



Actuaries & Insurance Management Advisors



CLLAS

Board Presentation – Renewal Strategy

June 23, 2020

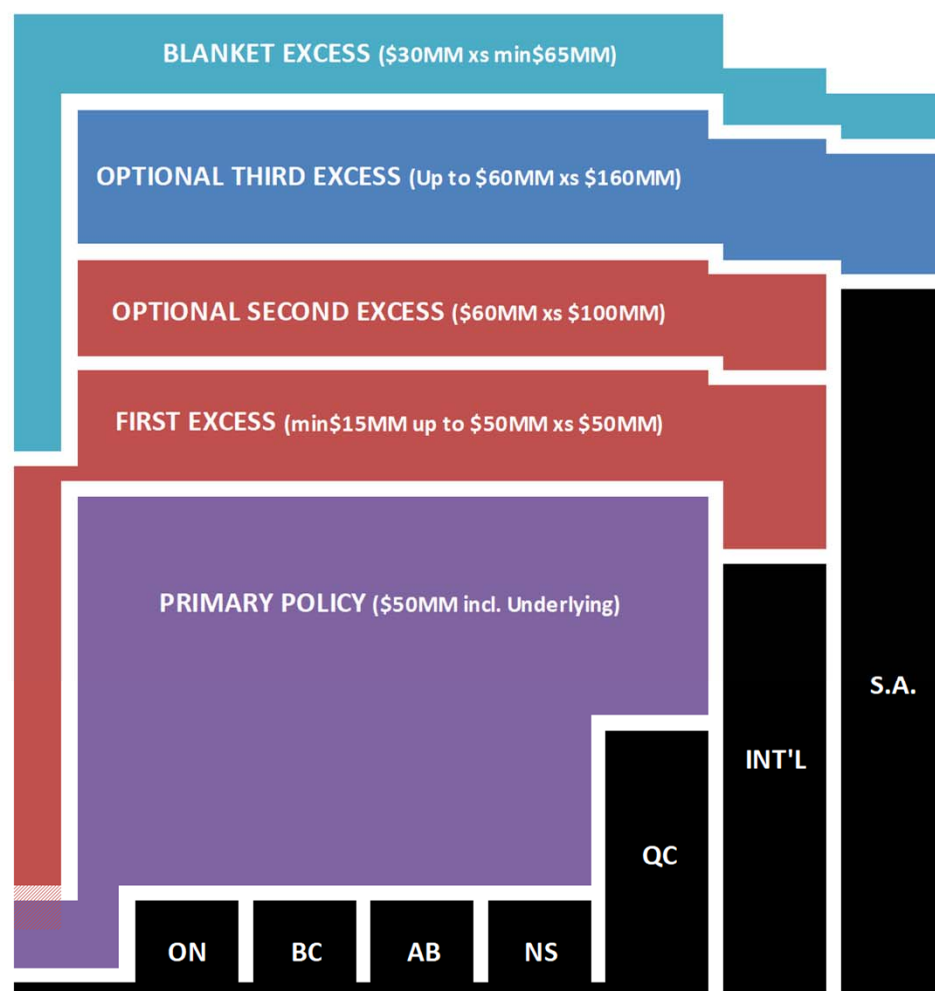
Overview

- 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

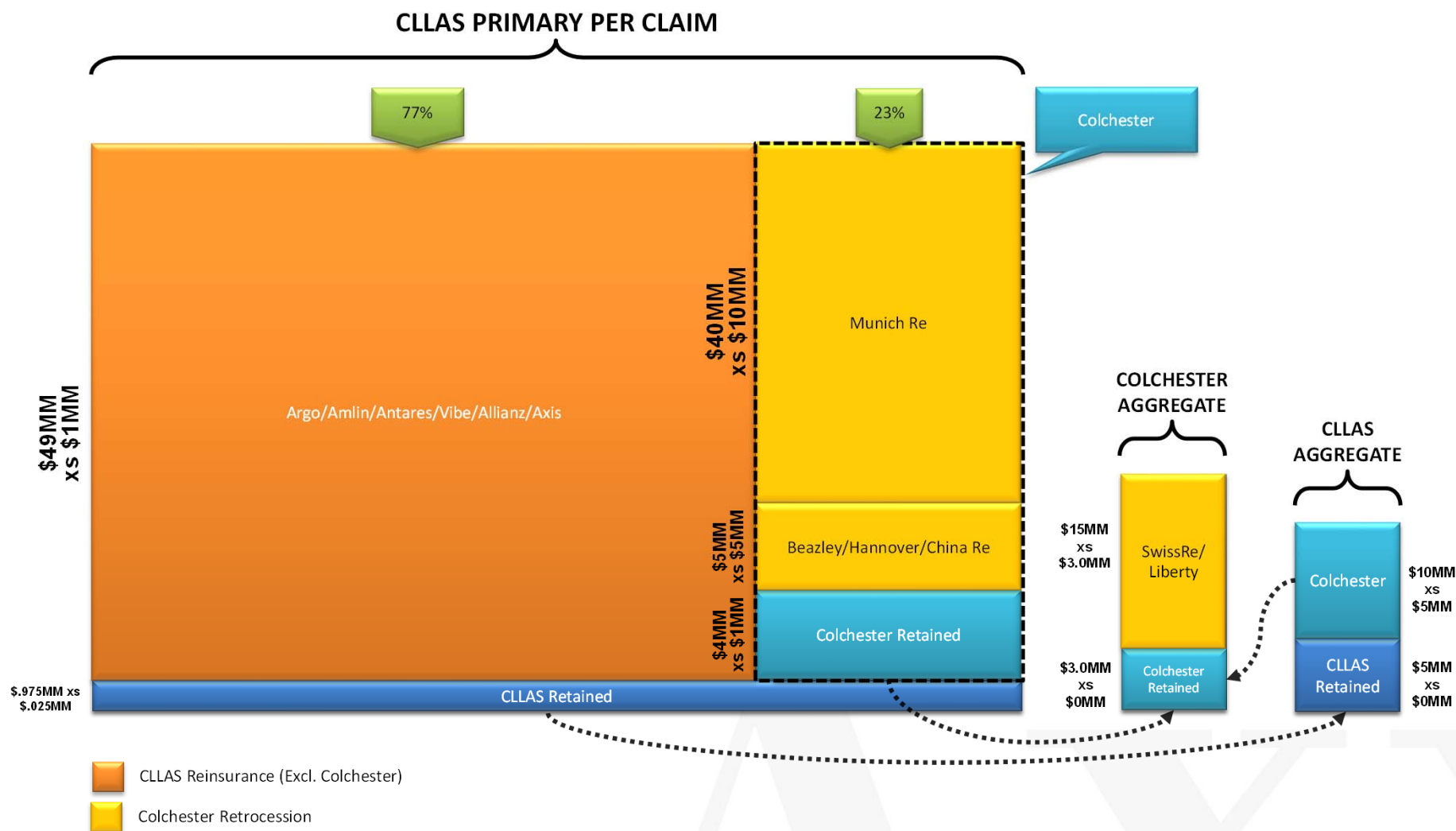


- CLLAS Blanket Excess**
\$30MM per claim, \$60MM annual aggregate, minimum attachment of \$65MM
- CLLAS Optional Excess**
Available in increments of \$10MM up to \$60MM excess of \$160MM
- CLLAS & Direct Commercial Markets**
First \$50MM (min \$15MM): Mandatory, drop down to \$500,000 SIR
Next \$60MM: 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: ZAR1,500MM (Fasken Only)

Insurance Structure

- We opened a dialogue with underwriters regarding adding another layer of optional excess coverage to the structure for 2020/2021, and we have received positive support for a \$50MM excess of \$250MM umbrella layer, but it has not been formalized
- CLLAS' overall limit of \$250MM remains competitive, although some large domestic and international firms are carrying higher limits
 - \$350MM to \$400MM seems to be the top limits being purchased by firms similar to the CLLAS members
- We appreciate that in the current business climate, coupled with rising insurance costs in general, the timing for additional limits is not ideal, but please let us know if your firm is interested

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 23% of the \$49MM xs \$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 xs \$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 challenging with our key markets (Argo – lead on the \$49MM xs \$1MM, Swiss Re and Brit – significant capacity and lead markets on the excess layers)
- On the primary layer, which Argo leads, Argo's actuary recommended an increase in rate of 50%, ultimately agreeing to 15.0%
- On the excess layers, we have lead agreement at 20%, which is what both Swiss Re and Brit were independently requiring for renewal

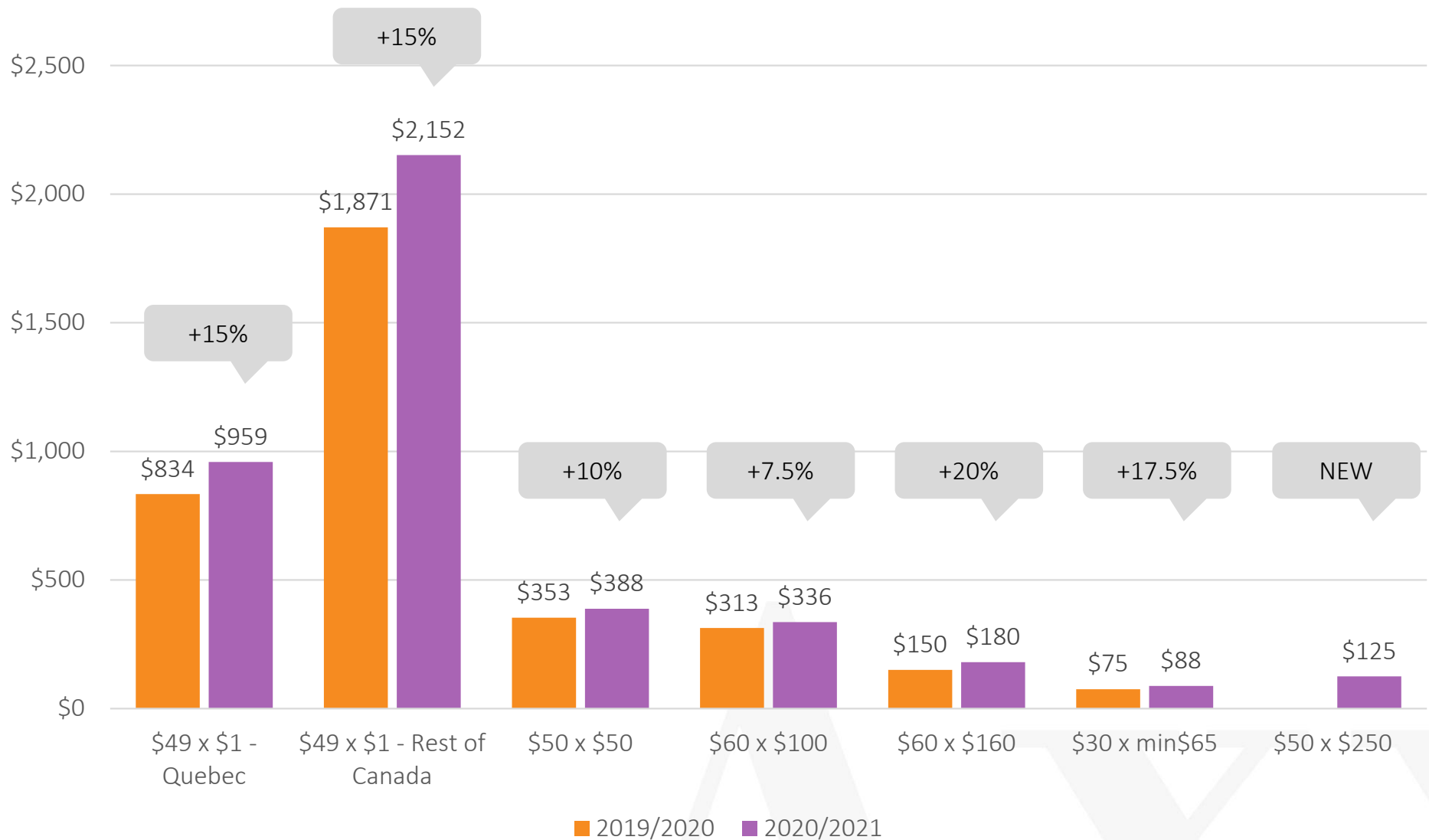
Reinsurance Updates

- International market continue to clamour for increased rates, and in some cases we have received non-renewal notices
- We are working with the remaining incumbents to finalize their participation, and have eight or more new markets working on the submission to bring new capacity to the program
- Colchester will likely renew with 23% participation, as expiring

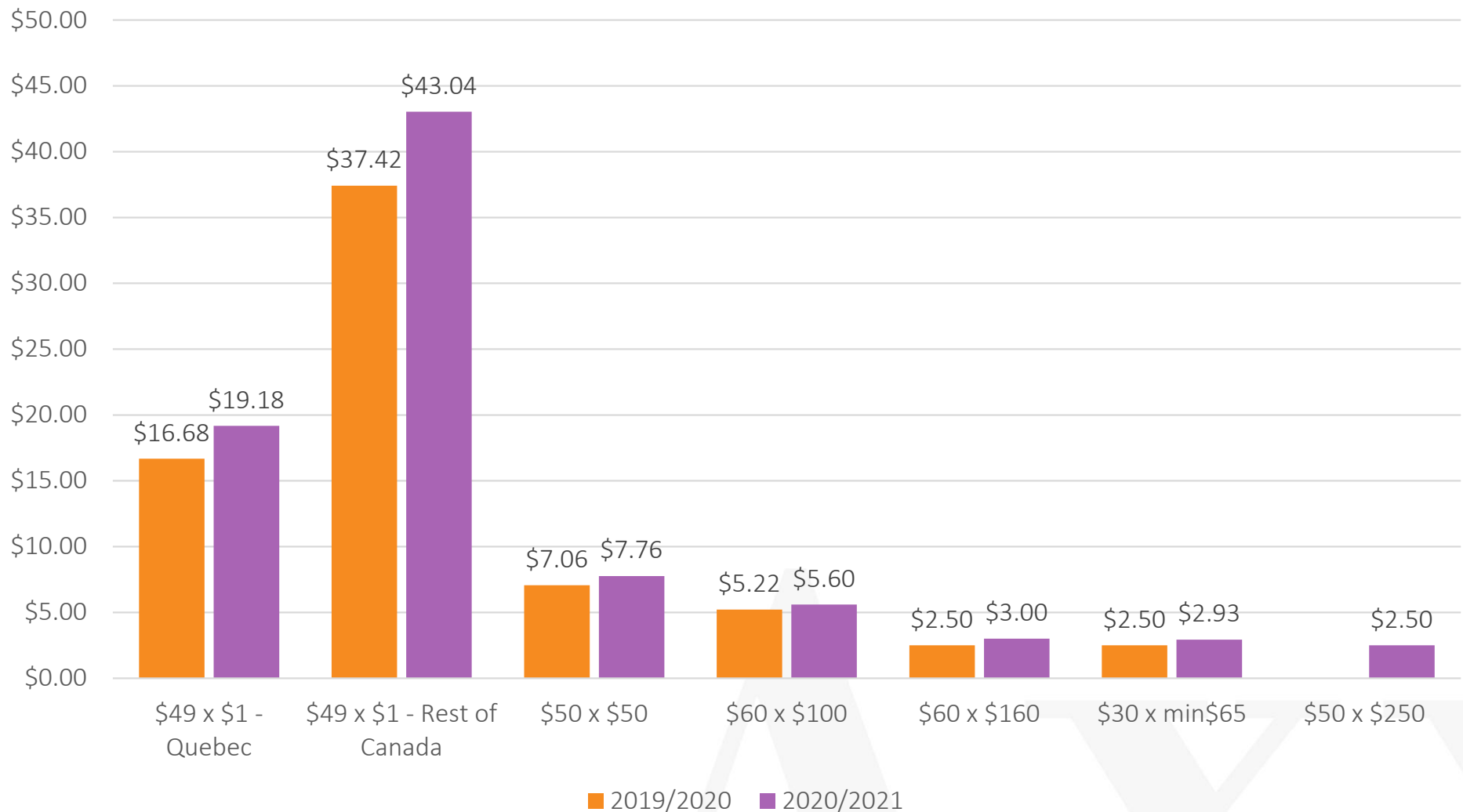
Reinsurance Updates

- 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

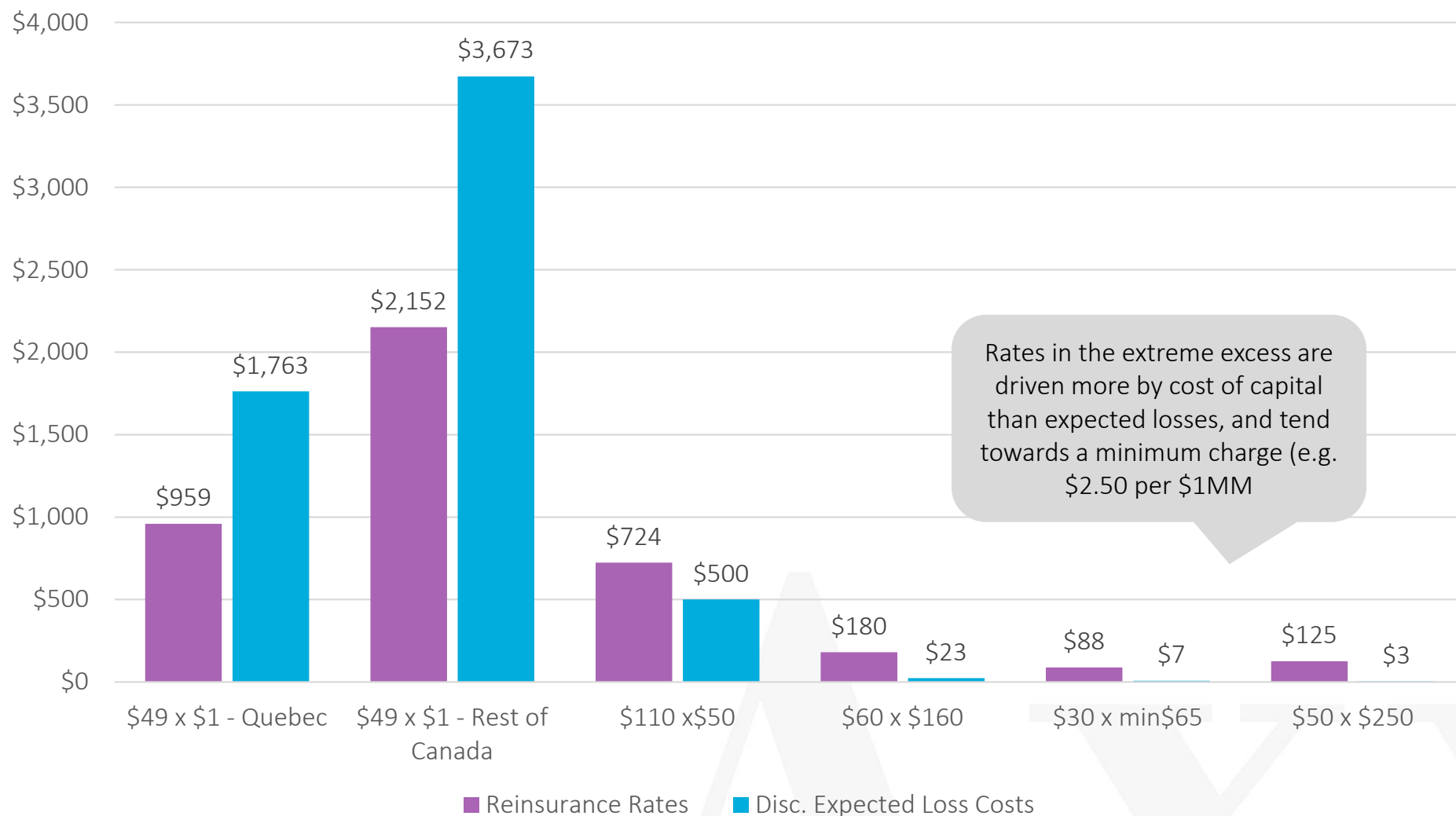
Reinsurance Rates



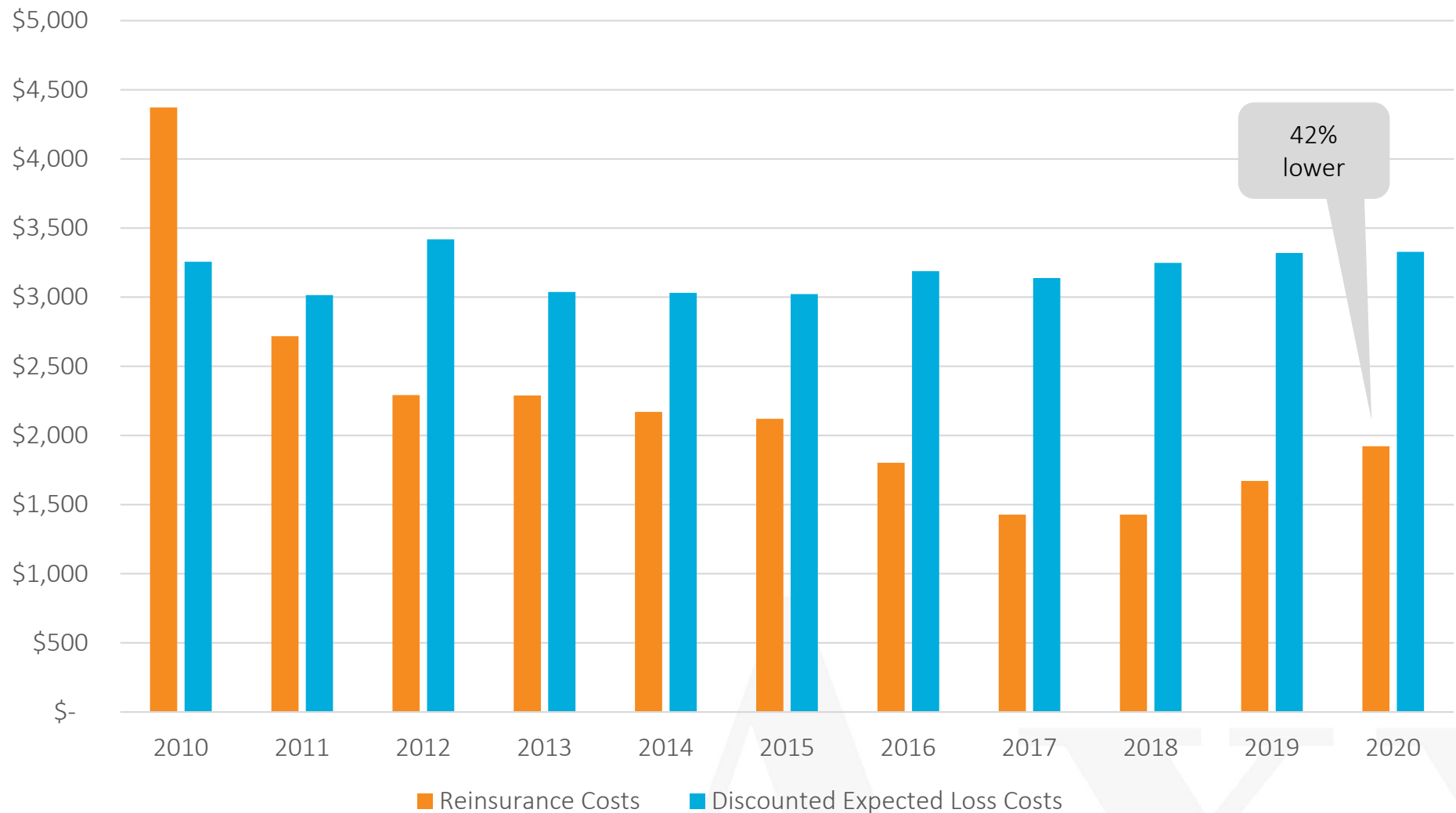
Reinsurance Rates per \$1MM



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 (12/31/2019)	\$13.6MM
Less: Surplus Required by Regulators	(4.0MM)
Less: Blakes and Dentons' Surplus	<u>(2.8MM)</u>
Surplus Available for Distribution	\$6.8MM

- CLLAS' actuary recommends distributing no more than 50% of the available surplus, or \$3.4MM 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
- Because Colchester continues to release further surplus, rates charged are expected to be below those provided by commercial reinsurers, resulting in a lower rate for CLLAS firms

	Comm. Reins.	Colchester
Quebec	\$959	\$814
Rest of Canada	\$2,152	\$1,827

Return to Technical Rates

- In the past 5 years, CLLAS' rates have moved by fixed percentages (e.g. -25% in 2017, +20% in 2019) in all layers
- Because the costs on each layer are not uniformly changing due to asymmetric reinsurance cost increases, this method of rate change, while accurate on average, is moving too far from the technical cost over time, and should be adjusted
- As a result, the CLLAS rate changes are not in step with reinsurance rate increases in all layers
- In order to smooth out the impact on the firms, the return to technical rates will take place in two steps:
 - 2020 – Return to technical rates by layer
 - 2021 – Return to technical rates by jurisdiction

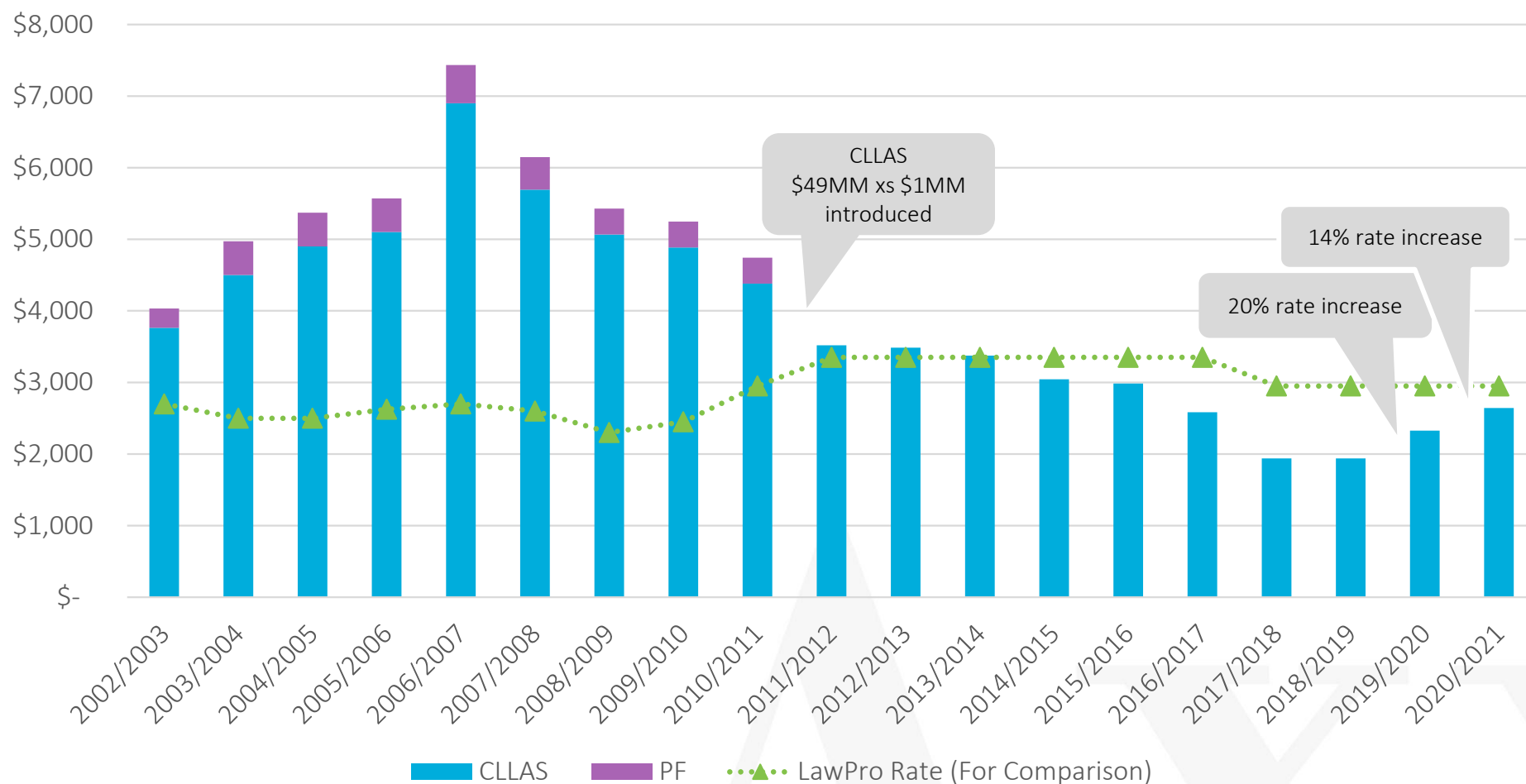
CLLAS Rates

Layer	2019/2020	2020/2021	% Change
\$49MM x \$1MM – Quebec	\$1,062	\$1,206	+13.7%
\$49MM x \$1MM – Rest of Canada	\$2,327	\$2,643	+13.7%
\$30MM x \$50MM	\$392	\$431	+10.0%
\$50MM x \$50MM	\$271	\$298	+10.0%
\$60MM x \$100MM	\$348	\$374	+7.5%
\$60MM x \$160MM	\$176	\$188	+6.8%
\$30MM x min\$65MM	\$89	\$92	+3.4%
\$50MM x \$250MM	n/a	\$131	n/a

Firms will experience cost per lawyer increases of between 12.5% and 13.2% percent on the CLLAS layers, depending on limits purchased

\$49MM xs \$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 still occur as we finalize the reinsurer participations