



PRIVATE & CONFIDENTIAL

CLLAS SPECIAL UNDERWRITING SUBMISSION

MARCH 2017

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### Appendix A – Loss Experience Exhibits

**1.1 General**

The Canadian Lawyers Liability Assurance Society (CLLAS) is a reciprocal insurance exchange formed in Ontario in 1987. It currently has 11 members and operates on the basis of five-year underwriting periods. July 1, 2017 marks the beginning of the seventh five-year underwriting period. The end of an underwriting period is always a critical juncture for CLLAS. Member firms have been extremely loyal and 10 out of the 11 member firms were original members when CLLAS was formed in 1987. CLLAS has had confirmation from nine member firms that they will renew their participation in CLLAS by committing to the next five-year underwriting period. We believe that this strong and positive commitment was the direct result of the reinsurance placement that was completed for July 1, 2016/17. Reinsurers had agreed to a reduction in rate and this did not go unnoticed by the CLLAS firms. The CLLAS firms appreciate and value the long-term relationship that they have developed over the years with its reinsurers.

Dentons Canada LLP ("Dentons"), following a series of international mergers in 2012, had advised CLLAS that it would not renew its participation on July 1, 2017 because of an insurance program that is in place for Dentons on a global basis. Based on the above, only one firm, other than Dentons, had not formally committed to the next underwriting period. Member firms had been given a deadline of March 31, 2017 to provide a response. Borden Ladner Gervais LLP ("BLG") asked for an extension because they were considering one of two alternative arrangements based on indicative quotes being provided by two large insurance brokers.

The competitors' quotes are offering savings of 30% to 33% relative to the existing CLLAS pricing and are difficult for BLG to ignore. BLG is one of CLLAS' original subscribers and, like the other member firms, appreciates the value (and other services) that CLLAS brings to the table. They would like nothing better than to stay in CLLAS so a meeting with the CLLAS Chair, Nick Leblovic, and the senior members of BLG's Management Committee was held to see what could be done. BLG indicated that they would be willing to stay in CLLAS if savings in the order of 25% could be realized within CLLAS.

CLLAS greatly appreciates how cooperative reinsurers were last year. However, under the circumstances, CLLAS once more has to ask for reinsurers to consider a rate reduction in order to keep CLLAS together as a significant buying group. CLLAS is seeking a 20% reinsurance rate reduction and CLLAS (and Colchester, the CLLAS firms' captive in Barbados) will make up the difference in order to reach the overall reduction of 25%. CLLAS would ask underwriters to consider the following:

1. The CLLAS buying group of 3,700 lawyers will continue for at least the next underwriting period providing a steady income stream for CLLAS reinsurers for another five years.
2. The CLLAS loss experience over the past six policy periods has been exemplary. Excluding the current policy period, the net incurred loss ratio is 13%.
3. CLLAS continues to emphasize risk management through its risk audits and seminars and other initiatives that appear to have had a positive effect on loss experience.
4. CLLAS firms, through Colchester, will have significant "skin in the game" at rates that will match or be below the reinsurance rates that are being proposed.
5. The reinsurance rates that are being proposed are equivalent to, if not more than, the rates that are currently in the market. We know, for example, that many of the underwriters that support CLLAS also

support the two brokers that have provided indicative quotes that are 30% to 33% lower than CLLAS rates before allowing for commissions.

### **1.2 *Special Underwriting Submission***

CLLAS normally produces a complete underwriting submission in May, after renewal applications are received from member firms. Under the circumstances, this document should be considered as a special submission seeking definitive terms from reinsurers based on updated claims information and estimated lawyer counts.

Section 2.0 of this submission sets forth the updated claims exhibits that reinsurers are accustomed to seeing every year. Section 3.0 of this submission sets forth the reinsurance terms that CLLAS seeks.

### **1.3 *Time Deadline***

CLLAS is expected to report back to BLG and the rest of the CLLAS firms by March 31. CLLAS appreciates whatever efforts underwriters can make to help meet this exceptionally tight deadline.

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## 2.0 *Loss Experience*

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### 2.1 *General*

This section provides details of the CLLAS loss experience to-date since inception on July 1, 1987.

In reviewing the loss experience summarized herein, the following should be noted:

1. Unless specifically noted, incurred liabilities, including reserve positions, include those held by the Law Societies of Upper Canada, Alberta, British Columbia, Nova Scotia and Québec (the “Law Societies”) to the extent available and to the extent reserves were posted at the time data was collected from the Law Societies’ claims systems.
2. All incurred liabilities, including reserve positions, are expressed on a ground-up basis unless otherwise specifically noted.
3. Reserve positions are inclusive of defence costs.
4. Reported claims include incidents reported out of an abundance of caution.
5. The reserve positions of CLLAS claims are updated quarterly and, if warranted on a particular claim, more frequently.
6. CLLAS’ loss experience includes the claims experience of former member firms Goodman and Carr LLP which dissolved on July 1, 2007 and Blake, Cassels & Graydon LLP which left CLLAS on June 30, 2012 and Dentons Canada LLP which is expected to leave CLLAS on June 30, 2017.
7. CLLAS’ loss experience has not been restated to include the historical loss experience of firms which have subsequently merged with existing CLLAS member firms.

### 2.2 *Loss Experience Exhibits*

Detailed exhibits illustrating CLLAS’ loss experience for the 1987 to 2016 underwriting years of account inclusive are attached hereto as **Appendix A**. The following is a brief description of the exhibits:

- |                   |  |
|-------------------|--|
| <b>Appendix A</b> | <ol style="list-style-type: none"><li>(1) Annual Net Incurred Claims Reserved and Paid as of December 31, 2016</li><li>(2) Summary of CLLAS Claims Experience by Year (Ground-up) as of December 31, 2016</li><li>(3) Summary of CLLAS Claims Experience by Year (Excess of \$1MM) as of December 31, 2016</li><li>(4) CLLAS Incurred Claims (Excess of \$1MM) as of December 31, 2016</li><li>(5) Size of Loss Distribution of CLLAS Claims (Ground-up and excess of \$1MM) as of December 31, 2016</li><li>(6) CLLAS Run-off &amp; Ground-up Development Triangles as of December 31, 2016</li><li>(7) Claims Experience by Firm (Ground-up) as of December 31, 2016</li><li>(8) Claims Experience by Firm (Excess of \$1MM) as of December 31, 2016</li><li>(9) Claims Experience by Area of Law (Ground-up) as of December 31, 2016</li><li>(10) Claims Experience by Area of Law (Excess of \$1MM) as of December 31, 2016</li><li>(11) Summary of Adjustments</li><li>(12) CLLAS Open and Closed Claims Bordereaux as of December 31, 2016</li></ol> |
|-------------------|--|

## 2.3 Overview of CLLAS' Loss Experience

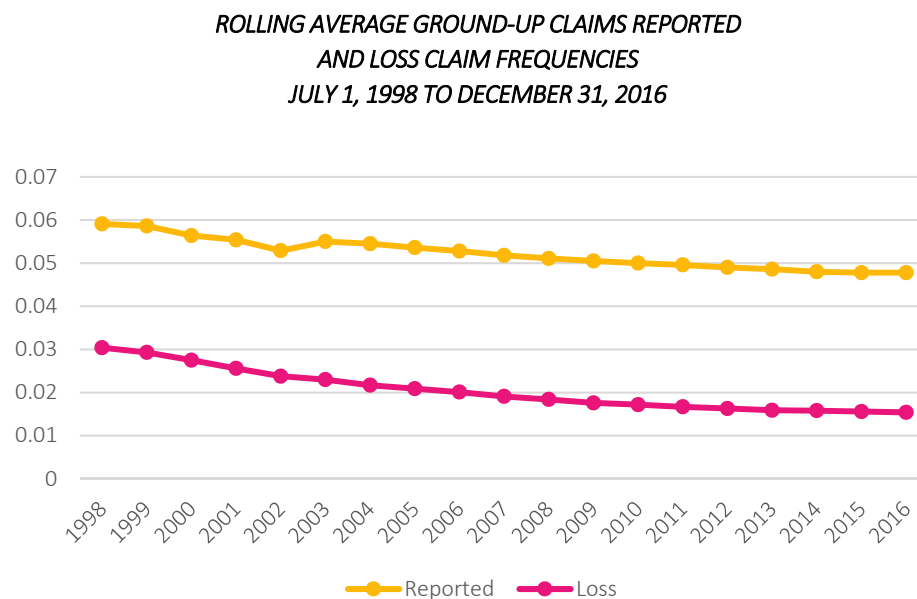
CLLAS monitors claim files in the underlying layers which have the potential to penetrate into the CLLAS layer. CLLAS has also reviewed the prior claims experience of the predecessor law firms/lawyers that merged with CLLAS member firms from Québec, Alberta, and British Columbia and the claims experience for Lang Michener LLP (which became a member on July 1, 2003). In all cases, the claims experience has been exemplary and no claims would have been incurred in the CLLAS layers had they been part of CLLAS at the time. Claims and lawyer counts for these predecessor firms are not included in the claims statistics provided by CLLAS. On the other hand, this is included for former member firms Goodman and Carr LLP and Blake Cassels & Graydon LLP and Dentons Canada LLP.

Lang Michener LLP and McMillan LLP merged as of January 1, 2011. Both firms' claims statistics have been consolidated under McMillan LLP.

## 2.4 Claim Frequency

**Appendices A(2) and A(3)** provide summaries of the CLLAS claims experience by policy year. Since 1987, there have been 5,061 claims reported on a ground-up basis which results in a Reported Claim Frequency of 0.0478 reported claims per lawyer over the entire period. This translates to an average of one claim per lawyer every 21 years. The Loss Claim Frequency (claims with indemnity payments or a reserve ground-up) is much lower at 0.0154 or one claim per lawyer every 65 years meaning that only one in three claims reported produces a loss. The Loss Claim Frequency of claims in the CLLAS layers (claims excess of \$1,000,000 or \$10,000,000 in Québec) is 0.585 per 1,000 lawyers. Based on the current lawyer count excluding Dentons, this translates to 1.78 loss claims per year excess of \$1,000,000.

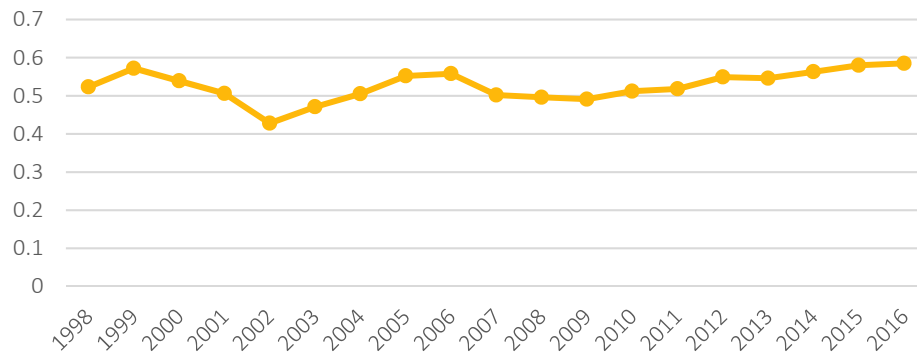
On a ground-up basis, claim frequency has been on a steady decline. The following chart illustrates how the Reported and Loss Claim Frequencies on a ground-up basis, both of which are rolling averages since inception of the CLLAS Program, have been trending downward since 1998.



An analysis of claim frequency for claims excess of \$1,000,000 reveals a slightly different picture. The claim frequency for claims excess of \$1,000,000, based on rolling averages since inception of the CLLAS Program, has

been relatively flat since 1998. The chart below shows the rolling average claim frequency per 1,000 lawyers for claims excess of \$1,000,000.

**ROLLING AVERAGE CLAIMS EXCESS OF \$1,000,000  
LOSS CLAIM FREQUENCY PER 1,000 LAWYERS  
JULY 1, 1998 TO DECEMBER 31, 2016**

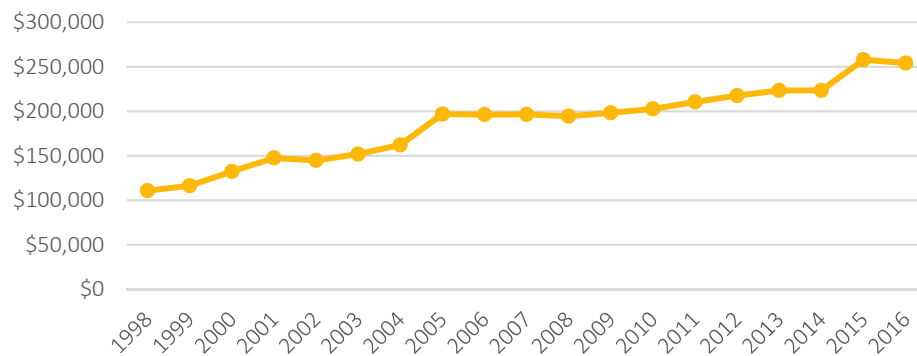


CLLAS has experienced only 62 claims (2 claims per year) in its layers of coverage since the inception of the Program in 1987.

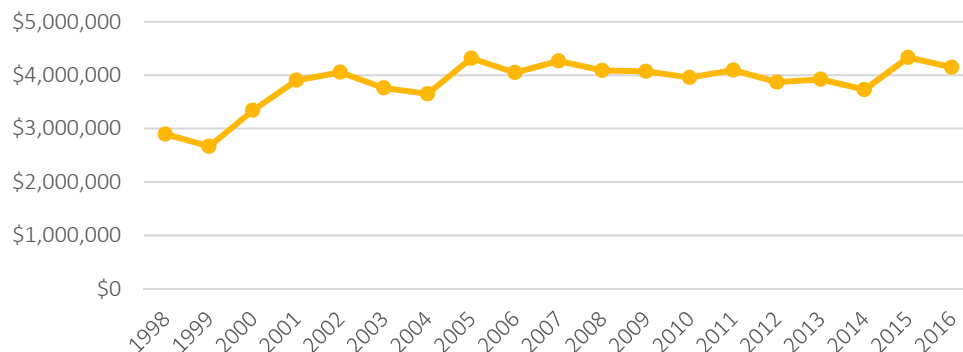
## 2.5 Loss Severity

**Appendices A(2)** and **A(3)** also outline the ground-up and excess of \$1,000,000 loss severities by policy year. The two charts below suggest that claim severity, based on a rolling average from 1998 to 2016, was increasing steadily on a ground-up basis before 2005 then leveled-off from 2005 to 2011. An increasing trend is observed from 2012 to the present with a sharp increase 2014 to 2015 due to one large claim which developed in 2015. A drop in 2016 is expected as experience over the past 12 months has improved over the prior 12 months. On an excess of \$1,000,000 basis, we observed a decreasing severity trend from 2005 to 2014 but the recent large loss which developed in 2015 created a sharp upward movement from 2014 to 2015. Again, a drop in severity is observed for 2016. It should be noted that year-over-year increases reflect both claims trend and claims development.

**ROLLING AVERAGE SEVERITY GROUND-UP  
JULY 1, 1998 TO DECEMBER 31, 2016**



**ROLLING AVERAGE SEVERITY EXCESS OF \$1,000,000  
JULY 1, 1998 TO DECEMBER 31, 2016**



## 2.6 Size of Loss Distribution

The Size of Loss Distribution exhibits, **Appendices A(5A) and A(5B)**, indicate that 98.9% of claims reported by CLLAS members are under \$1,000,000. Only 62 out of 5,061 claims are excess of \$1,000,000. Of those, a significant majority, 85.5%, have been less than or equal to \$5,000,000. Seven claims are between \$5,000,000 and \$20,000,000 and only two claims in the history of CLLAS have been excess of \$20,000,000.

## 2.7 Loss Development

The loss development triangles (by year and by individual claim) are located in **Appendix A(6)**. Reserving can be very challenging on large loss claims because there are no clear patterns. Two claims that were settled a few years ago demonstrate the extremes of loss development. At one end of the scale, Claim No. 94-001 developed very slowly at first until liability and quantum could be assessed (particularly while we awaited a Supreme Court of Canada decision in an underlying matter that was ultimately unfavourable to us). This assessment took place in Year 7 and the reserve was set at approximately \$17,000,000. It stayed that way for another 7 years until a settlement was reached just under the reserved amount (including expenses). In sharp contrast, Claim No. 2004-194 grew from nothing to \$24,000,000 within 2 years. It can sometimes be difficult to initially predict the ultimate outcome of some of the more complicated lawyers' professional liability claims because of the initial sparseness of claims information that CLLAS receives, the complex nature of the services provided by the lawyers themselves, and external factors (such as alternative dispute resolution and insurance issues which arise when other professionals are included) influencing the handling of these claims. Claim No. 2010-059 (Trillium Motor World) is another example where a reserve had to be increased by a sizeable amount suddenly due to a rather surprising judgement. This judgement is currently under appeal.

## 2.8 Claims Experience by Firm and Area of Law

**Appendices A(7) and A(8)** provide summaries of the claims experience by firm on a ground-up basis and excess of \$1,000,000 respectively. 11 out of the 13 historical CLLAS member firms have had at least one claim paid or reserved by CLLAS since 1987.

**Appendices A(9) and A(10)** provide summaries by area of law, again on a ground-up basis and excess of \$1,000,000 respectively. On a ground-up basis, the claim frequency (not counting the "Other" category) is greatest in Litigation (21% of claims), followed by Commercial Law (15%) and Real Estate and Mortgage Transactions (13%). The loss severity on a per claim basis is greatest in Corporate Law (\$1,015,000), followed by Tax Matters (\$463,000) and



Intellectual Property (\$367,000). These exhibits also show the areas of practice of the member firms on a combined basis.

## 2.9 Claims Bordereaux

For year-to-year comparison purposes, the claims exhibits in **Appendices A(1) to A(10)** are as of December 31, 2016. The most recent open and closed claims bordereaux as of December 31, 2016 can be found in **Appendix A(12)**.

The table below highlights all CLLAS claims that were open with a total ground-up reserve greater than or equal to \$500,000 at some point between December 31, 2014 and December 31, 2016 and the corresponding changes in incurred claims/development during that period.

### **OPEN CLLAS CLAIMS WITH GROUND-UP INCURRED VALUE OVER \$500,000** **DECEMBER 31, 2014 - DECEMBER 31, 2016**

Claim No.	Ground-up Incurred (Dec. 31, 2014)	Ground-up Incurred (Dec. 31, 2015)	Ground-up Incurred (Dec. 31, 2016)	12-Month Change in Incurred
2002-007 (O)	\$1,000,000	\$1,000,000	\$1,000,000	\$0
2003-206 (O)	\$1,796,270	\$1,796,270	\$1,796,270	\$0
2005-014 (O)	\$612,891	\$612,891	\$612,891	\$0
2005-128 (C)	\$1,100,000	\$38,338	\$38,338	\$0
2006-177 (C)	\$1,103,432	\$1,053,432	\$1,053,432	\$0
2007-121 (C)	\$438,967	\$692,229	\$709,573	\$17,344
2008-001 (O)	\$3,177,566	\$2,946,896	\$2,716,226	(\$230,670)
2008-113 (O)	\$4,500,000	\$4,500,000	\$4,500,000	\$0
2009-012 (C)	\$1,000,000	\$2,700,000	\$2,546,740	(\$153,260)
2009-102 (C)	\$2,000,000	\$1,907,009	\$1,907,009	\$0
2010-059 (O)	\$4,528,773	\$51,528,773	\$51,528,773	\$0
2010-065 (O)	\$268,220	\$270,721	\$1,500,000	\$1,229,279
2010-070 (O)	\$2,500,000	\$2,500,000	\$2,500,000	\$0
2010-127 (C)	\$559,453	\$813,609	\$323,610	(\$489,999)
2010-165 (O)	\$3,000,000	\$3,000,000	\$3,000,000	\$0
2011-008 (O)	\$550,000	\$550,000	\$550,000	\$0
2011-034 (O)	\$900,000	\$900,000	\$650,000	(\$250,000)
2011-145 (O)	\$14,050,000	\$14,050,000	\$14,050,000	\$0
2011-193 (O)	\$0	\$565,591	\$1,000,000	\$434,409
2012-002 (O)	\$352,712	\$626,049	\$721,953	\$95,904
2012-057 (C)	\$2,250,000	\$3,328,754	\$3,356,504	\$27,750
2012-075 (O)	\$1,200,000	\$1,839,746	\$1,839,746	\$0
2012-090 (O)	\$1,000,000	\$757,867	\$669,426	(\$88,441)
2012-189 (O)	\$243,074	\$543,074	\$618,074	\$75,000
2013-020 (C)	\$600,000	\$600,000	\$7,887	(\$592,113)
2013-024 (C)	\$60,446	\$1,034,457	\$1,034,457	\$0
2013-036 (O)	\$130,000	\$1,005,000	\$248,576	(\$756,424)
2013-099 (C)	\$50,000	\$158,190	\$502,840	\$344,650
2013-112 (C)	\$10,000	\$65,649	\$543,234	\$477,585
2013-122 (O)	\$168,280	\$525,000	\$1,500,000	\$975,000
2013-147 (C)	\$275,000	\$525,000	\$678,164	\$153,164
2014-002 (C)	\$1,000,000	\$500,000	\$6,924	(\$493,076)

**OPEN CLLAS CLAIMS WITH GROUND-UP INCURRED VALUE OVER \$500,000**

**DECEMBER 31, 2014 - DECEMBER 31, 2016**

<b>Claim No.</b>	<b>Ground-up Incurred (Dec. 31, 2014)</b>	<b>Ground-up Incurred (Dec. 31, 2015)</b>	<b>Ground-up Incurred (Dec. 31, 2016)</b>	<b>12-Month Change in Incurred</b>
2014-131 (O)	\$25,000	\$1,755,506	\$2,000,000	\$244,494
2014-134 (O)	\$10,000	\$98,688	\$2,000,000	\$1,901,312
2015-007 (C)	\$207,000	\$608,856	\$608,856	\$0
2015-054 (O)	\$350,000	\$350,000	\$550,000	\$200,000
2015-059 (O)	\$600,000	\$600,000	\$600,000	\$0
2015-064 (O)	\$100,000	\$1,000,000	\$1,000,000	\$0
2016-017 (O)	\$0	\$950,000	\$950,000	\$0
2016-018 (C)	\$0	\$700,000	\$0	(\$700,000)
2016-039 (O)	\$0	\$1,000,000	\$1,000,000	\$0
2016-050 (C)	\$0	\$750,000	\$0	(\$750,000)
2016-151 (O)	\$0	\$0	\$1,000,000	\$1,000,000
<b>Total</b>	<b>\$51,717,084</b>	<b>\$110,747,595</b>	<b>\$113,419,503</b>	<b>\$2,671,908</b>

**3.1 Coverage Features**

The CLLAS “stand-alone” policy wording ensures that CLLAS members, some of whom operate out of several provincial jurisdictions, enjoy consistency and somewhat broader coverage throughout the jurisdictions in which they operate. CLLAS member firms have offices in the following Canadian jurisdictions: Alberta, British Columbia, Québec, Ontario, and Nova Scotia. All jurisdictions have a compulsory limit of \$1,000,000 per claim/\$2,000,000 annual aggregate per lawyer except for Québec where the compulsory limit is \$10,000,000 per claim. However, Québec restricts inter-jurisdictional exposures to \$1,000,000 per claim.

The current CLLAS structure includes a Primary Policy of \$50,000,000 per claim/per year/per firm inclusive of underlying coverage from the law societies or other applicable professional liability policies. Below are examples of how the CLLAS Primary Policy would respond:

- If a claim is made that would trigger the mandatory policies in Ontario, British Columbia, Alberta, or Nova Scotia, the CLLAS Primary Policy would effectively respond as a \$49,000,000 limit excess of a \$1,000,000 compulsory limit provided by the respective law societies in these jurisdictions;
- If a claim is made that would trigger the Québec mandatory coverage relating strictly to acts of Québec lawyers, the CLLAS Primary Policy would effectively respond as a \$40,000,000 limit excess of a \$10,000,000 compulsory limit provided by Barreau du Québec;
- In the event of a claim triggering a sub-limit in Ontario (e.g. \$250,000 sub-limit for retired lawyer coverage), the CLLAS Primary Policy would effectively respond as a \$49,750,000 limit excess of the \$250,000 sub-limit;
- In the event of no underlying coverage or exhaustion of the underlying coverage, the CLLAS Primary Policy will provide coverage of up to \$49,975,000 excess of a deductible of \$25,000;
- Only that portion of the claim attributable to CLLAS will contribute to the \$50,000,000 annual aggregate per firm including claims that will be under \$1,000,000 which will be fully retained by CLLAS.

At renewal, no policy wording changes are expected to be made on any of the CLLAS policies.

At present, the First Excess Policy (stand-alone) provides \$15,000,000 excess of the \$50,000,000 CLLAS Primary Policy. The policy also provides drop-down coverage to \$500,000 for claims not covered by the CLLAS Primary Policy. For example, foreign law and U.S. offices are not excluded in this policy while the CLLAS Primary Policy does have exclusions pertaining to these exposures. All CLLAS member firms are required to subscribe to the First Excess Policy in addition to the CLLAS Primary Policy.

One change that we are proposing for this year is for CLLAS to lead all layers excess of \$50,000,000, including the First Excess Policy. We would expect the commercial markets that were participating in these layers in previous years to follow CLLAS’ lead on limits totalling \$110,000,000 excess of \$50,000,000. On top of the CLLAS Primary Policy and the \$110,000,000 excess of \$50,000,000 layers, CLLAS would continue to provide the Optional Excess Policy and the Blanket Excess Policy. In summary, CLLAS expects to issue the following policies effective July 1, 2017 to July 1, 2018:

- A. CLLAS Primary Policy of \$50,000,000 – A Primary Policy of \$50,000,000 per claim/per year/per firm inclusive of underlying coverage from the law societies or other applicable professional liability policies. CLLAS is requesting Colchester and other underwriters to reinsure CLLAS for \$49,000,000 excess of

\$1,000,000 at a net per lawyer rate of \$1,592. The net rate for lawyers in Quebec should be \$710 due to the \$10,000,000 underlying limit provided by Barreau du Quebec. Both rates compare favorably, i.e. are advantageous to underwriters, to the indicative premiums provided to BLG by the two brokers and with rates that we understand are currently in the market.

- B. CLLAS First Excess Policy of Up to \$50,000,000 Excess of \$50,000,000 – CLLAS expects to take a lead position and issue a new First Excess Policy of up to \$50,000,000 excess of \$50,000,000. The lead position is expected to be 10% to 20% with the commercial insurance markets following CLLAS. CLLAS is requesting Colchester and other underwriters to reinsure CLLAS on this layer at a net rate of \$307 per lawyer. Again, this is a better rate for underwriters compared to the indicative premiums provided to BLG by the two brokers and with rates that we understand are currently in the market. There is currently one firm that purchases less than \$50,000,000 excess of \$50,000,000 and this firm's rate would be scaled down accordingly.
- C. CLLAS Second Excess Policy of \$60,000,000 Excess of \$100,000,000 – CLLAS expects to take a lead position on the Second Excess Policy of \$60,000,000 excess of \$100,000,000. The lead position is expected to be 10% to 15% with the commercial insurance markets following CLLAS. CLLAS is requesting Colchester and other underwriters to reinsure CLLAS on this layer at a net rate of \$273 per lawyer. Once again, this is a better rate for underwriters compared to the indicative premiums provided to BLG by the two brokers and with rates that we understand are currently in the market.
- D. CLLAS Optional Excess Policy of Up to \$60,000,000 excess of \$160,000,000 – This is an existing layer issued by CLLAS. A 20% reduction in the reinsurance rate from the current year equates to a rate per lawyer of \$143. Again, this compares favorably with the indicative premiums provided to BLG by the two brokers and with rates that we understand are currently in the market. There currently is one firm that purchases less than \$60,000,000 excess of \$160,000,000 and this firm's rate would be scaled down accordingly.
- E. CLLAS Blanket Excess Policy of \$30,000,000 per claim/\$60,000,000 aggregate – This layer is shared by all CLLAS member firms. This policy also follows the First Excess Policy and is excess of the Second Excess policy and Optional Excess Policy and/or excess of specific underlying insurance arranged by certain CLLAS member firms for their offices in the U.S. and/or other international locations. A 20% reduction in the reinsurance rate from the current year equates to a rate per lawyer of \$71. Again, this compares favorably with the indicative premiums provided to BLG by the two brokers and with rates that we understand are currently in the market.

It should be noted that for the Optional Excess and Blanket Excess Policies, the "designated underlying policy" is the First Excess Policy wording which attaches at \$50,000,000. The First Excess Policy has a drop-down feature in the event that it is broader than the underlying CLLAS Primary Policy and/or the mandatory law society program policies. The principal differences between the CLLAS Primary Policy and the First Excess Policy are:

- a) the First Excess Policy does not exclude coverage with respect to the practice of foreign law;
- b) the First Excess Policy does not exclude coverage for U.S. offices;
- c) the First Excess Policy may be broader in scope with respect to non-lawyer consultants; and
- d) the First Excess Policy contains a "Liberalization Clause" which ensures that it is at least as broad as the underlying CLLAS Primary Policy.

The CLLAS Primary Policy will not respond to claims brought against lawyers from an office in the U.S., whether relating to the practice of Canadian law or foreign law. Except to the extent that the CLLAS International Policy would provide coverage, the First Excess Policy would drop down to provide this coverage, both for claims relating to the practice of Canadian and foreign law, subject to a \$500,000 deductible. The CLLAS Second Excess, Optional

Excess, and Blanket Excess Policies will follow form and provide the same scope of coverage as the First Excess Policy.

While the CLLAS Primary Policy would not respond to claims relating to the practice of foreign law, it will respond to claims that are “incidental” to the practice of Canadian law, within the meaning attributed to that term by CLLAS.

CLLAS can provide more information on the circumstances which would trigger the drop-down/difference in conditions feature and can provide typical examples of involvement with foreign law which inevitably arise as an incidental and unavoidable adjunct to the practice of law by large firms with an international client base and domestic clients engaged in international transactions.

### **3.2 *Proposed Coverage and Policy Wording Changes at Renewal***

Other than for the First and Second Excess Policies, which will be new for 2017, CLLAS does not expect to amend any of the policy wordings for this coming year.

### **3.3 *Headcount for Premium Calculation***

CLLAS uses the member firms’ headcount as of June 15 (versus July 1) to calculate its premium as well as to determine the premium payable to its reinsurers without further adjustment. This allows CLLAS sufficient time to get its invoices out to the firms and to report the numbers to reinsurers before July 1.

We will estimate the number of lawyers for rating purposes based on the lawyer count on June 15, 2016, not including Dentons. Typically, unless there is a merger or acquisition, the lawyer count does not change from year to year by more than 1% or 2%.

Layer/Limit	Quebec	Rest of Canada	Total	Comments
\$49M xs \$1M	652	2,880	3,532	
\$50M xs \$50M	652	3,037	3,689	One firm currently purchases less than \$50M and would be adjusted accordingly, if required
\$60M xs \$100M	525	2,364	2,889	
\$60M xs \$160M	525	2,364	2,889	One firm currently purchases less than \$60M and would be adjusted accordingly, if required
Blanket Excess \$30M/\$60M xs min \$65M	652	3,037	3,689	

### **3.4 *Premium Allocation Between CLLAS and CLLAS International Insurers***

Some CLLAS lawyers qualified in Canada are also licensed to practise outside of Canada and/or may provide legal services from a U.S. office. Since CLLAS does not provide coverage for the practice of foreign law or for services rendered from a U.S. office under its Primary Policy, the drop-down provision in the First Excess Policy or, where applicable, the CLLAS International Policy would pick up these exposures.

If there is no CLLAS International Policy involved, no special action is required. No matter what foreign law or U.S. office exposures there may be, the First Excess Policy would respond.

If the member firm has a CLLAS International Policy, there are a variety of different scenarios. CLLAS has agreed with the CLLAS International Policy insurers that the following general guidelines will apply:

- a) If a lawyer is located in a U.S. office, the CLLAS International insurers will charge 100% of their rate and CLLAS will not charge anything.
- b) If a lawyer is located in a non-Canadian/non-U.S. office and only practises Canadian law, CLLAS will charge 100% of its rate and the CLLAS International insurers will not charge anything.
- c) If a lawyer is located in a non-Canadian/non-U.S. office and only practises foreign law, then the CLLAS International insurers will charge 100% of its rate and CLLAS will not charge anything.
- d) If a lawyer is located in a non-Canadian/non-U.S. office and practises both Canadian and foreign laws, regardless of the split in work, CLLAS and the CLLAS International insurers will each charge 50% of their rate.
- e) If a lawyer in a Canadian office practises in a U.S. office part time or if a lawyer in a Canadian office practises both foreign and Canadian laws, CLLAS and the CLLAS International insurers will determine the best way to charge on a case by case basis.

### 3.5 *Rate Structure and CLLAS Retention*

CLLAS has continued to retain 100% of the \$975,000 drop down exposure since July 1, 2012. 20% of Reinsurance Layer 1 is currently reinsured with Colchester. It is anticipated that CLLAS or Colchester may vary their retentions for the upcoming term.

The table below sets forth the net reinsurance premiums and incurred losses since July 1, 2011, the date that the current reinsurance structure (\$50,000,000) was first put in place. On an incurred basis, underwriters have experienced five, going on six, excellent years and are well positioned in the event a significant loss occurs in the future.

Policy Year	Reinsurance Premiums	Incurred Losses	Incurred Loss Ratio
2011/12	\$9,530,084	\$3,302,756	34.66%
2012/13	\$9,406,090	\$755,847	8.04%
2013/14	\$9,411,065	\$2,000,000	21.25%
2014/15	\$9,094,677	\$20,000	0.22%
2015/16	\$8,738,580	\$0	0.00%
2016/17	\$7,358,424	\$0	0.00%
<b>Total</b>	<b>\$53,538,920</b>	<b>\$6,078,603</b>	<b>11.35%</b>

The following table sets forth the expiring reinsurance rates and proposed rates which we believe are comparable to, if not slightly higher than, current market rates. The proposed rates are for the most part, 20% lower than expiring but CLLAS expects to charge its members 25% less than expiring with the difference being made up from CLLAS and or Colchester surplus. All rates are on a net basis as CLLAS does not expect any ceding commission.

Layer	Expiring Rate	Proposed Rate	Estimated Premium
\$49M xs \$1M	\$1,990	\$1,592	\$4,584,960
\$40M xs \$10M (Quebec)	\$940	\$710	\$462,920
\$50M xs \$50M	\$409	\$307	\$1,132,523
\$60M xs \$100M	\$364	\$273	\$788,697
\$60M xs \$160M	\$179	\$143	\$413,127
Blanket Excess \$30M/\$60M xs min \$65M	\$89	\$71	\$261,919

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#### **4.0    *Renewal Applications***

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Renewal applications are in the process of being completed and will be made available upon completion.

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## 5.0 *Concluding Remarks*

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CLLAS had hoped that the reinsurance rate reduction achieved last year would be enough to convince all of the CLLAS firms to commit to another five-year period. Unfortunately, one firm with a significant number of lawyers has been told by two large insurance brokers that they could achieve a 33% reduction in the market. We believe that many of the markets that would quote this risk to the two brokers who have provided these competitive rates are also currently reinsuring CLLAS. For this reason, CLLAS is asking its reinsurers to reduce its rates for the upcoming year by approximately 20%. We believe that this reduction, along with a surplus contribution by CLLAS and/or Colchester, will allow CLLAS to charge members a premium that is 25% less than expiring. We believe that this reduction will secure CLLAS another five-year commitment from all of its member firms thereby providing a stable portfolio of business for its underwriters insulated from the worst competitive tendencies in the market. It is hoped that this five-year commitment, CLLAS' long term relationships with its markets, and the excellent loss experience over the last six years will assist in securing a mutually beneficial outcome for all parties.