



MEMORANDUM

DATE: August 22, 2017
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: June 30, 2017 Financial Management Report

CLLAS' financial management report for the six months ended June 30, 2017 is attached. Included are the following exhibits:

Exhibit I:	Statement of Financial Position
Exhibit II:	Statement of Comprehensive Income
Exhibit III:	Statement of Changes in Equity
Exhibit IV:	Budget Variance Analysis
Exhibit V:	Summary of Risk Metrics
Exhibit VI:	Alberta Maintenance of Reserve and Guarantee Fund

Financial Results

As shown on Exhibit II, CLLAS experienced a quiet second quarter from claims perspective, which means that the underwriting loss (premiums minus claims and expenses) for the first six months of the year increased only slightly, to just over \$1 million. After taking into account investment income (including unrealized losses arising during the period) the loss was reduced to \$950,000. The loss was primarily due to a case reserve posted in the first quarter on a "drop down" claim, i.e. a claim in the layer below \$1 million which is fully retained by CLLAS. As shown on Exhibit I, CLLAS' surplus at June 30, 2017 stood at \$13.5 million.

The Budget Variance (Exhibit IV) shows that expenses for the year are about 2.3% (\$30,000) over budget for the six-month period. This overage is attributable to Axxima's professional services fees related to the special underwriting submission that led to CLLAS securing reinsurance renewal terms in April, CLLAS' revised subscribers agreement and the cyber initiative.

Risk Metrics

Exhibit V presents the results of various "risk metrics" monitored by CLLAS based on what have been identified through the ORSA process as its material risks. The Exhibit shows results for CLLAS at December 31, 2014, December 31, 2015, December 31, 2016 and June 30, 2017 against risk targets and risk limits. The results for June 30, 2017 are within CLLAS' risk tolerances with two exceptions (Lines 1b and 10, discussed below). Items of note include:



- Line 1b: Prior year development on CLLAS' retained losses was 34%. This is the result of a single reserve on a drop-down claim and so is not a cause for concern. As can be seen from Line 1a, overall losses (including reinsured losses) were stable in the period.
- Lines 4&5: The June 30, 2017 information shows as n/a. While no changes were made to the reinsurance structure in the quarter, and we continue to monitor ratings, the formal reinsurance security review will not be updated until after the July 1, 2017 renewal.
- Line 10: CLLAS held a highly rated money market investment that on June 30, 2017 comprised more than 5% of its non-cash investment portfolio. This type of investment is not subject to the 5% regulatory restriction.
- Line 13: The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF"). Details of this calculation are included in Exhibit VI, with the result summarized in Line 13 of Exhibit V. CLLAS must maintain "cash and approved securities" in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI shows that the CLLAS held cash and approved securities well in excess of the AMRGF requirement at June 30, 2017.
- Line 14: CLLAS also monitors its Minimum Capital Test ratio. At June 30, 2017, CLLAS' MCT ratio was 468%, basically unchanged from December 31, 2016. Note that mid-year MCT calculations are done on a simplified basis in the interest of efficiency; the "official" MCT calculation is done at year-end.

Please contact me if you have any questions with respect to the management financial statements or the solvency tests.

Sincerely,

Patrick Mahoney
General Manager

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

June 30, 2017

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Exhibit I	Statement of Financial Position
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CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF FINANCIAL POSITION
June 30, 2017

	As at June 30, 2017	As at June 30, 2016
ASSETS		
Cash	2,600,315	2,947,147
Short term investments	11,690,584	11,978,344
Bonds	5,128,853	4,826,755
Interest income due and accrued	20,780	20,190
Premium receivable	0	0
Other receivable	530,542	0
Prepaid expenses	109,668	128,716
Deferred policy acquisition costs	0	0
Unearned reinsurance premium ceded	0	0
Reinsurance recoverable	833,572	951,188
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	96,730,000	96,341,000
	<u>117,644,314</u>	<u>117,193,340</u>
LIABILITIES		
Accounts payable & accrued charges	142,792	117,788
Premium taxes payable	0	0
Unearned premium	0	0
Due to reinsurers	0	0
Provision for unpaid claims and adjustment expenses	104,004,000	102,856,000
Premium deficiency liability	0	0
	<u>104,146,792</u>	<u>102,973,788</u>
SUBSCRIBERS' EQUITY		
Surplus	13,453,900	14,055,849
Accumulated Other Comprehensive Income (Loss)	43,622	163,703
	<u>13,497,522</u>	<u>14,219,552</u>
	<u>117,644,314</u>	<u>117,193,340</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending June 30, 2017

	Current Year		Prior Year	
	Quarter June 30, 2017	Year to Date June 30, 2017	Quarter June 30, 2016	Year to Date June 30, 2016
Written Premium	-	-	-	-
Gross Written Premiums	-	-	-	-
Less: Reinsurance Ceded	-	-	-	-
Net Written Premiums	-	-	-	-
Change in Unearned Premiums	542,675	1,079,387	600,221	1,200,441
Earned Premiums	542,675	1,079,387	600,221	1,200,441
Claims Paid	(39,106)	(89,755)	(57,220)	(111,873)
Change in IBNR	57,000	172,000	51,000	131,000
Change in Case Reserve	7,000	649,000	(1,000)	(4,000)
Premium Deficiency Expense	-	-	-	-
Incurred Claims	24,894	731,245	(7,220)	15,127
Management and operating expenses	483,240	1,081,344	472,205	956,386
Reinsurance fees	69,750	139,500	69,750	139,500
Premium taxes	77,110	154,221	86,607	173,213
Total Operating Expenses	630,101	1,375,065	628,561	1,269,099
Underwriting Gain (Loss)	(112,319)	(1,026,923)	(21,121)	(83,785)
Investment Income	45,538	90,594	43,061	79,595
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
NET GAIN/(LOSS)	(66,781)	(936,329)	21,940	(4,190)
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	(37,624)	(17,989)	24,710	36,276
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	(37,624)	(17,989)	24,710	36,276
Total comprehensive income (loss)	(104,405)	(954,318)	46,650	32,086

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
June 30, 2017

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	14,340,229	61,611	14,451,840
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		(936,329)		(936,329)
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			(17,989)	(17,989)
Recognition of realized (gain) loss on available-for-sale assets			-	-
Total comprehensive income (loss) for the year		(936,329)	(17,989)	(954,318)
Balance at June 30, 2017	50,000	13,403,900	43,622	13,497,522

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED June 30, 2017

	Annual Budget	Year to Date Budget	Year to Date Budget	Year to Date Actual	Fav/(Unfav) Variance
		%	\$	\$	\$
MANAGEMENT SERVICES* (See Note 1)	579,500	50%	289,750	296,704	(6,954)
PROFESSIONAL SERVICES					
Actuarial Services	80,000	64%	51,200	40,115	11,085
Reinsurance Matters	310,000	64%	198,400	244,603	(46,203)
Strategic Matters	160,000	64%	102,400	110,202	(7,802)
Sub-Total Professional Services	550,000		352,000	394,920	(42,920)
GST/HST on Consulting Fees	146,835		83,427	89,911	(6,484)
Total Management & Professional Services * (See Note 2)	1,276,335		725,177	781,536	(56,358)
OTHER EXPENSES					
Audit Expenses	107,000	50%	53,500	50,862	2,638
Annual Dinner	7,500	100%	7,500	8,390	(890)
Premium Taxes	289,000	50%	144,500	154,221	(9,721)
Chairman's Expenses	3,000	50%	1,500	1,473	27
Chairman's Honourium	150,000	100%	150,000	150,000	-
Reinsurance Expense	8,500	50%	4,250	4,542	(292)
D&O Insurance	20,000	50%	10,000	-	10,000
Office Expenses	25,000	50%	12,500	17,960	(5,460)
Office Expenses - Website management software license	3,000	50%	1,500	-	1,500
Claims: Borderaux (LawPro/LIF)	14,600	93%	13,627	14,200	(573)
Special Services	50,000	50%	25,000	22,539	2,461
Miller Insurance Fees (Reins. Comm.) (See Note 3)	279,000	50%	139,500	139,500	-
I.B.C Statistical Plan Fees	4,000	50%	2,000	1,206	794
Assessment Fees	3,000	50%	1,500	2,000	(500)
Investment counsel fees	30,000	50%	15,000	13,866	1,134
Investment - Custodial	18,000	50%	9,000	9,270	(270)
Risk Management/Loss Prevention	50,000	50%	25,000	-	25,000
License Fee	6,500	50%	3,250	3,500	(250)
Insurance: Sundry	-		-	-	-
Sub-total	1,068,100		619,127	593,529	25,598
TOTAL	2,344,435		1,344,304	1,375,065	(30,761)

* NOTE 1: MANAGEMENT SERVICES
The actual budget of \$612,00 has been reduced to \$579,500 as a result of Commissions received on CLLAS associate program.

* NOTE 2: PROFESSIONAL SERVICES - SEASONALLY WEIGHTED BUDGET
This is based upon an analysis of the current budget and previous years' experience, the anticipated pattern of seasonal workflow is as follows:

First Quarter, ending March 31st	21%
Second Quarter, ending June 30th	43%
Third Quarter, ending September 30th	16%
Fourth Quarter, ending December 31st	20%
	100%

* NOTE 3: MILLER INSURANCE FEES (Reins. Comm.)
The annual budget is based upon the annual fee estimated for the policy period 2016/2017.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
SUMMARY OF RISK METRICS
June 30, 2017

Exhibit V

	Risk Category	Risk Metric	December 31, 2014	December 31, 2015	December 31, 2016	June 30, 2017	Target	Limit
(1a)	Insurance	Prior year development - Gross of reinsurance	-6%	27%	-13%	-3%	≤ 0%	> 20%
(1b)		Prior year development - Net of reinsurance	-33%	-29%	-45%	34%	≤ 0%	> 10%
(2a)		3-year net combined ratio	84%	79%	91%	110%		
(2b)		3-year net combined ratio before surplus adjustments via premiums	81%	74%	78%	88%	≤ 100%	> 125%
(3)		Maximum allocation to a single jurisdiction	57%	56%	56%	56%	n/a	> 67%
(4)	Reinsurance	Reinsurer credit rating	BBB+ to A+	BBB+ to A+	A- to A+	n/a	≥ A	< A-
(5)		Maximum concentration with a single reinsurer excl. Colchester	13.3%	11.6%	12.2%	n/a	≤ 10%	> 15%
(6)	Interest Rate	Interest rate risk per MCT formula at 1.25%	\$201,667	\$162,000	\$112,000	\$107,000	≤ \$250,000	> \$600,000
(7)	Liquidity	Ratio of cash and short-term investments to gross claim liabilities	21%	13%	16%	14%	≥ 15%	< 10%
(8)		Ratio of short term funds to total short & long term funds	69%	64%	69%	70%	≥ 40%	< 20%
(9a)	Asset Default	Credit rating of invested assets	AA to AAA	AA to AAA	AA to AAA	AA to AAA	AA to AAA	< A
(9b)		Credit rating of Bankers Acceptances and Certificates of Deposit	R1 - High	R1 - High	R1 - High	R1 - High	R1-High	< R1-High
(10)		Maximum allocation to a single non-government security	1.6%	2.4%	6.7%	6.7%	n/a	> 5%
(11)	Strategic	Annual Advisory Board turnover	0	0	0	0	≤ 2 members	> 4 members
(12)	Operational	Key management/advisor turnover	0	0	0	0	≤ 1 per 3 years	> 1 per year
(13)	Regulatory Solvency Indicators	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$8,020,000	\$6,934,000	\$9,595,000	\$10,866,000	\$3,500,000 to \$7,000,000	< \$3,500,000
(14)		MCT	346%	359%	464%	468%	≥ 210%	< 210%

Notes

(1) = Year-over-year change in ultimate losses / Prior year undiscounted unpaid claims (excl. ULAE); net development in 2017 is mainly due to one claim of \$650,000

(2a) = [3-year net incurred losses + 3-year operating expenses] / [3-year net earned premiums]; only experience after June 30, 2012 has been considered in the 2014 combined ratio to exclude the effect of the LPT transaction

(2b) = (2a), where 3-year net earned premiums reflect actuary's indicated premium rates before surplus distributions

(3) Based on insured lawyer counts

(4) Based on A.M. Best. information from report on reinsurance security (October 21, 2016). Note that in 2013 and 2014, there was only one reinsurer with credit rating of BBB+ (Alleghany Corporation, formerly Transatlantic Reinsurance Company

(5) Based on claim liabilities exposure. Lloyds syndicates are assessed separately. 2014 information from report on reinsurance security (September 23, 2014); 2015 information from report on reinsurance security (October 30, 2015); 2016 information from report on reinsurance security (October 21, 2016).

(10) Maximum allocation does not consider cash and cash equivalents. At June 30, 2017, the largest non-government security is a money market investment rated R1-High maturing on July 5, 2017.

(12) Includes principal attorney, general manager, accountant, auditor, actuary, reinsurance broker and excess insurance broker.

(14) For Provincially Regulated Insurance Entities that are required to file the MCT on an annual basis, the capital impact of the revised Guideline must be phased-in over three years, starting with the first year ending in 2015. The 2014 MCT ratio shown above calculated based on the old MCT guidelines.

Color Code
Meets Target
Between Target and Limit
Exceeds Limit

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
For the Period Ending June 30, 2017

ALBERTA MAINTENANCE OF RESERVE AND GUARANTEE FUNDS
 (Section 99 and 100)

	Current Year to Date 6/30/2017 (in \$000's)	Prior Year End 6/30/2016 (in \$000's)
<u>Reserve Fund</u>		
Premiums collected or credited having one year or less to run	(1) -	-
Less: Amount paid to licensed reinsurers	(2) -	-
Premiums collected with more than one year to run, less expired portion	(3) -	-
Less: Amount paid to reinsurers on premiums on line 3, less expired portion.	(4) -	-
Subtotal (lines 1, minus line 2, plus line 3, minus line 4)	(5) -	-
Reserve Fund Required (50% of Line 5)	(6) -	-
<u>Guarantee Fund</u>		
Total Liabilities	(7) 104,147	102,974
Less: Unearned Premiums	(8) -	-
Less: Recoverable from licensed reinsurers	(9) 95,644	95,210
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 8,553	7,814
TOTAL RESERVE & GUARANTEE FUND REQUIRED (Line 6+11)	(12) 8,553	7,814
Cash & Approved Securities	(13) 19,419	19,752
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 10,866	11,938