



Rate Setting Policy

Effective July 1, 2014, confirmed June 25, 2019

Purpose and Scope

The purpose of this policy is to document the process used to establish CLLAS' premiums. In order for CLLAS to sustain long-term operations, premium rates must be both adequate and competitive. Inadequate premiums could present significant solvency and reputational risks for CLLAS. Uncompetitive rates create the potential for member firms to explore alternatives to CLLAS.

This policy applies in the context of the annual rate setting exercise performed by the appointed actuary and the Office of the General Manager. Premium rates are submitted to the Advisory Board for approval.

Rate Setting Process

Indicated premium rates reflect the best estimate of all expected costs associated with the underwriting of policies for the prospective policy period, i.e. expected future claim costs, reinsurance costs, policy and administration expenses and premium taxes. Premium rates are calculated for each of the coverage layers offered (mandatory and optional).

Indicated premium rates consist of the sum of the following:

1. Expected Loss Costs

1.1. The appointed actuary determines the expected loss costs on an undiscounted basis for any losses retained by CLLAS for the prospective policy period with consideration of the following:

- Availability and relevance of available data;
- Credibility, or assumed predictive value, of available data;
- Changes in circumstances, such as the adoption of new underwriting or claims practices, changes in the provisions of insurance contracts or changes in legal precedents;
- Development of losses over time;
- Trending of losses over time; and
- Large or unusual losses, or lack thereof.

1.2. The appointed actuary may segment the portfolio of insured members in the determination of expected loss costs if appropriate. Segmentation allows for different premium rates to be established for insureds who present different expected loss potential. An example of a segmentation variable currently used by CLLAS is the provincial jurisdiction (Quebec vs. rest of Canada). It is not CLLAS' approach to segment based on historical loss experience; in general,



CLLAS' philosophy is not to segment insureds unless a material difference in the underlying exposure can be identified.

- 1.3. The appointed actuary discounts expected losses to reflect the investment income expected to be earned from the time the premium is collected to the time claims made during the policy period are paid.
- 1.4. Expected loss costs per lawyer are determined by coverage layer and by segment by dividing the total expected loss cost for that coverage layer and segment by the number of insured lawyers in that coverage layer and segment.

2. Reinsurance Costs

- 2.1. CLLAS' reinsurance structure is reviewed annually with consideration of CLLAS' risk appetite and then-prevailing reinsurance market conditions.
- 2.2. Reinsurance costs are negotiated annually prior to the date of effective coverage of the policy period and are known at the time premium rates are finalized.
- 2.3. Reinsurance costs by coverage layer are translated into a per-lawyer cost based on the estimated number of lawyers provided by CLLAS' member firms as of June 15th for a policy year incepting July 1st.

3. Expected Policy and Administration Expenses

- 3.1. Expected policy and administration expenses for the prospective policy period include management, actuarial, reinsurance, risk management, strategic, audit, investment and other operational expenses, including sales taxes.
- 3.2. These expenses by coverage layer are translated into a per-lawyer cost based on the estimated number of lawyers provided by CLLAS' member firms as of June 15th for a policy year incepting July 1st.

4. Premium Taxes

- 4.1. Premium taxes would be determined as a load on total premium rates.
- 4.2. Premium tax rates would be selected and applied in accordance with appropriate legislation by provincial jurisdiction.



Adopted premium rates may differ from indicated premium rates as they may reflect additional considerations, such as the following:

1. Contingency Margins

A contingency margin is a risk load applied to expected losses to increase the probability of premium adequacy. The contingency margin is reflective of risk appetite. The current contingency margin is 0%, meaning that net losses underlying premium rates are set at the mean level.

2. Surplus Contributions or Distributions

The equity management policy may dictate surplus contributions or distributions via premium assessments.

Non-Lawyer Professionals

CLLAS applies a different rate for each respective layer of coverage to certain non-lawyer professionals at the member firms:

- Non-lawyer patent and trademark agents: 25% of the lawyer rate;
- Other non-lawyer consultants/professionals:
 - Who have no client contact and provide no advice to clients: 0% of the lawyer rate;
 - Who advise clients but act under the supervision of a lawyer: 25% of the lawyer rate; and
 - Who advise clients and act on their own without the supervision of a lawyer: 100% of the lawyer rate.

Approval of Rates by the Advisory Board

The Advisory Board is responsible for the approval of premium rates. The Board meets annually in late June to review the reinsurance renewal and approve the rates for the policy year commencing July 1st.

Review of Adequacy of Premium Rates

The appointed actuary reviews ultimate loss estimates and claims development on a quarterly basis. Given the relative size of CLLAS' insurance portfolio and the volatile nature of professional liability losses, the adequacy of premium rates should be reviewed over a long-term horizon.

History of Modifications

The rate setting policy was first approved by the Advisory Board on June 25, 2014.

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