



Actuaries & Insurance Management Advisors

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CLLAS

Board Presentation – Renewal Strategy

June 21, 2017

# Overview

- Renewal Objectives
- Retention Strategy
- Insurance and Reinsurance Structures
- Insurance and Reinsurance Costs
- Return of Surplus
- Final Remarks

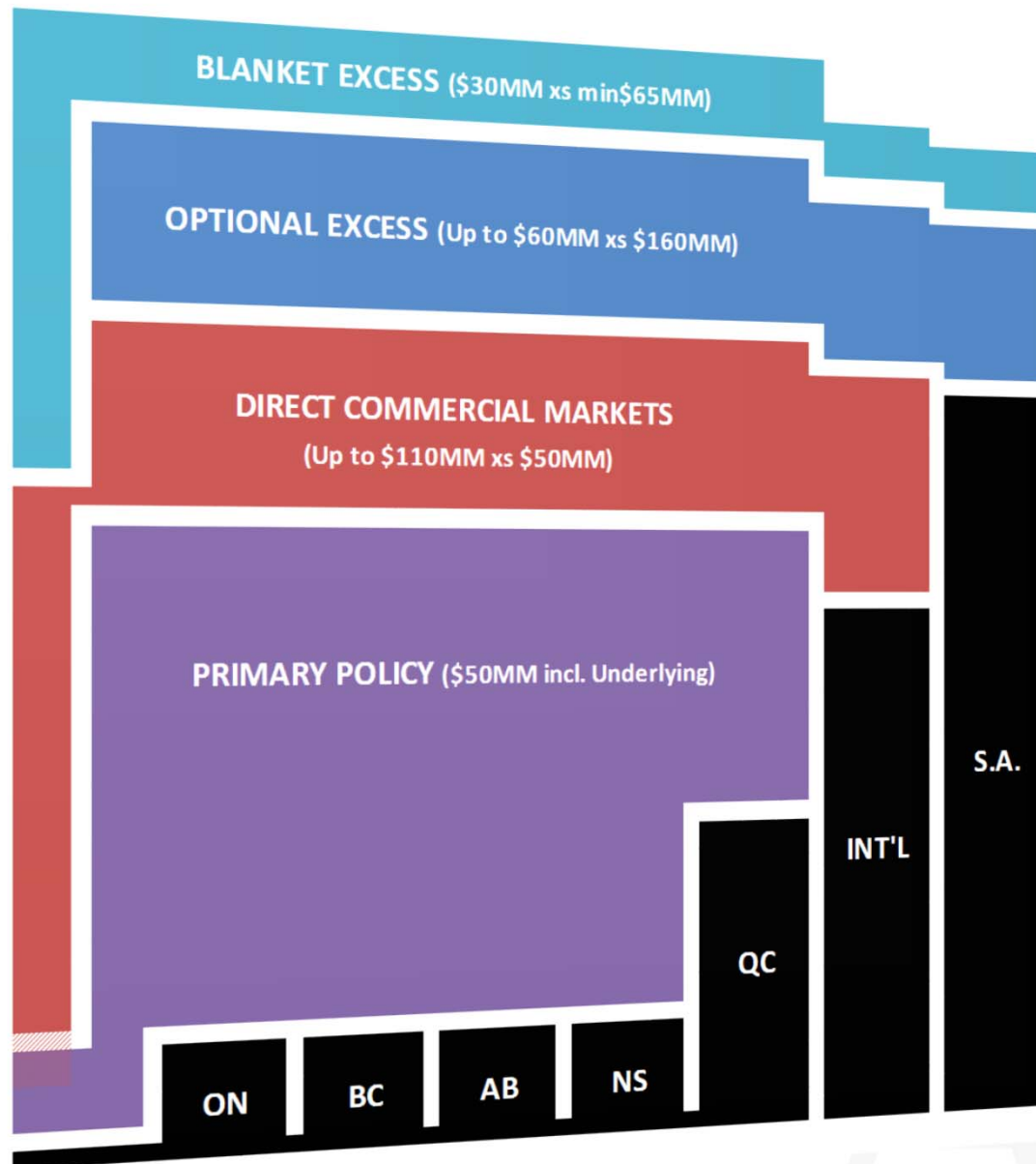
# Renewal Objectives






- ~~• Explore ways of reducing overall reinsurance costs along with possible reduction in insurance rates for CLLAS members~~
- ~~• Attract new markets~~
- ~~• Consider a further reduction in Colchester's participation~~
- ~~• Maintain and enhance existing reinsurer relationships~~
- ~~• Continue to evaluate ability to distribute surplus to members through premium credits~~
- Achieve a 25% premium reduction

# Retention Strategy

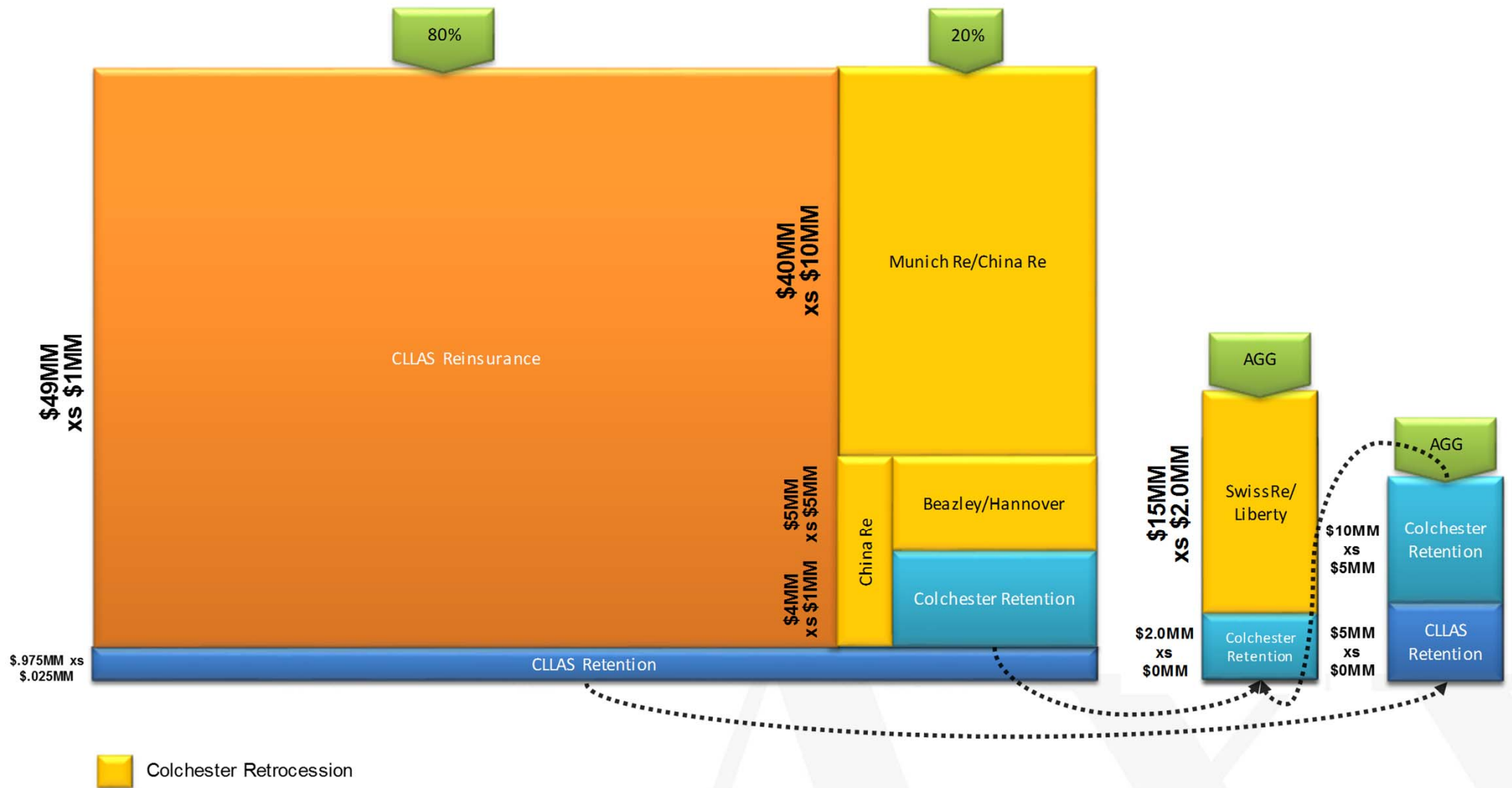
- CLLAS currently retains only the drop-down exposure below \$1,000,000 (maximum exposure of \$975,000, any one loss)
- Colchester's current and renewing participation is 20% of the \$49MM xs \$1MM layer, for a per-claim retention of \$9.8MM, however, net retention has been reduced to \$700,000 after retrocession
- Colchester also provides an aggregate stop-loss coverage to CLLAS for \$10MM xs \$5MM, which is expected to be reinsured excess of \$2.0MM (attachment point yet to be negotiated)
- On a combined basis, the CLLAS/Colchester per claim retention is expected to be \$1,675,000, which is \$100,000 less than expiring

# Insurance Structure



-  **CLLAS Blanket Excess**  
\$30MM per claim, \$60MM annual aggregate, minimum attachment of \$65MM
-  **CLLAS Optional Excess**  
Available as \$10MM, \$20MM, \$30MM, \$40MM, \$50MM, or \$60MM excess of \$160MM
-  **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)

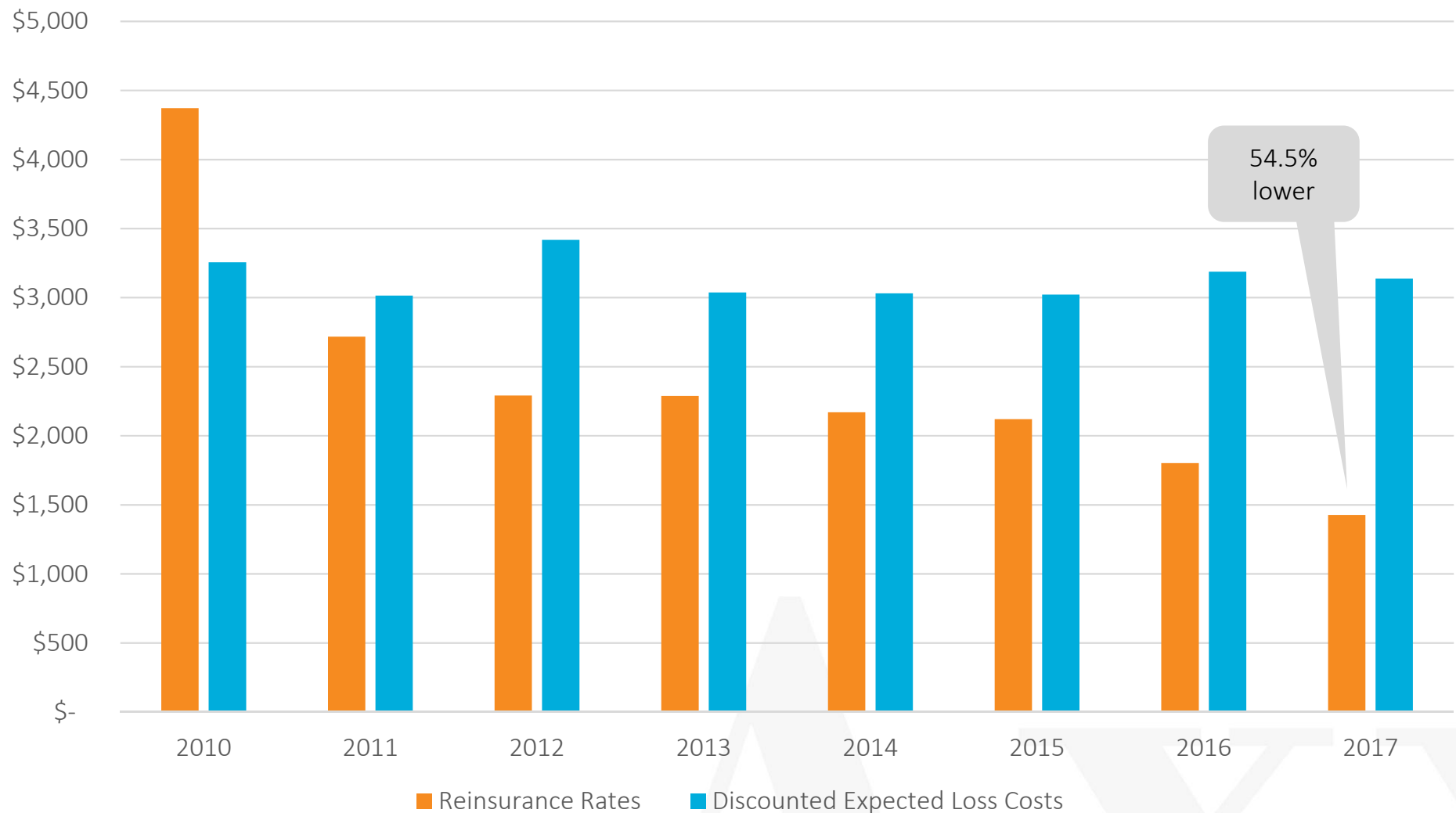
# Reinsurance Structure (Expected)



# Reinsurance Costs for 2017/2018

- Reinsurance rate reductions of 20% were sought for 2017/2018, and placement has been largely completed, as requested
- A special reduction in reinsurance rate from Colchester was requested to provide an overall premium reduction in the order of 25% to CLLAS firms, which Colchester management has agreed to
- Some markets were unable to support the reinsurance rate reduction, but most were willing to accommodate CLLAS on the basis of its long-standing relationship with reinsurers
- Colchester participation will remain unchanged for 2017/2018

# \$49MM xs \$1MM Cost Comparison\*

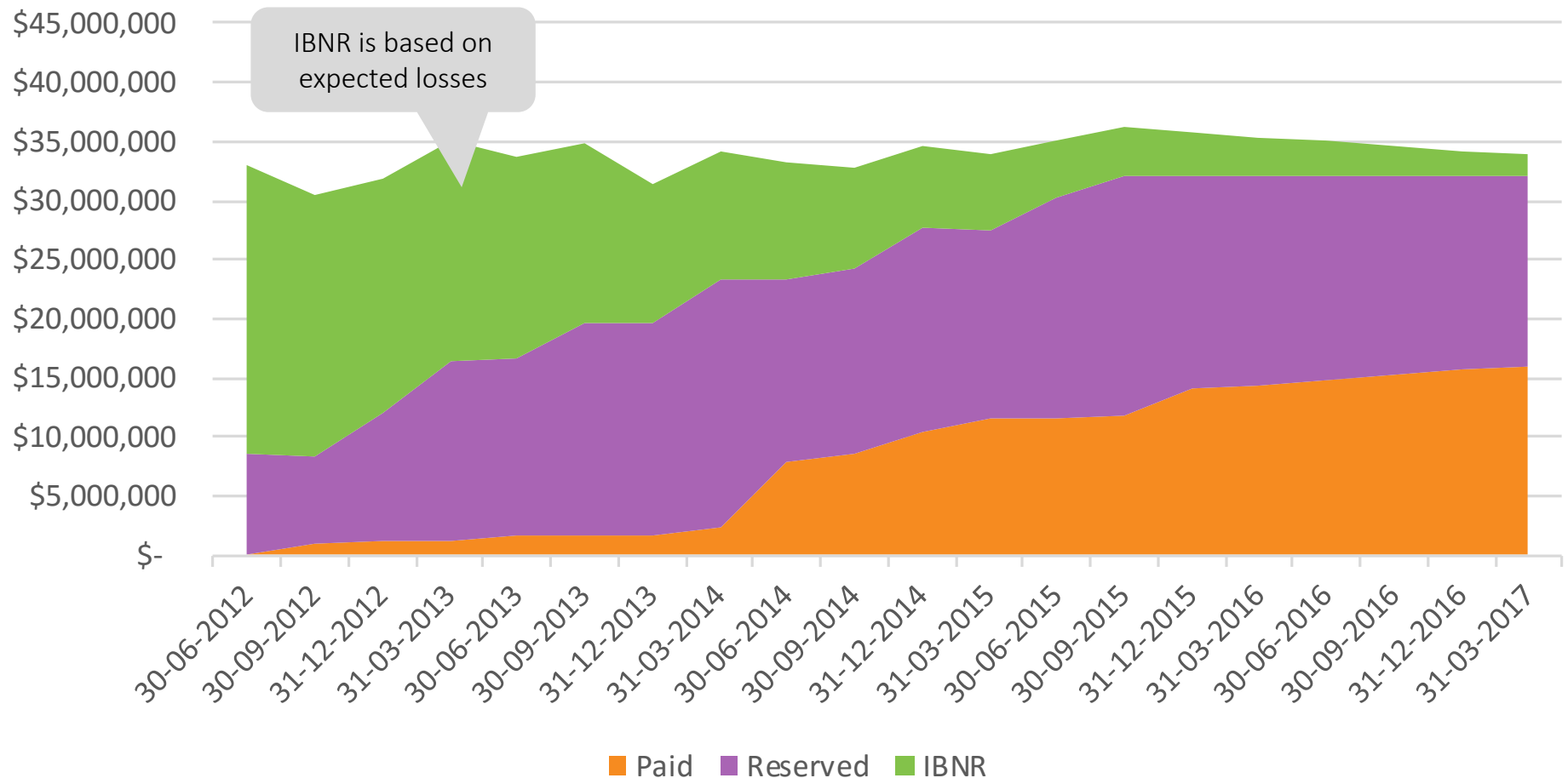


\* Blended costs between Quebec and Rest of Canada lawyers

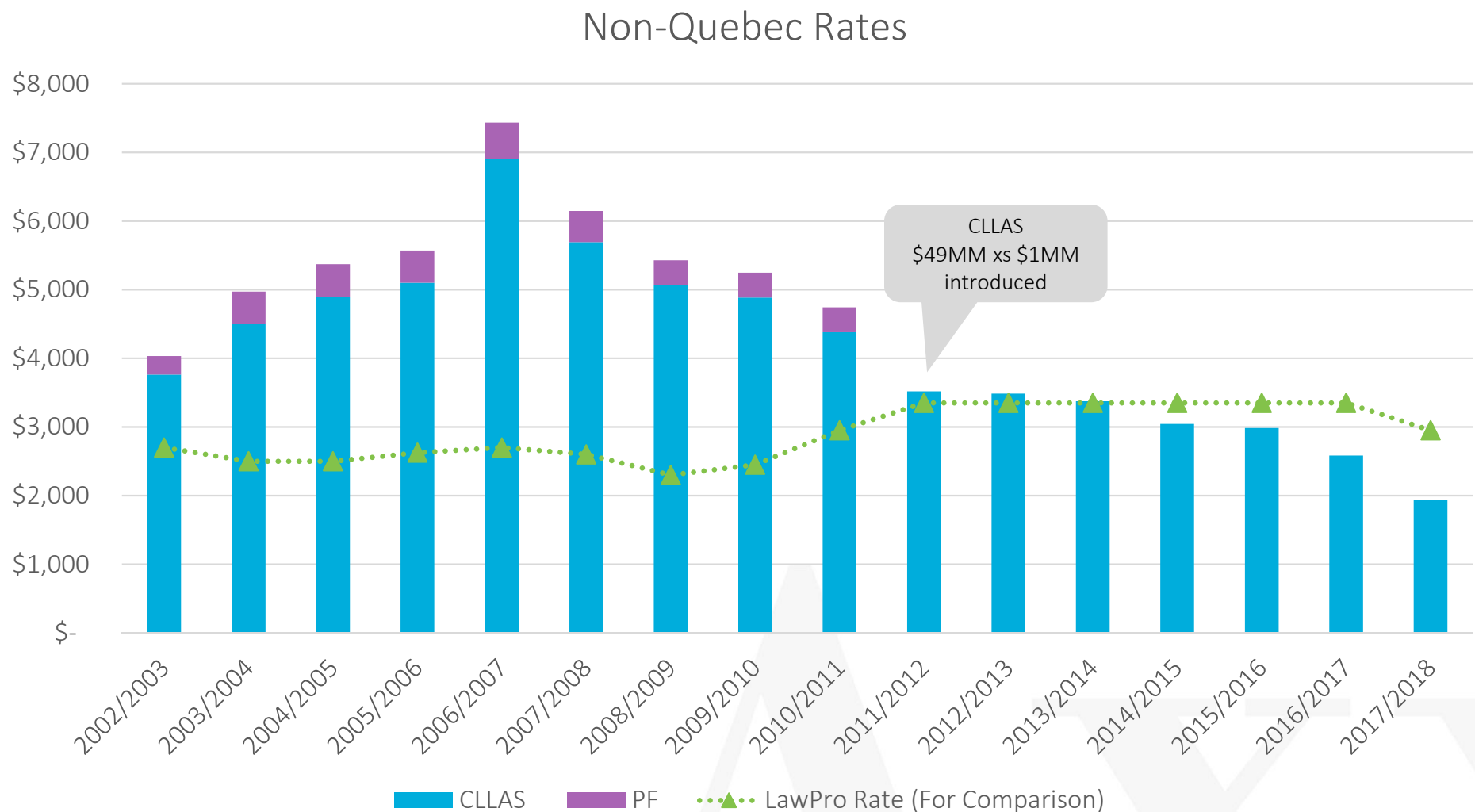


# Accuracy of Expected Loss Costs Over Time

## History of Losses on Colchester Loss Portfolio Transfer



# \$49MM xs \$1MM Rate History



# Summary of Expected Premiums

	2016/2017*	2017/2018 W/O COLCHESTER RATE REDUCTION	2017/2018 W/ COLCHESTER RATE REDUCTION	\$ Change	% Change
Required Premium**	\$9,378,995	\$8,184,777	\$7,127,463	(\$1,194,217) - (\$2,251,532)	(12.7%) - (24.0%)
Surplus Return	\$700,000	Est. \$700,000		\$0	0%
Premium After Surplus Return	\$8,678,995	\$7,484,777	\$6,427,463	(\$1,194,217) - (\$2,251,532)	(12.7%) - (24.0%)
Premium per Lawyer***	\$2,439	\$2,103	\$1,806	(\$336) - (\$633)	(13.8%) - (25.9%)
Per Claim Retention	\$1,775,000	\$1,675,000		(\$100,000)	(5.6%)

\* The 2017/2018 lawyer count (669 in Quebec and 2890 in the rest of Canada) is applied to the 2016/2017 policy year rates for the purposes of this summary

\*\* Premiums exclude optional excess layers

\*\*\* The Premium per Lawyer amount is a simple average of total premium divided by total number of lawyers (3,559), which yields a result higher than actual for Quebec lawyers, and lower than actual for lawyers in the rest of Canada

# Return of Surplus

- Return of surplus had traditionally (pre-2012/2013) been arrived at using the following two sources:
  - Investment income on surplus
  - Board-directed surplus disbursement
- In 2012/2013 and 2013/2014 the Board determined that a CLLAS surplus distribution would not be prudent
- With CLLAS' first audit by the Alberta regulator completed, and additional surplus having emerged through 2016, CLLAS has been in a position to distribute surplus in 2014/2015 (\$500,000), 2015/2016 (\$500,000), and 2016/2017 (\$700,000)

# Return of Surplus

- CLLAS' minimum surplus is based on the surplus required to maintain the greater of the Minimum Capital Test ("MCT") and the Alberta Minimum Reserve and Guarantee Fund ("AMRGF")
  - In order to protect CLLAS from large claim development, CLLAS targets a minimum MCT of 210% which is the supervisory minimum in Alberta
  - CLLAS targets 120% of the AMRGF in lieu of the regulatory minimum of 100%
- CLLAS' resulting minimum surplus is \$7.2MM, which we refer to as CLLAS' "Regulatory Surplus"

# Return of Surplus

- CLLAS Surplus as at December 31, 2016 was \$14.5MM, however CLLAS should retain sufficient surplus to be able to distribute Blakes and Dentons' surplus amounts in 2017 and 2022, respectively
  - The most recent estimate of Blakes and Dentons' combined surplus amounts is \$3.7MM
- CLLAS' available surplus is therefore:

\$14.5MM	Total Surplus
-7.2MM	Regulatory Surplus
<u>-3.7MM</u>	Blakes and Dentons' Surplus
\$3.6MM	Available for Distribution

# Return of Surplus

- It is recommended that CLLAS plan for continued distribution of surplus
- It is recommended that a surplus return of \$700,000 be continued for 2017/2018 and another \$700,000 be planned for 2018/2019, subject to emerging surplus

# Final Remarks

- As communicated earlier, final rates are expected to reduce by approximately 25%
- The final rate will depend on the board's decision regarding the return of additional surplus and the final reinsurance rates