

CLLAS Cyber Update

Emergency Board Meeting – September 30, 2021

Agenda

- Objectives for Meeting
- Background/History
- Options
 - Ascent
 - Beazley
 - CLLAS?
- Next steps
 - 14 Day Extension
 - Potential Alternatives

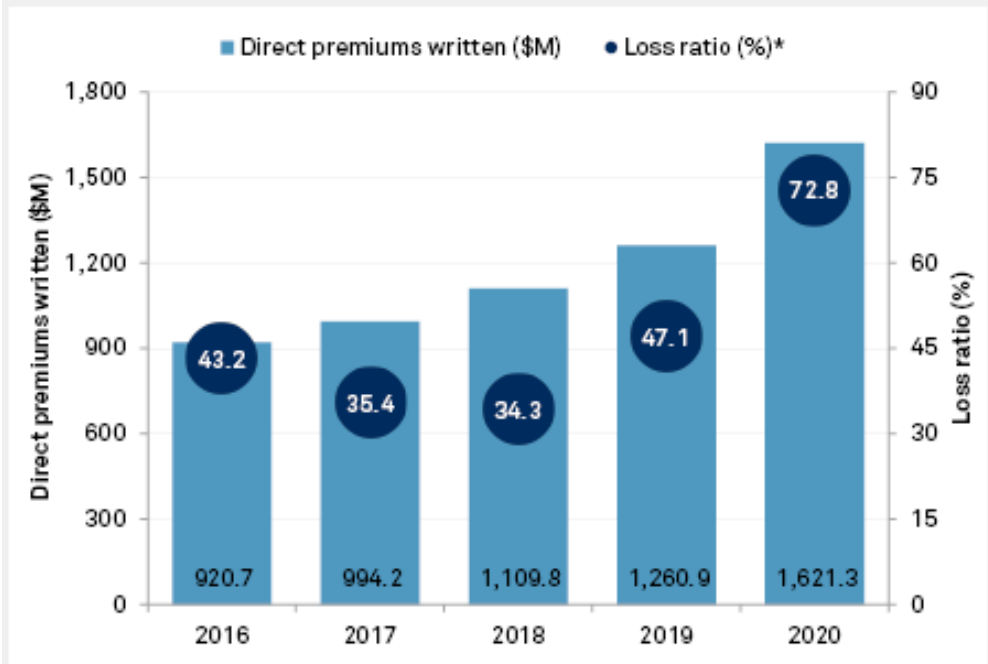
Objectives

- Give Context – Cyber Market / CLLAS Experience
- Outline Current Options
- Consider Outcome Alternatives
- Determine Next Steps

Background/History

- Cyber insurer losses relative to premiums have been on the rise, with losses seeing exponential growth in 2020
- US Insurers Shown
- International market loss ratio is 400%+
- Source: S&P

Industry's standalone cybersecurity loss ratio soared in 2020



Date compiled May 24, 2021.

Data sourced from the Cybersecurity and Identity Theft Insurance Coverage Supplement Part 2 - Stand-Alone Policies of annual statements submitted to the NAIC. U.S. property and casualty filers only.

*Calculation of loss ratio includes incurred costs for direct defense and cost containment.

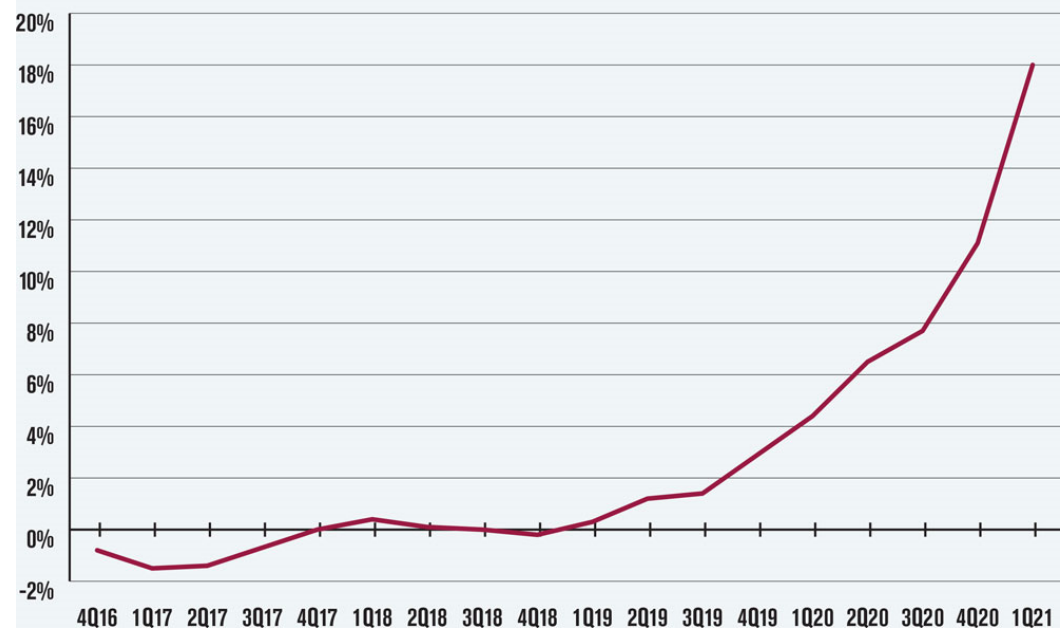
Source: S&P Global Market Intelligence

Background/History

- Premium changes have been sharply increasing to respond to losses – 2021 continues to follow the exponential growth chart

Source: Casualty Actuarial Society

Figure 1. Premium Change for Cyber, Q4 2016–Q1 2021

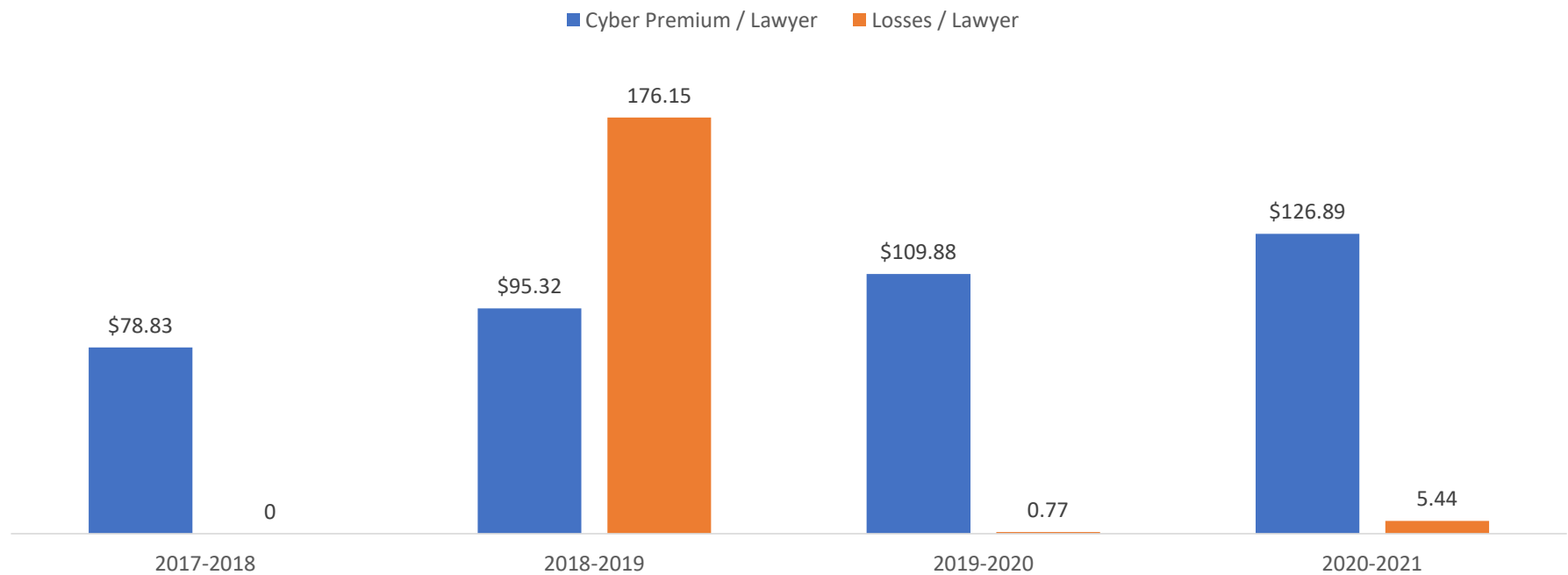


Background/History

- Ascent has been CLLAS' primary provider since the Program's inception 2017
- For 2020/2021, Ascent reduced capacity to \$5MM from \$10MM – the primary layer was quota shared with Nirvana
 - Pricing increases of 25% were floated by Ascent in 2020, but increases were negotiated down to 12.5%
- In 2021, Ascent's capacity was reduced to \$3MM, and extortion/ransomware reduced to \$1MM

Background/History

CLLAS Primary Layer - Premium and Losses / Lawyer



Background/History

Primary Loss Ratio – Inception-2021

43.4%

Primary Loss Ratio – AS IF 2021 Rates

35.4%

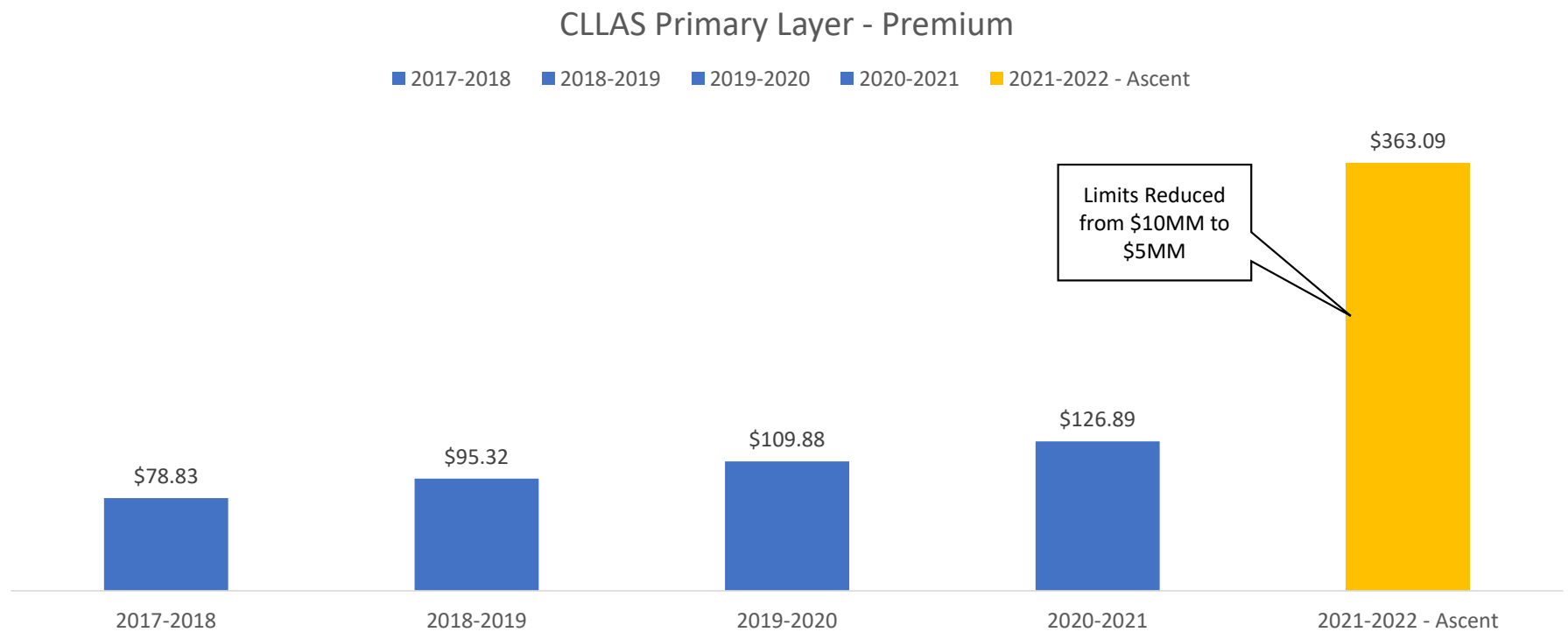
Options

- First and Foremost – Coverage IS available now
- Key challenge is the primary lead placement
 - Option 1: Ascent
 - Option 2: Beazley
 - Option 3: CLLAS

Option 1: Ascent

- Limits reduced to \$5MM from \$10MM
- Quota Shared with Nirvana
- Extortion limits reduced to \$1,000,000
- SEF/Computer Fraud limits reduced to \$250,000 (down from \$500,000)
- Reputation Loss coverage removed
- Contingent Business Interruption coverage remains at \$250,000

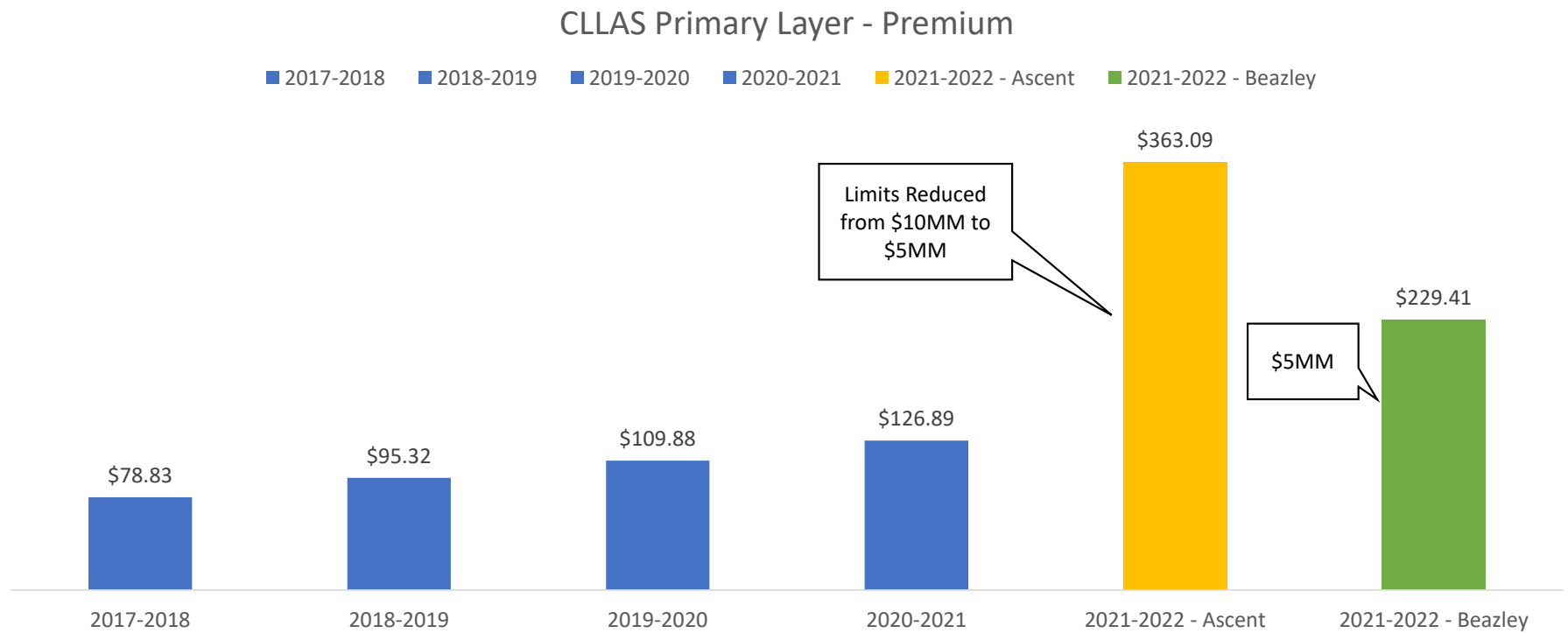
Option 1: Ascent



Option 2: Beazley

- \$5MM Total Limits
 - No Quota Share – Nirvana Capacity Available for Excess
 - Full Extortion limits subject to supplemental application review
 - SEF/Computer Fraud limits – unknown
 - Reputation loss coverage - ??
 - Contingent Business Interruption - ???
-
- Available because Beazley is conducting “scans” of the applying firms with positive results and because the program has critical mass

Option 2: Beazley



Option 3: CLLAS

- It is possible within approximately 60 days for CLLAS to begin writing Cyber risks
- Licensing is all but Ontario already allows CLLAS to write cyber, however, it would be prudent to notify each jurisdiction
- Loss history, while not independently credible, suggest underwriting profit is likely if market rates are used (i.e. Beazley rates are charged)
- Rates would likely be subjective – however, actuarial input would be sought which would likely rely on industry stats
- CLLAS firms could leverage existing surplus within CLLAS, Colchester could provide CLLAS with Stop Loss reinsurance to manage CLLAS exposure – potentially further retroceding losses at favourable rates
- CLLAS already has coverage for 3rd party liability and backstops crime coverages for client funds leaving losses predominantly on the 1st party side of the coverage
- Claims handling can be arranged as an unbundled service with Ridge Canada – maintaining access to incident/breach response services at insurer-negotiated rates

Option 3: CLLAS

- Subscriber Agreement changes
- Separate underwriting group
 - Allows subset of CLLAS membership, introduction of new members outside of Professional Liability group

Next Steps

- 14 Day Extension Option Available
 - Pro-Rate Premium at expiring rates, sublimit of \$250,000 on extortion/ransomware
 - Limits may be reduced to \$15MM max
- Formalize Beazley Option
- Ascent Option – Confirmed
- CLLAS Option – Consider Now or Later
- Self-Insure at firm level?
 - Consider incident response implications

Discussion

- Seeking input from CLLAS firms on appetite for CLLAS to enter cyber
 - Immediate or short term