



PRIVATE AND CONFIDENTIAL

Date: July 10, 2020

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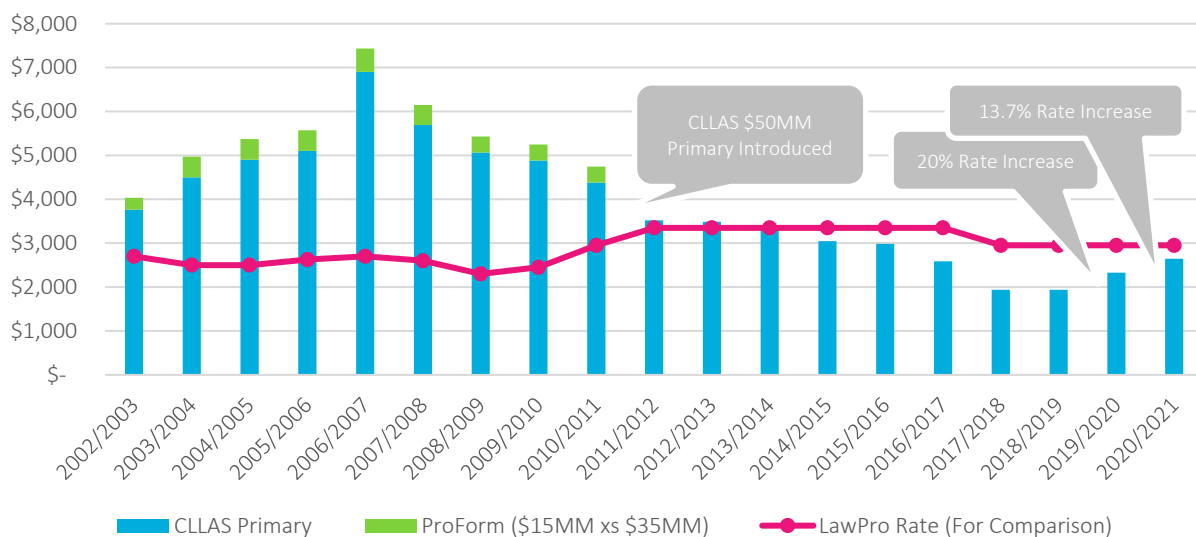
Re: July 1, 2020 Renewal of CLLAS Programs

The purpose of this memorandum is to share with the CLLAS board some background on the state of the insurance marketplace, and the results of both CLLAS' professional liability program and the CLLAS Outside Directorship Liability (ODL) and Management Liability / Employment Practices Liability (ML/EPL) program renewals.

Professional Liability

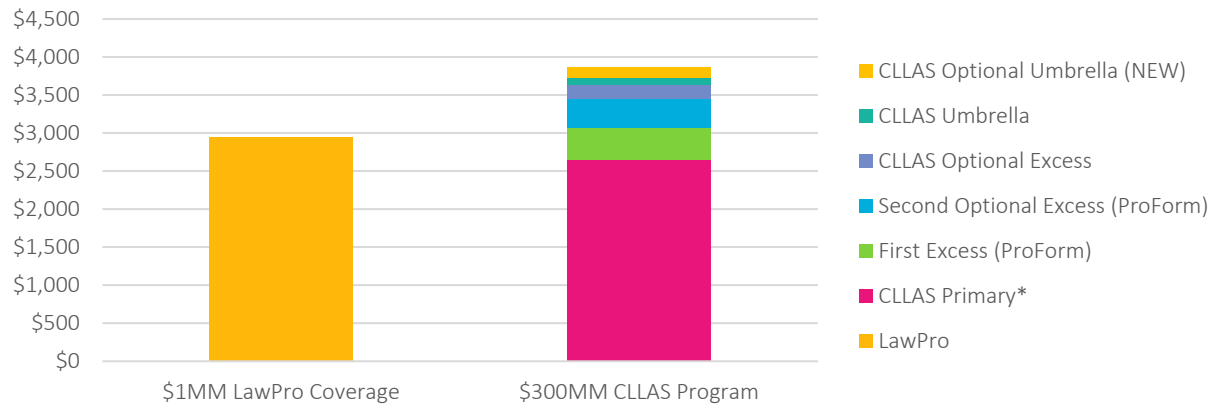
As the CLLAS board has been hearing over the last two renewals, the insurance marketplace continues to harden. This means that rates have started to rise, capacity has started to contract (i.e. insurers are reducing their shares of large-scale placements), and coverages have started to be restricted. We heard last year that former CLLAS firm was forced to restructure their placement in order to manage the rising costs and ensure full support on their layers of coverage. Last year, CLLAS experienced its first rate increase since 2006.

Per Lawyer Cost for \$50MM CLLAS Primary (Ontario Lawyers)





CLLAS Rates Per Lawyer Relative to LawPro Coverage



* *CLLAS' Primary Policy has a drop down feature that will provide coverage where LawPro does not respond, or will provide coverage excess of LawPro sublimits (e.g. cyber and retired lawyer-related claims)*

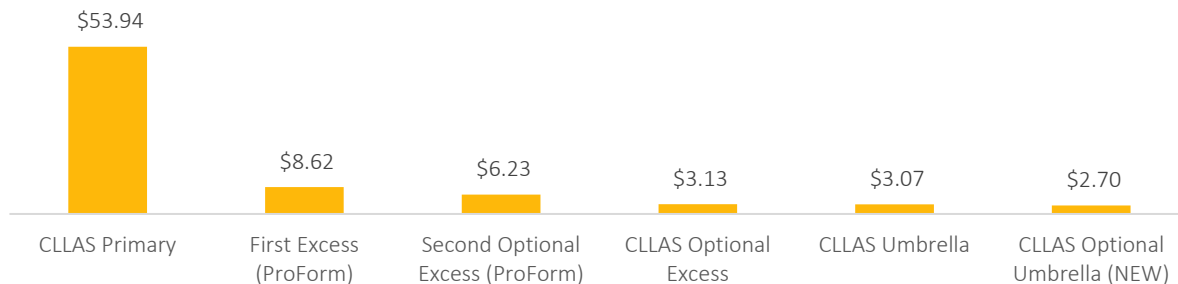
For the 2020/2021 renewal, the hard market showed no signs of abating through the first two months of the year, then COVID-19 happened. Government COVID-19 countermeasures have affected not only the way we conduct business day to day, but also the stock market and the longer-term outlook for the local and global economy. The insurance market responded by becoming even more cautious. A well-documented link between professional liability claims and market downturns (e.g. the inflation-related recession of 1991-1992, dot com bubble in 2000, and global financial crisis of 2007-2008) has caused insurance markets to become anxious about an impending influx of claims, further complicating renewal commitments.

CLLAS' focus on long-term relationships with its reinsurance partners, coupled with its ability to strategically retain risk and leverage its accumulated surplus position to stabilize rates, has helped it navigate this difficult renewal. The renewal has been finalized on terms identical to expiring, with relatively moderate increases in rates in each layer. On average, firms will have experienced just over a 12.5% rate increase per lawyer (premium changes will differ based on lawyer count and limit options selected). While the rate increases over the last two years have been 20% and 12.5%, rates are only marginally higher (+1.25%) than they were four years ago, and still materially lower than they were five years ago.

CLLAS is also working on increasing its limit offering for firms looking to increase their limits over the present maximum available under the program of \$250 million. Through market intelligence gathered this year, we have learned that there are several large Canadian firms purchasing limits of \$300 million and more. We are looking to secure a new layer of coverage which will provide an additional \$50 million in limits, to bring the total available to \$300 million. This layer will be provided on the same terms as CLLAS' current top-most layer, i.e. subject to a double aggregate shared across all participating CLLAS firms. CLLAS has been laying the groundwork for this new layer with its reinsurers for two years. While the timing may not be ideal given budgetary pressures in the COVID-19 business environment, the economic downturn may well generate more professional liability claims, and so the introduction of this new layer is timely from a risk management perspective. This layer of coverage is expected to be priced at \$130-\$135 per lawyer, which, based on cost per \$1 million of coverage per lawyer, presents excellent value to the firms.



CLLAS Program Rates per \$1MM of Limit per Lawyer



We are still working to secure final terms, but if your firm is interested in purchasing this new optional umbrella layer during the current policy period (i.e. before July 1, 2021) or next policy year, please email meaganmills@axxima.ca.

Outside Directorship Liability (ODL) and Management Liability/Employment Practices Liability (ML/EPL)

The difficulties experienced on the professional liability coverage have also been experienced in the directors and officers coverage area, which includes ODL. Concerns regarding directorships in the hospitality industry, for example, were top of mind for the markets, who have seen a landslide of claims related to business interruption. The hardest hit coverage area, however, was ML/EPL, which has seen a dramatic reduction in insurer support, and considerable hesitation by those still willing to support, as a result of many law firms conducting widespread layoffs.

The CLLAS ODL program was minimally impacted this year, with coverage renewing as-expiring and no changes to the available limits. The average rate increase was 12.5%, however CLLAS firms continue to benefit from discounts and reductions exclusive to CLLAS subscribers.

ML/EPL on the other hand saw market support recede materially, such that the program was forced to reduce the limits available from \$5 million to \$4 million, coupled with increases in base rates. Increases were mitigated somewhat by reduced commissions (broker commissions are now 0%, net of the CLLAS discount). Year-over-year premiums will still be higher, despite reduced limits and commissions. The markets' hesitance to support the ML/EPL coverage, similar to our experience on Social Engineering Fraud under crime and cyber policies, can be seen as an indication that this coverage has material value to the firms (i.e. losses are being paid, and rates are not adequate). In some respects, we can view our renewal woes as validation of the pricing and the coverage's value.

As a result, final terms for the CLLAS firms' ODL and ML/EPL renewals included premium increases and limit reductions. Both coverages provide meaningful risk transfer for the firms, and we are pleased to have seen all firms renewing.

CLLAS' Value Proposition

Despite market challenges, CLLAS, including its ancillary programs, continues to provide its subscribers with market-competitive risk transfer, including self-insurance via CLLAS retention and transfer to third parties through reinsurance and insurance. CLLAS is uniquely positioned to weather hard market conditions, and we expect that its value will only be reinforced further as the market becomes increasingly difficult.

Please reach out to CLLAS' General Manager's office if you would like to discuss the renewal outcomes in further detail.