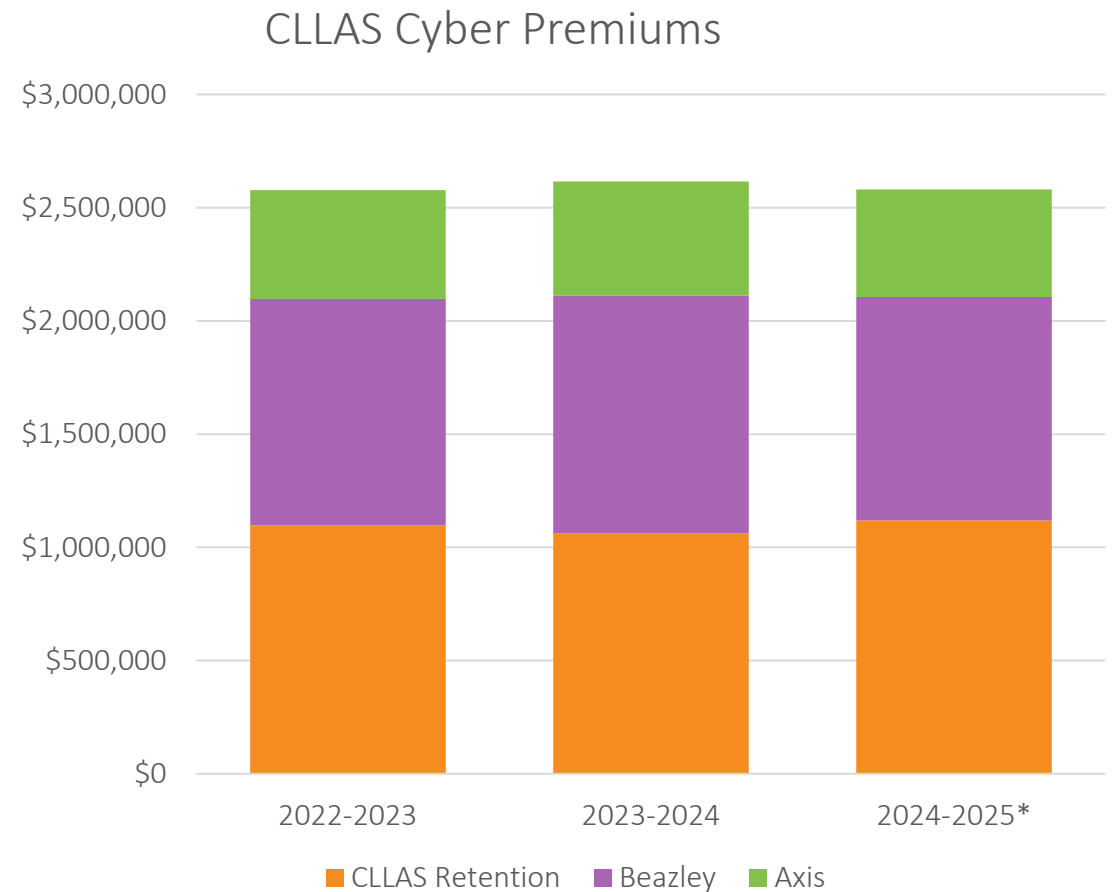
# Reinsurance Placement

- Beazley has renewed \$5MM excess of \$1MM for each firm July 1
  - 6% premium reduction due to favourable claims experience
  - New lawyers amendatory brings professional corporations into the definition of insureds
- Axis is expected to renew \$4MM excess of \$6MM with pricing, following Beazley's



# CLLAS Premiums

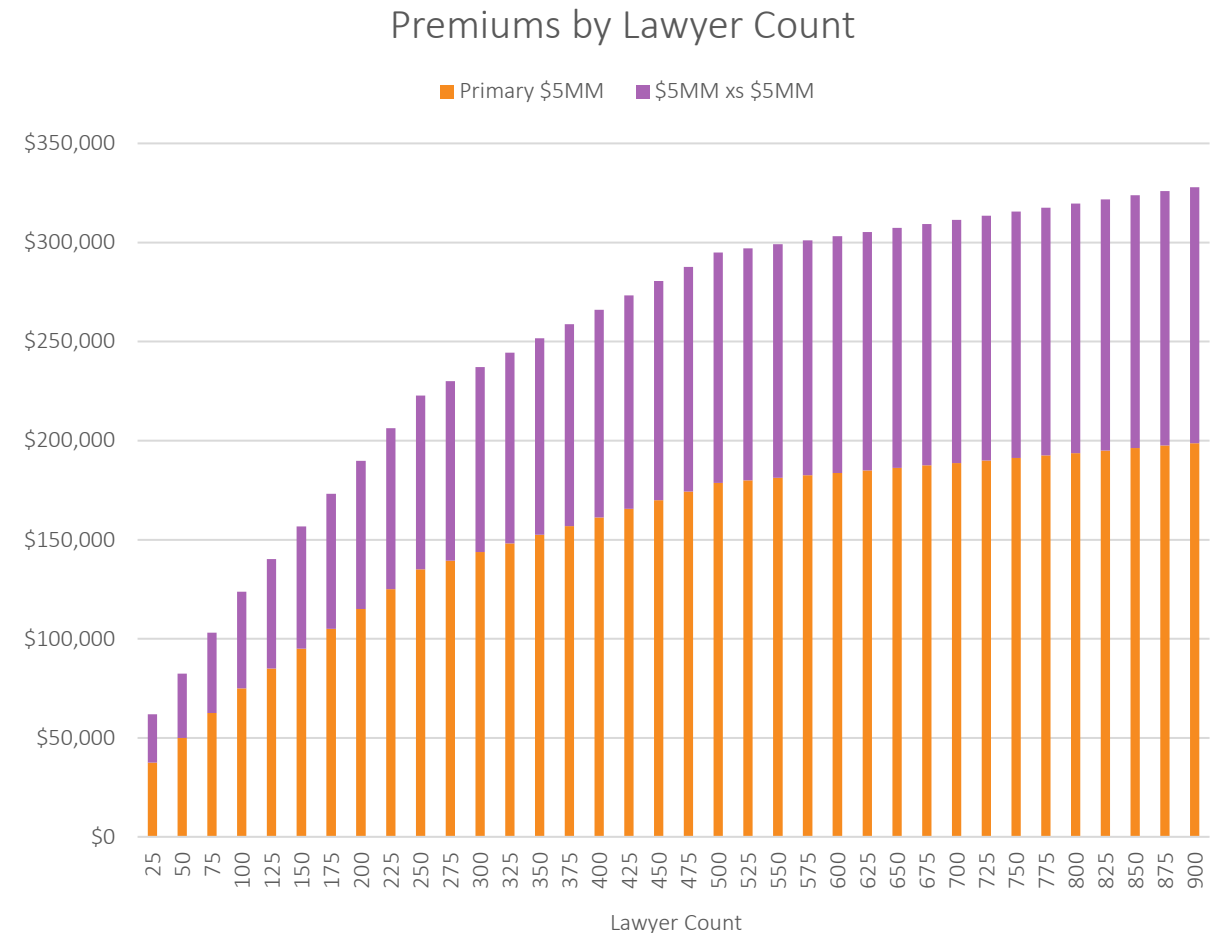
- Rates per lawyer remained the same in both 2022-2023 and 2023-2024
- With the change in reinsurance costs, CLLAS' retained premium will increase if rates are held constant for 2024-2025
  - Pricing was established to absorb one full limit loss per year, assuming no losses before renewal, program should have sufficient retained premium and surplus to pay for two full limit losses
- It may be viable to provide rate reductions in years 4 or 5 if loss experience remains positive



\* Estimated final premiums

# CLLAS Rates

- Cyber Rates are proposed as follows for 2024-2025:
  - Primary \$5,000,000
    - Base Premium (Fixed): \$25,000
    - Rate Per Lawyer:
      - First 100: \$500
      - Next 150: \$400
      - Next 250: \$175
      - Over 500: \$50
  - \$5,000,000 excess of \$5,000,000
    - 65% of Primary \$5,000,000



# Excess Limits

- Placed commercially via program facilitated by Axxima through Ridge Canada
- Premiums are based on CLLAS base premiums
- We receive a 5% CLLAS-specific discount with simplified underwriting
- Limits of up to \$20,000,000 excess of CLLAS' \$10,000,000 are available, with additional limits available, if desired