



Actuaries & Insurance Management Advisors

# Canadian Lawyers Liability Assurance Society

Actuarial Valuation of Policy Liabilities as at December 31, 2019

Presentation to the Audit Committee  
February 13, 2020

# CLLAS

## Scope of the Actuarial Valuation

- Disclosure – Draft Results
- Valuation of policy liabilities
  - Claim liabilities
  - Liabilities in connection with unearned premium
  - Other policyholder liabilities
- Consideration of various components of the liabilities
  - Amounts gross of reinsurance
  - Amounts recoverable from reinsurers
    - Proportional reinsurance
    - Aggregate reinsurance
    - Loss portfolio transfer
  - Amounts net of reinsurance

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- Please note that the Valuation results presented herein are draft. Our final signed Valuation results will be provided once we receive the following:
  - Receipt of auditor letter on specified audit procedures and data reliance
  - Confirmation from management that there are no subsequent events which would cause a deviation in the Valuation results in excess of our materiality standard
- Per the Canadian Actuarial Standards of Practice, changes having an impact in excess of our standard of materiality as of December 31, 2019 may need to be reflected and/or disclosed in the Valuation report and may result in a change in the financial statements

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## Case Reserves vs. Actuarial Reserves

- Case Reserves
  - Individual estimates
  - Based on known facts at time reserves are established
- Actuarial Reserves
  - Aggregate estimates
  - Recognize reserving/settlement patterns and project unknown events
- Incurred But Not Reported (IBNR) is the difference between actuarial reserves and case reserves
  - Emergence of unknown claims
  - Loss development on known claims

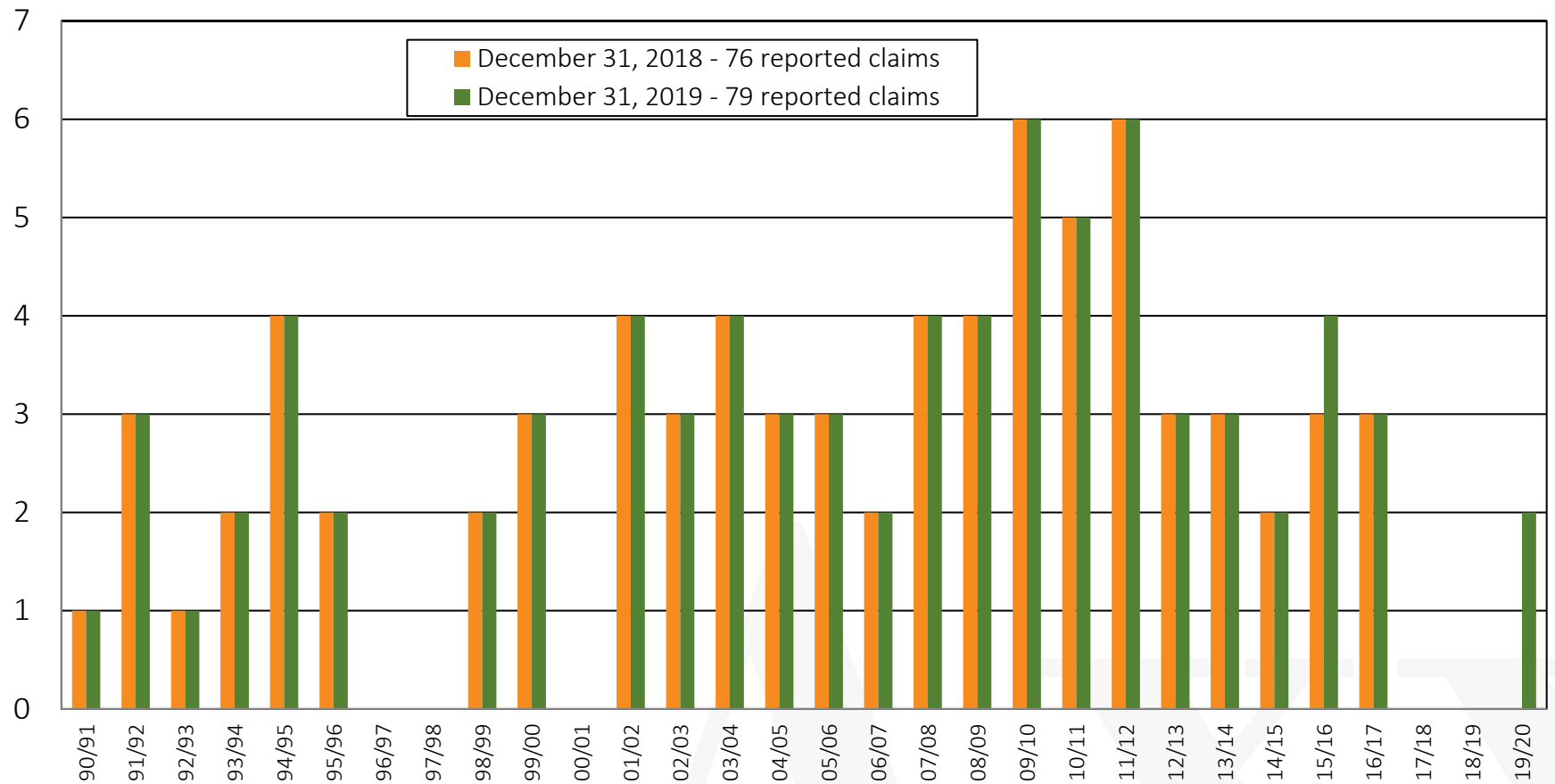
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## Actuarial Methodology

- Gross liabilities are estimated using loss data by layer
- Liabilities ceded to reinsurers are estimated based on the reinsurance arrangements in effect in each historical policy period
- Claim liabilities include:
  - Case reserves
  - Incurred but not reported (IBNR) reserves
  - Unallocated loss adjustment expenses (ULAE) reserves
- Claim liabilities are discounted and include a provision for adverse deviation

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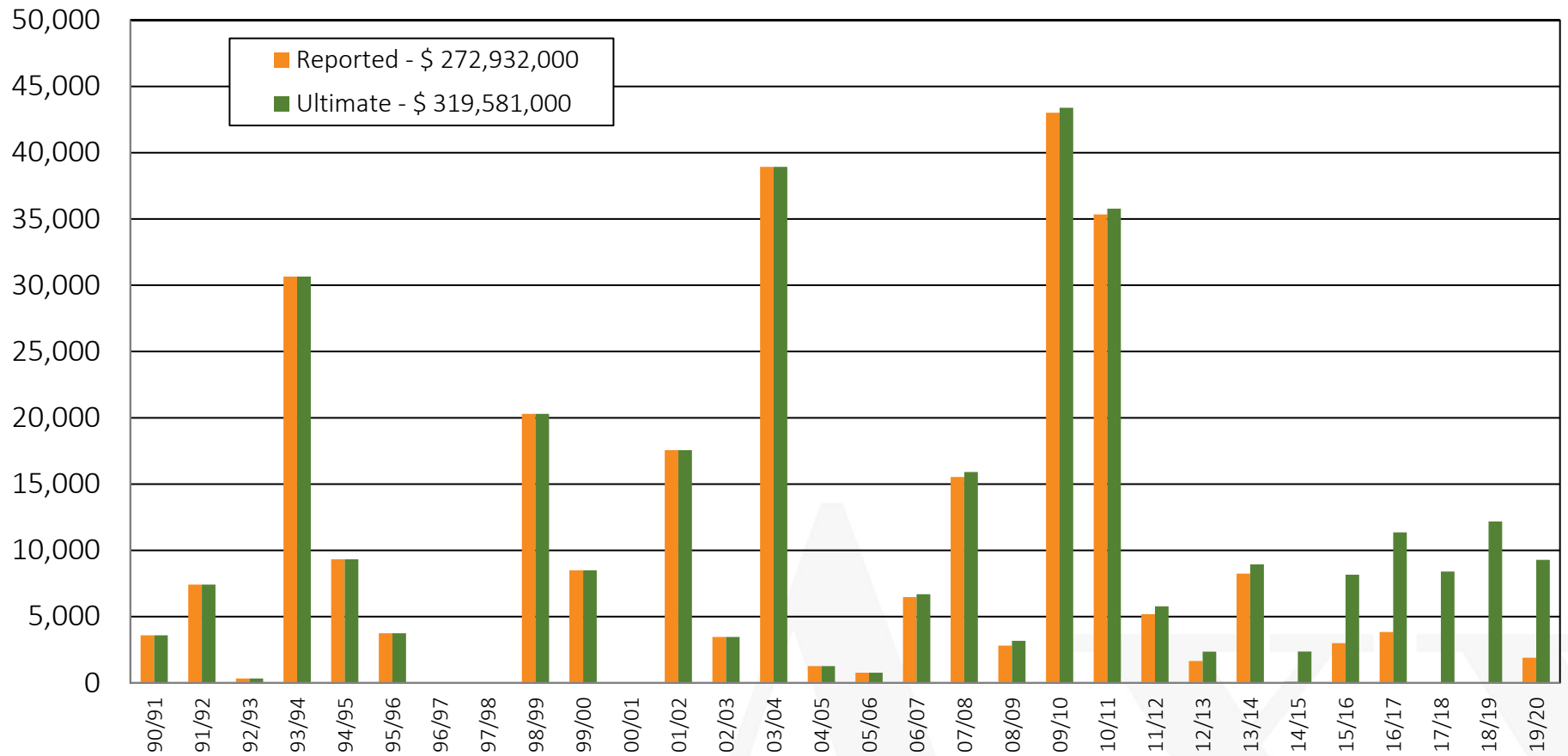
## Reported Incurred Loss Activity – Claim Counts \*



\* Includes non-zero claims only

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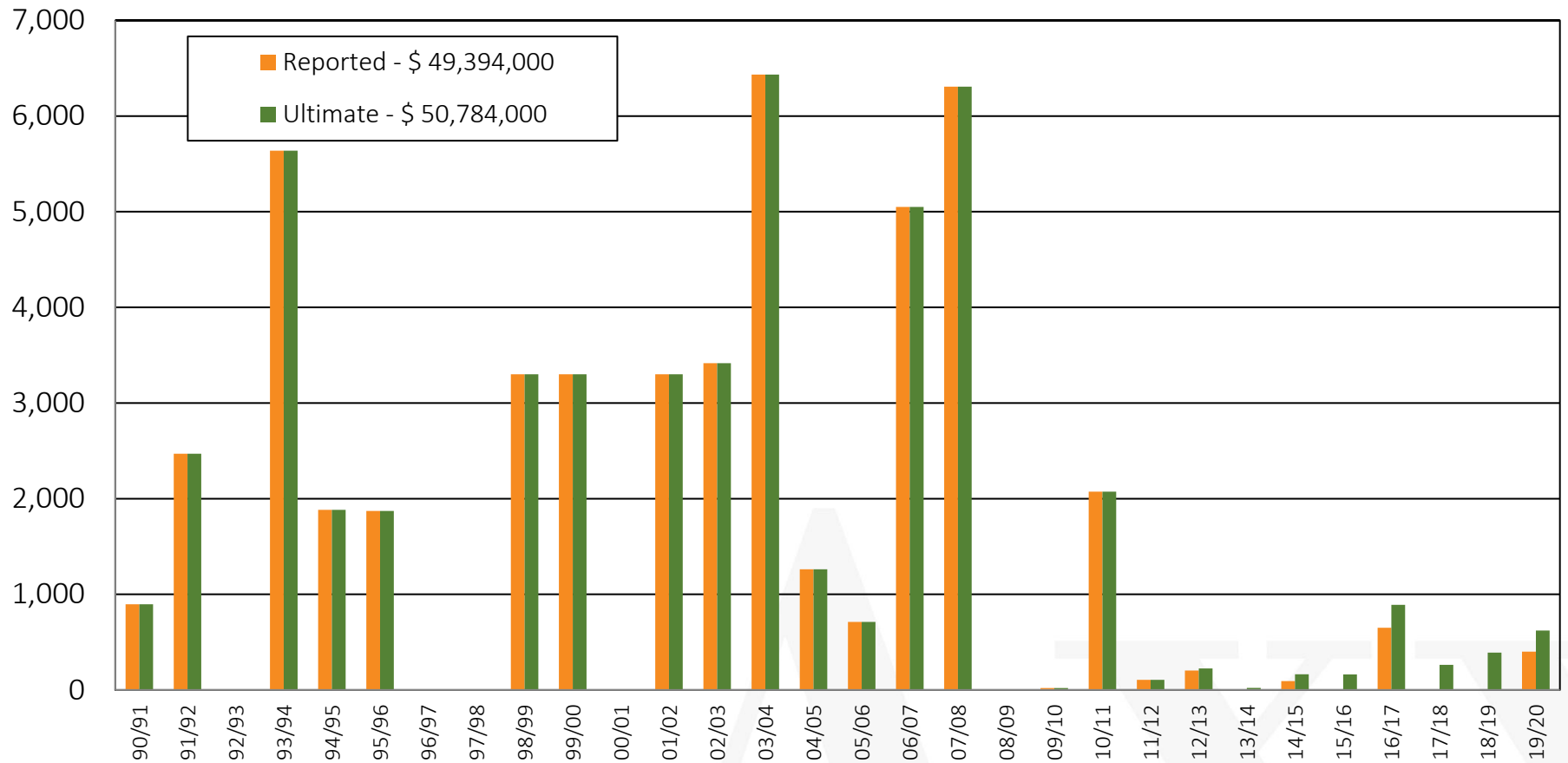
## Gross Reported vs. Ultimate Losses\* (in \$000's)



\* Excluding ULAE

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## Net Reported vs. Ultimate Losses\* (in \$000's)

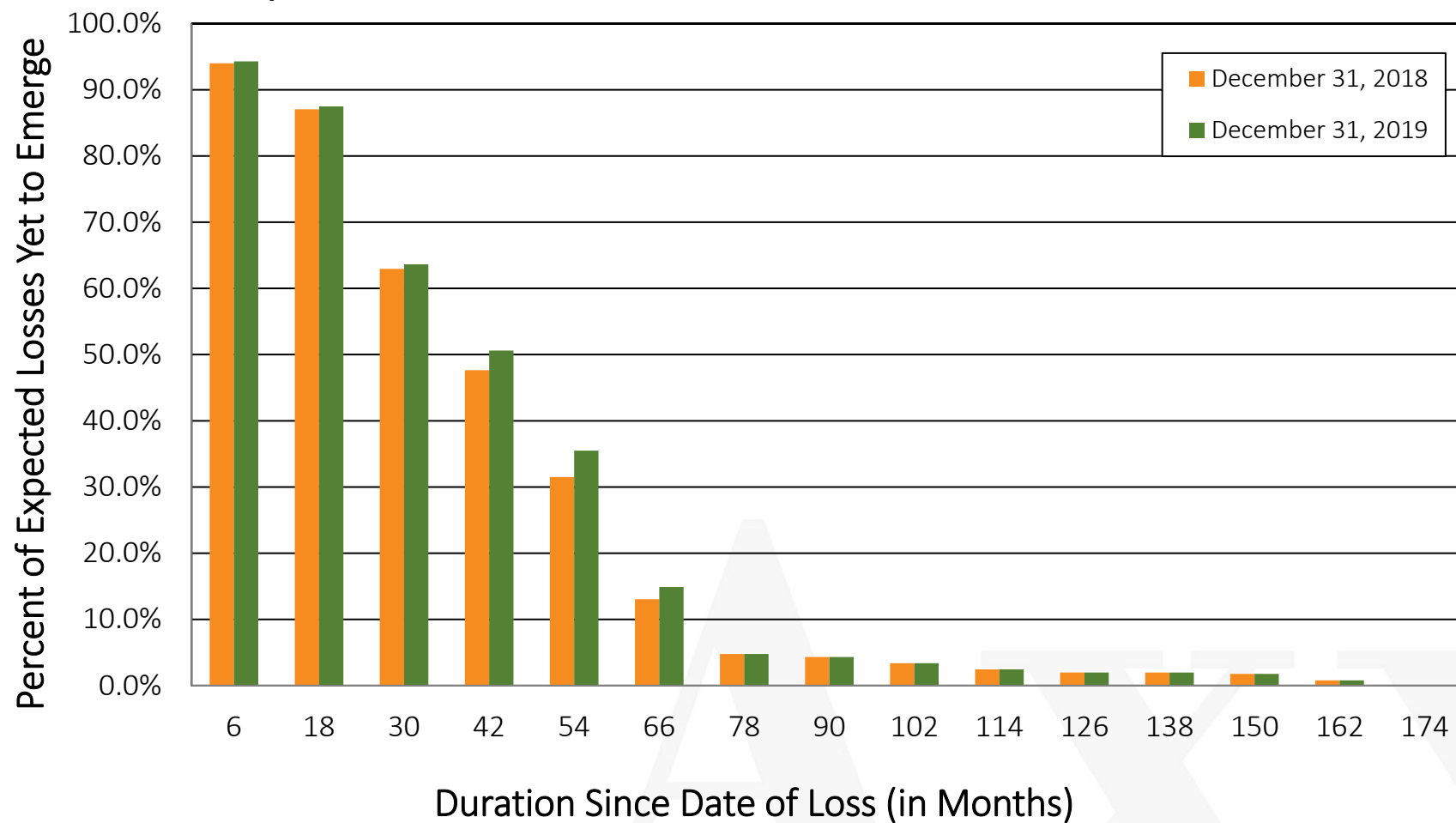


\* Excluding ULAE; Ultimate losses are fixed for policy periods prior to June 30, 2012 due to the Loss Portfolio Transfer with Colchester Reinsurance Ltd.



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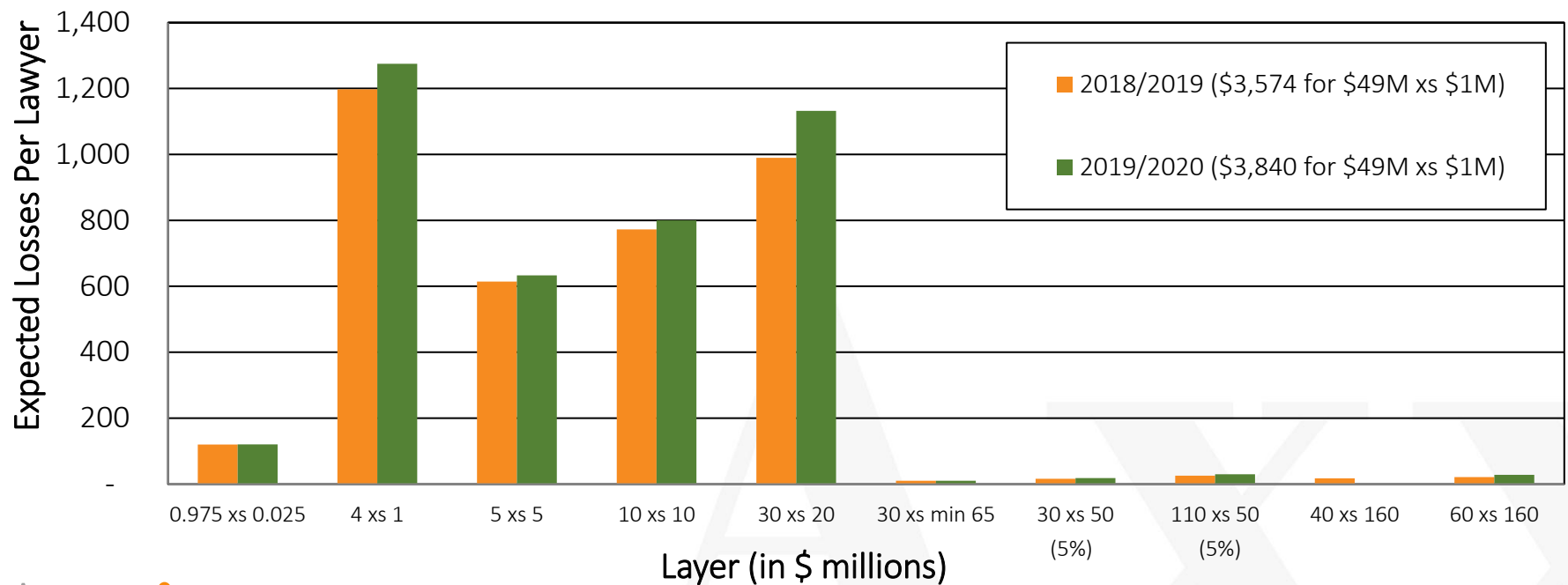
## Loss Development Factors



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## 2019/2020 Expected Loss Costs

- Revision of expected loss costs for 2019/2020 reflects emerging expectations of expected losses in each layer.
- The \$49M xs \$1M layer is broken down into smaller layers for valuation purposes: \$4M xs \$1M, \$5M xs \$5M, \$10M xs \$10M and \$30M xs \$20M.



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## Arrangement between CLLAS and Colchester for 2019/2020

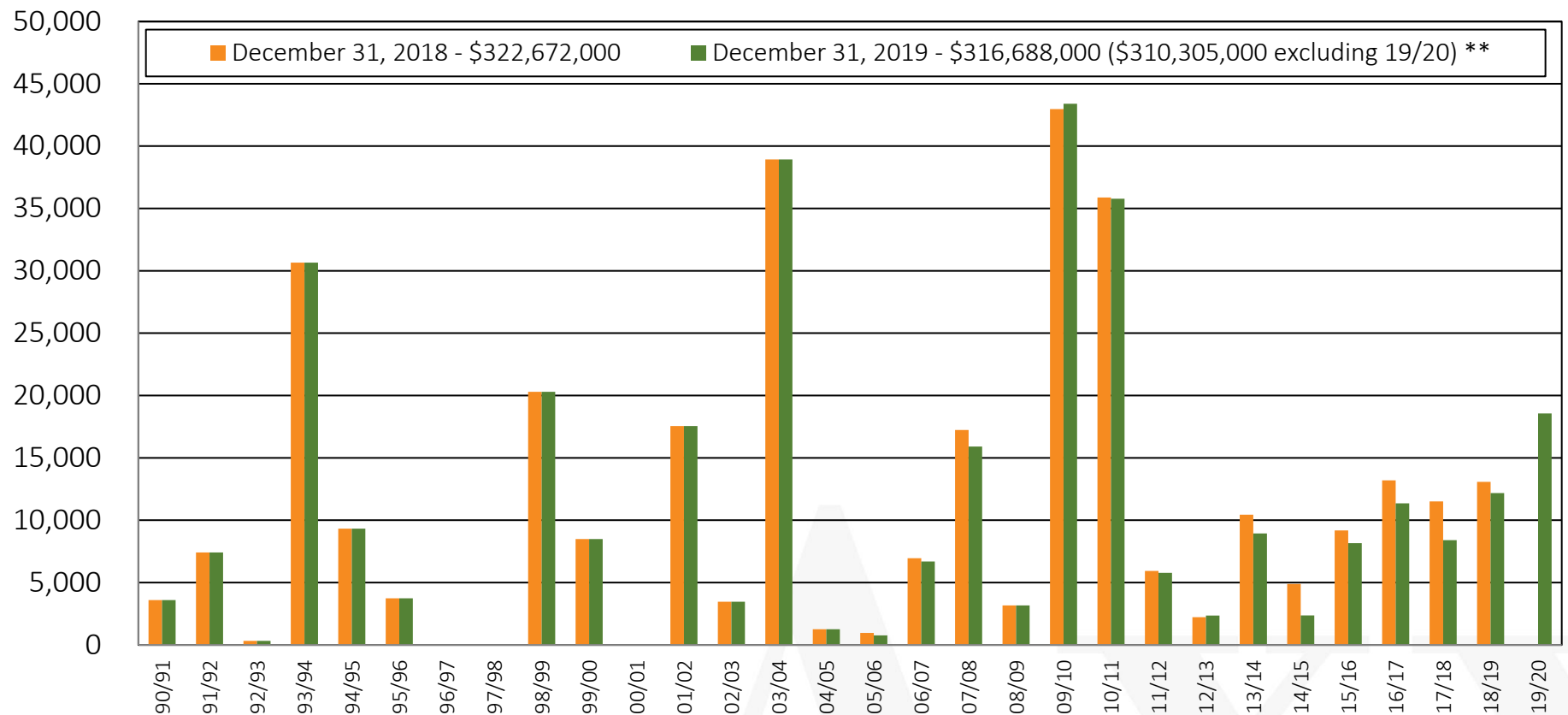
- Colchester retains 23% of the layer \$49,000,000 xs \$1,000,000 and 10% of the layer \$60,000,000 xs \$160,000,000
- The per-claim retention for CLLAS subject to the aggregate limit includes:
  - 100% of the layer \$975,000 xs \$25,000
  - 0% of the layer \$49,000,000 xs \$1,000,000
- Colchester provides aggregate reinsurance coverage of \$10,000,000 in excess of a \$5,000,000 limit

## Loss Portfolio Transfer to Colchester on June 30, 2012

- Colchester purchased net outstanding claims obligations on policies written between July 1, 1987 and June 30, 2012
- CLLAS's remaining net claim liabilities attributable to the business written prior to June 30, 2012 are provisions for ULAE

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## Evolution of Gross Ultimate Losses\* (in \$000's)

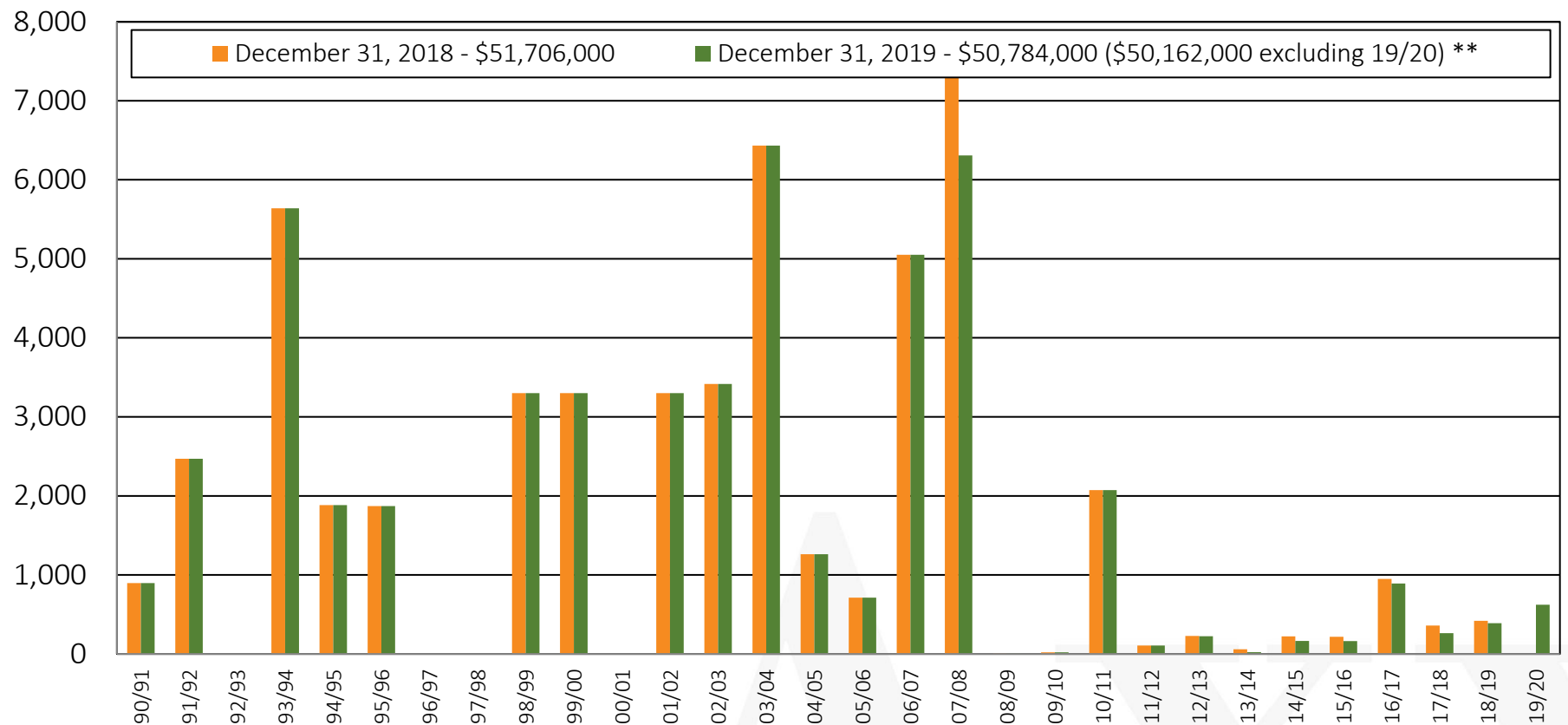


\* Excluding ULAE

\*\*There is no development on policy periods prior to June 30, 2012 due to the loss portfolio transfer with Colchester Reinsurance Ltd, except for recoveries such as for policy year 2007/2008.

# CLLAS

## Evolution of Net Ultimate Losses\* (in \$000's)



\* Excluding ULAE

\*\*There is no development on policy periods prior to June 30, 2012 due to the loss portfolio transfer with Colchester Reinsurance Ltd, except for recoveries such as for policy year 2007/2008.

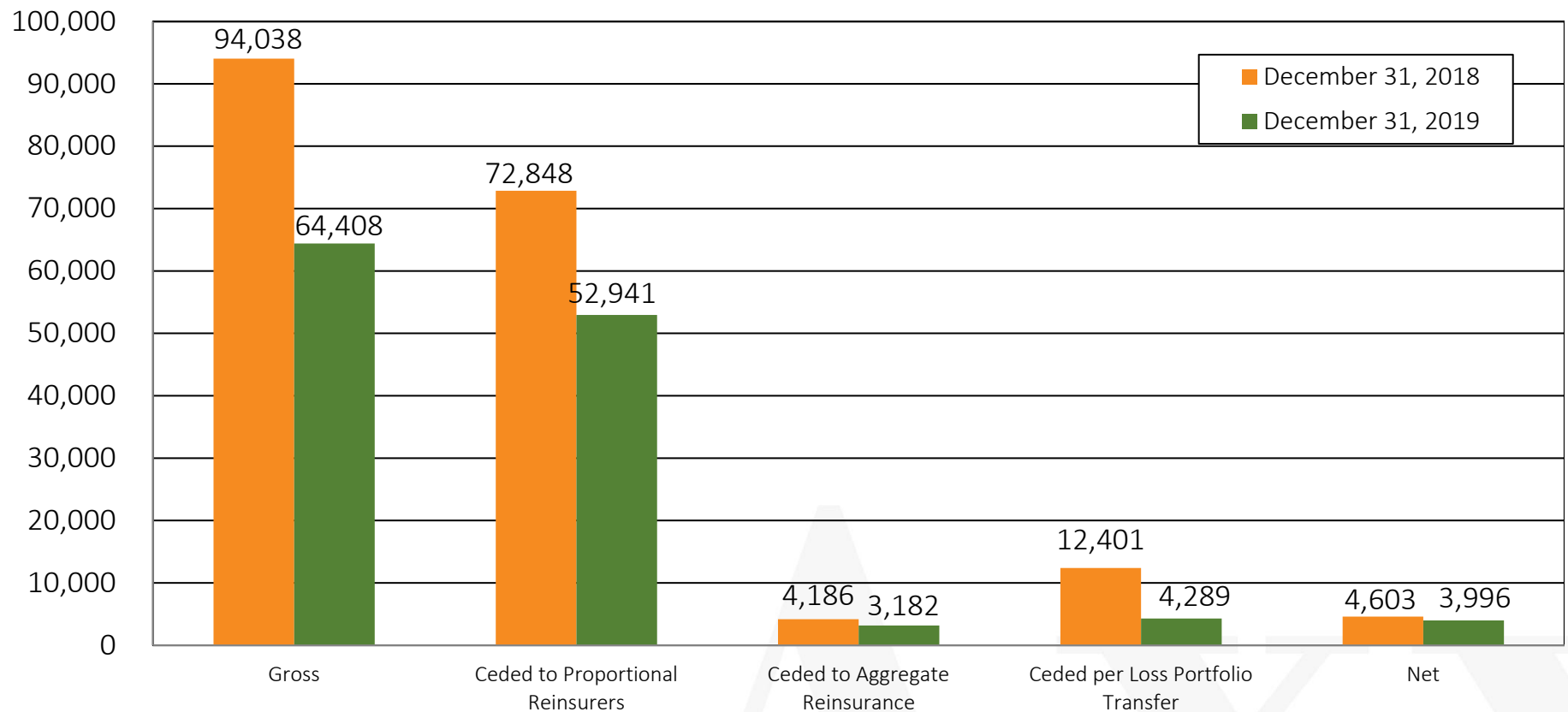
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## Unallocated Loss Adjustments Expenses (ULAE)

- Represents the provision for the claims management function to service existing obligations if CLLAS were to cease writing business on December 31, 2019
- Loading of 3.95% applied to gross case reserves and gross provisions for IBNR (increase from 2.95% as of December 31, 2018)
- Provision for ULAE at December 31, 2019: \$2,447,000
- The provision for ULAE is entirely retained by CLLAS

# CLLAS

## Breakdown of Outstanding Claim Liabilities\* (in \$000's)



\* On an undiscounted basis

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## Valuation Basis

- Statutory Purposes and Professional Requirements:  
Discounted Liabilities  
+  
Provision for Adverse Deviation (PFAD)

## Discounted Liabilities

- The discount rate is used for the discounting of future claims payments
- A discount rate of 1.90% (2.40% in 2018) was selected based on the market yield of CLLAS' fixed income portfolio at December 31, 2019 since CLLAS has classified its fixed income portfolio as available-for-sale per IFRS 9



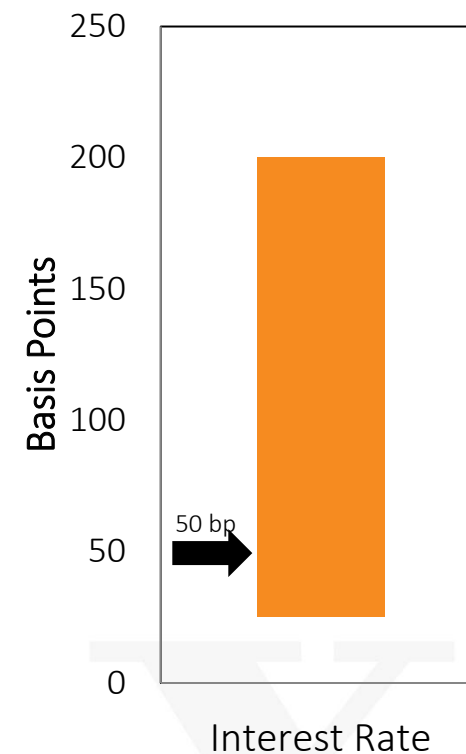
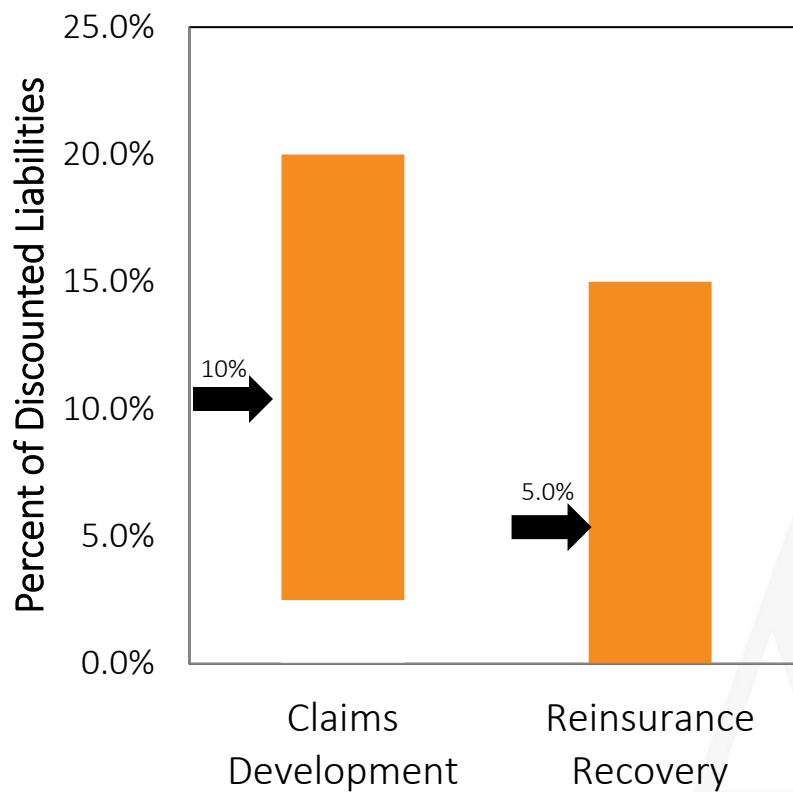
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PFAD reflects three variables:

- **Claims development:**  
Claims experience worse than expected
- **Reinsurance recovery:**  
Reinsurers default on their obligations
- **Interest rate:**  
Investment yield below expectations

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## Selected Margins for Adverse Deviation



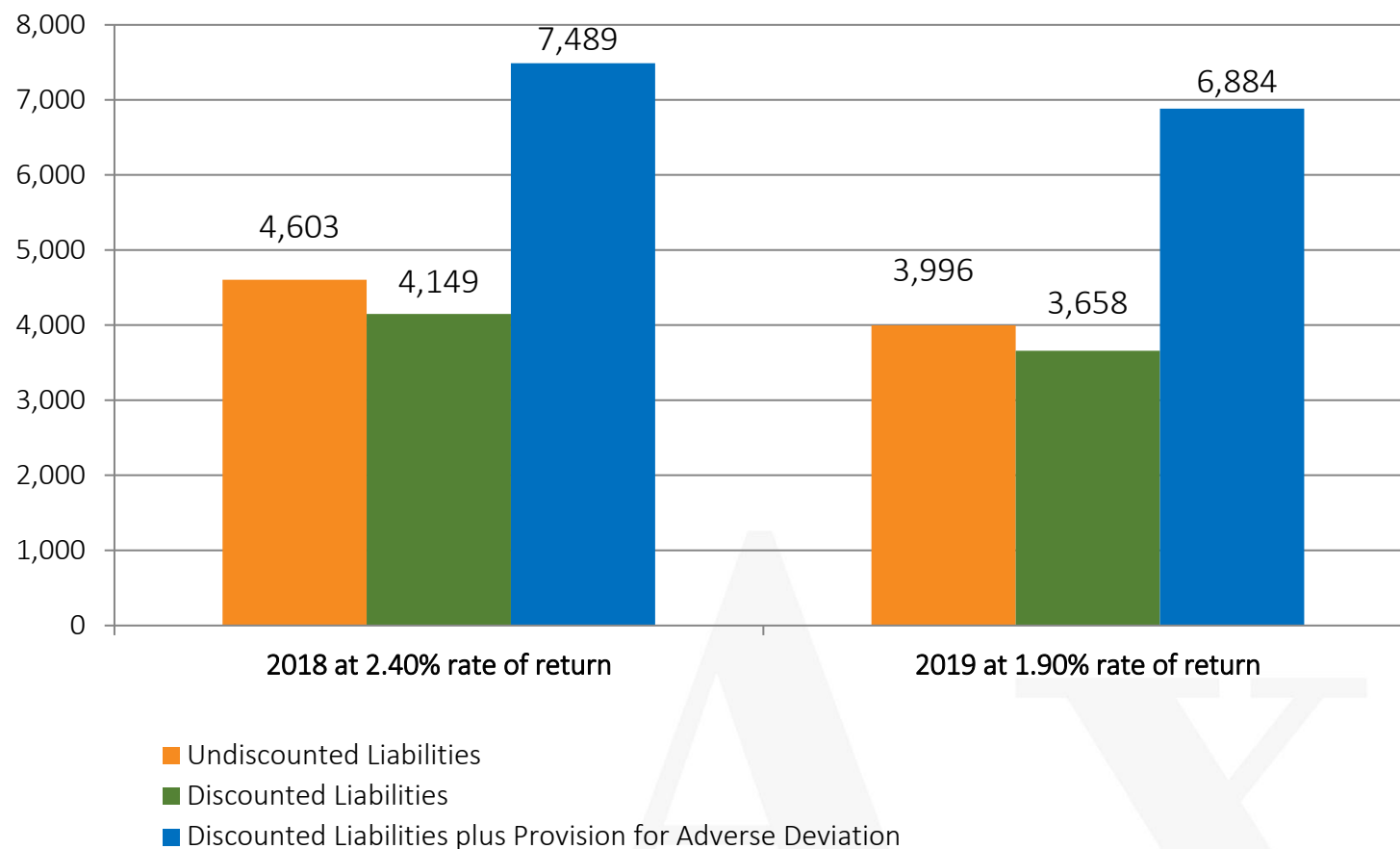
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## Impact of changes in methodology and assumptions

- There was no change in methodology in the valuation at December 31, 2019.
- The impact of the change in loss development factors, ULAE load, discount rate and reinsurance PFAD led to an increase of \$931,000 in net discounted claim liabilities

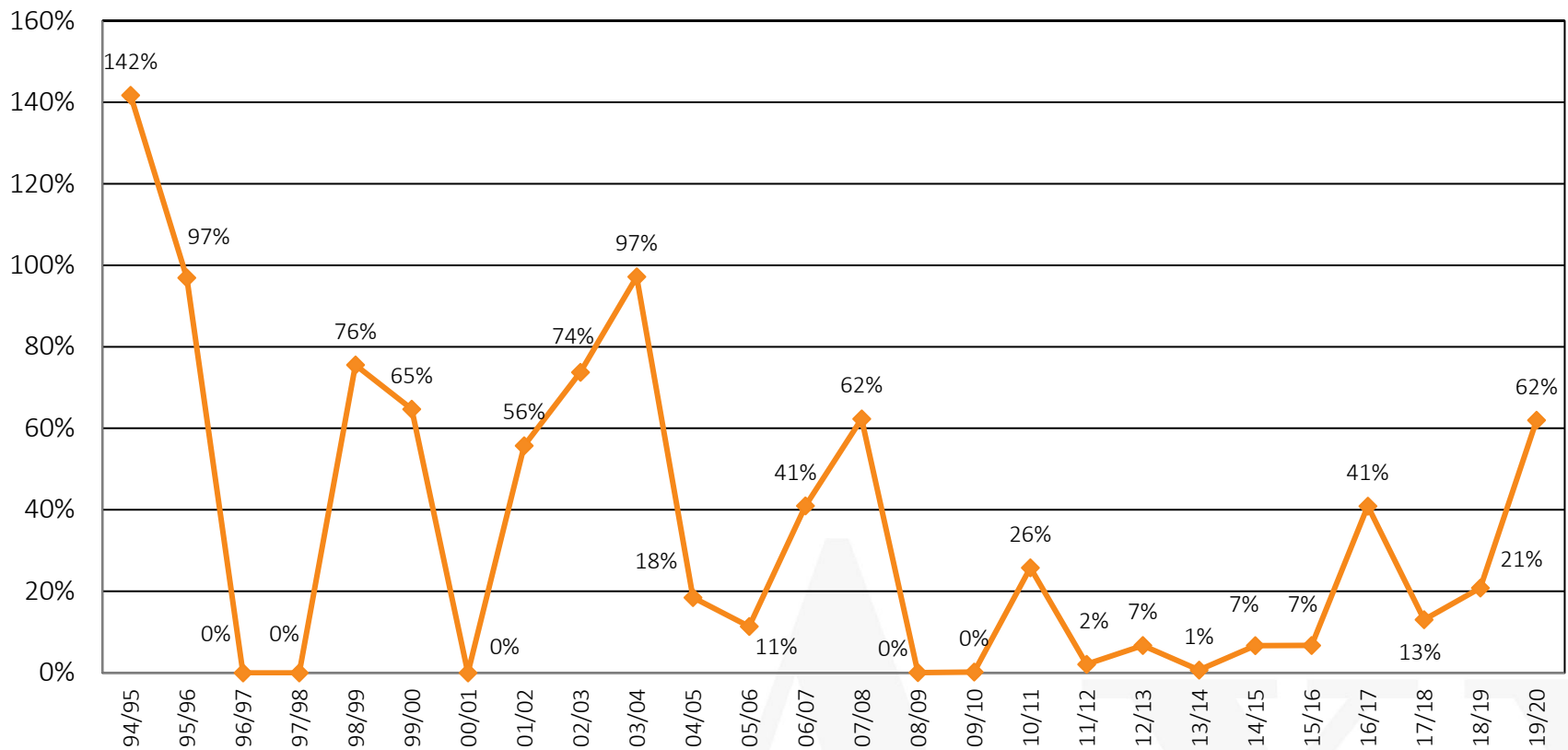
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## Summary of Net Provision for Unpaid Claims (in \$'000s)



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## Net Ultimate Loss Ratio\*



\* Excluding ULAE

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## Premium Liabilities

- A premium deficiency is generated if the premiums yet to be earned are not expected to sustain the expected expenses associated with earning them, i.e., if

Net unearned premiums

- Net liabilities in connection with unearned premiums
- Deferred policy acquisition expenses
- = Less than zero

- The premium deficiency is \$0
- The deferred policy acquisition expense asset is \$26,000



# discussion