



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Reinsurance Policy

Last Updated
December 11, 2018



REINSURANCE POLICY

Effective date: June 22, 2016

1. Purpose and Scope

- 1.1. The purpose of this policy is to provide guidance to the Advisory Board, Audit Committee, Principal Attorney, General Manager, and Broker on the implementation and monitoring of reinsurance arrangements for CLLAS. This policy complies with the Insurance Act of Alberta and OSFI Guideline B-3, *Sound Reinsurance Practices and Procedures*.
- 1.2. This policy outlines guiding principles with regards to the following:
 - Objectives in seeking reinsurance coverage;
 - Policies and procedures used to manage reinsurance risk;
 - Monitoring and oversight of reinsurance risk; and
 - Roles and responsibilities in managing reinsurance risk.
- 1.3. This policy applies to all existing and potential reinsurance transactions.

2. Objectives

CLLAS' objectives in purchasing reinsurance are the following:

- 2.1. Capacity – The purchase of reinsurance gives CLLAS flexibility to offer high coverage limits to its Subscribers while ceding insurance layers beyond its risk appetite.
- 2.2. Cost effectiveness – CLLAS has the flexibility to use its reciprocal structure to purchase more reinsurance and reduce its self-insured retention, or conversely retain more risk and reduce reinsurance, in order to optimize short and long term costs.
- 2.3. Surplus preservation – The purchase of reinsurance reduces the volatility in CLLAS' earnings and surplus position as it provides protection against large losses in exchange for a fixed premium at the inception of the policy year.
- 2.4. Surplus relief – The level of surplus required by regulatory authorities varies directly with the amount of net, i.e. retained, policy liabilities. The purchase of reinsurance allows CLLAS to operate with less surplus due to the lower amount of net policy liabilities.



3. Policies and Procedures to Manage Reinsurance Risk – New Transactions

- 3.1. The reinsurance structure will be reviewed and approved by the Advisory Board annually prior to the inception of the policy year with consideration to CLLAS' risk appetite, surplus position, exposure to large losses, short and long term strategic goals as well as then-prevailing reinsurance market conditions.
- 3.2. CLLAS will purchase reinsurance from either:
- Insurance companies duly licensed to operate in Canada; or
 - Insurance companies not licensed to operate in Canada, provided that CLLAS implements such security arrangements as:
 - it deems appropriate to protect its financial interests; and
 - are in a form acceptable to the regulator (e.g. a Reinsurance Security Agreement) to the extent it wishes to obtain a surplus/asset credit for such reinsurance.
- 3.3. The selection of reinsurers will be subject to due diligence, which will be commensurate with CLLAS' exposure to a reinsurer, and may include a review of the following:
- Cost of coverage;
 - Availability of coverage;
 - Financial strength, credit rating and outlook as determined by A.M. Best, Standard and Poor's or other similar credit rating agency;
 - Level of claims liability exposure ceded;
 - Claims payment record;
 - Funding sources;
 - Retrocession arrangements;
 - Reputation;
 - Management and governance practices;
 - Supervisory regime and legal/insolvency framework in the reinsurer's home jurisdiction;
 - Any other matters that may threaten the service or security of a reinsurer.
- 3.4. For reinsurers with significant reliance on retrocession, CLLAS' due diligence will extend to a review of the reinsurer's retrocession partners.
- 3.5. In order to minimize its reinsurance default risk, CLLAS' reinsurers should, at time of reinsurance placement, be rated A- or better by A.M. Best and/or S&P unless otherwise expressly authorized by the Advisory Board.
- 3.6. In order to minimize its reinsurance concentration risk, on an annual basis, CLLAS will assess its exposure to individual reinsurers as set out in Section 4.1 below. The results of this annual



assessment will be reviewed by the Audit Committee, which will report any recommendations to the Board.

- 3.7. All reinsurance contracts will be in written form, binding, signed by signing officers of CLLAS and the reinsurers and, subject to Section 3.8 below, will be executed prior to the effective date of reinsurance coverage. Reinsurance contracts will clearly and comprehensively document all material terms and conditions mutually agreed to by CLLAS and its reinsurers.
- 3.8. In the event that a full reinsurance contract cannot be executed prior to the effective date, the reinsurance coverage will be set out in a summary document (e.g. cover note, binding letter of intent, or confirmation email). The summary document will set out the following, at a minimum:
- The premium paid by CLLAS;
 - The percentage of the risk being assumed by each reinsurer;
 - The risks and limits reinsured;
 - The effective and termination dates of the coverage;
 - Any applicable exclusions to the terms of coverage;
 - Any substantive changes from the expiring terms; and
 - Any material issues most likely to arise.

Upon finalization, the reinsurance contract will replace the summary document. The reinsurance contract will be signed by the authorized signing officers of CLLAS and the reinsurers as soon as practicable and within 90 days of execution.

- 3.9. The reinsurance contracts will contain an insolvency clause clarifying that the reinsurers must continue to make full payments to CLLAS in the unlikely event of CLLAS' insolvency. Reinsurance contracts will not contain terms or conditions that may limit CLLAS' ability to enforce the contractual obligations of its reinsurers.
- 3.10. The reinsurance contracts will be subject to the laws of the province of CLLAS' head office.

4. Policies and Procedures to Manage Reinsurance Risk – Existing Transactions

- 4.1. The Broker will monitor the security of the reinsurance arrangements between CLLAS and its reinsurers and, subject to Section 3.4 above, the security of the retrocession arrangements between CLLAS' reinsurers and their retrocession partners. The monitoring will include the following, at a minimum:
- Financial health and credit rating measured against criteria recommended by the Broker and reviewed by the Audit Committee;
 - Concentration by reinsurer measured against criteria recommended by the Broker and reviewed by the Audit Committee;



- Collectability issues;
- Licensing status in Canada (registered vs. unregistered).

The Broker will provide other relevant reinsurance updates as necessary. The Broker will advise CLLAS of any rating downgrade as soon as practicable.

- 4.2. The Broker will report to the Audit Committee on an annual basis. The report will reflect the approach outlined in Appendix I unless otherwise advised by the Audit Committee. The Audit Committee will report any recommendations to the Board.
- 4.3. The General Manager will ensure the following:
 - The reinsurance risk management practices and procedures comply with this reinsurance policy;
 - The reinsurance arrangements effect a transfer of risk; and
 - The reinsurance arrangements are accounted for in the appropriate manner.
- 4.4. The General Manager, with the assistance of the Broker, will maintain a complete description of all reinsurance arrangements, including reinsurance contracts and records of due diligence performed on reinsurance counterparties.

5. Roles and Responsibilities

- 5.1. The Board is responsible for the following:
 - Annually reviewing and approving the reinsurance strategy and structure;
 - Annually reviewing and approving policies and procedures to manage and control reinsurance risks; and
 - Annually reviewing and approving this reinsurance policy on the recommendation of the Audit Committee.
- 5.2. The Audit Committee is responsible for the following:
 - Annually reviewing the report on reinsurance security prepared by the Broker, including the criteria used measure financial health and concentration risk; and
 - Annually reviewing this reinsurance policy and recommending appropriate changes in reinsurance structure to the Advisory Board for the upcoming renewal.
- 5.3. The Principal Attorney is responsible for the following:
 - Annually participating in the negotiation of reinsurance rates and coverage; and
 - Annually signing and executing reinsurance agreements on behalf of the Subscribers.



5.4. The General Manager is responsible for the following:

- Annually participating in the negotiation of reinsurance rates and coverage;
- Annually reporting to the Board on the effectiveness and compliance with this reinsurance policy;
- Identifying, assessing and monitoring reinsurance risks;
- Recommending appropriate changes in reinsurance strategies, policies and procedures;
- Immediately informing the Advisory Board and regulator of any reinsurance issues that could materially impact CLLAS' financial condition;
- Developing appropriate action plans and ensuring timely communication with the Board when reinsurance risk limits are exceeded; and
- Maintaining all reinsurance contracts.

5.5. The Broker is responsible for the following:

- Conducting a reinsurance renewal strategy meeting with the General Manager to discuss objectives and recommend a cost-effective reinsurance structure in accordance with CLLAS' risk appetite;
- Adhering to the reinsurance policy guidelines regarding reinsurer selection;
- Negotiating on CLLAS' behalf with reinsurers and keeping CLLAS informed of significant developments in the negotiations;
- Ensuring that all reinsurance contracts meet the requirements laid out in this policy;
- Monitoring the security of reinsurance arrangements and reporting to the Audit Committee based on the requirements of this policy;
- Providing such additional information as may be necessary to assess the creditworthiness of reinsurers (e.g. credit agency reports, annual reports, stock price information); and
- Providing relevant timely market updates regarding the reinsurance marketplace in general, and any developments respecting CLLAS reinsurers specifically (e.g. mergers, acquisitions, regulatory proceedings, etc.).

6. Authority

The Board has the authority to make revisions to this policy.

The Principal Attorney has the authority to sign and execute reinsurance agreements.

The Broker has the authority to negotiate reinsurance arrangements on behalf of CLLAS.

7. History of Modifications

The reinsurance policy was first approved by CLLAS on June 22, 2016.



The reinsurance policy was reviewed by CLLAS on December 11, 2018. Section 3.8 was amended to include confirmation email as a summary document, and Appendix I was added.



APPENDIX I

Section 4.2 – Annual Report to the Audit Committee

Level I Monitoring

The Broker will provide the Audit Committee with the following information (“Level I Monitoring information”) on all reinsurers participating on policy years with open claims:

- Current A.M. Best and S&P 5-year rating chart comparison;
- Current claims liability exposure (i.e. case reserves and IBNR) to each reinsurer from all policy years combined;
- Current claims liability exposure to each reinsurer for the prior policy year; and
- Claim limit exposure to each reinsurer for the current year.

Triggers for Level II Monitoring

With respect to any particular reinsurer, should any of the following events occur, Level II Monitoring will take place:

- Downgrading of the financial strength rating;
- A rating agency placing a reinsurer on a “watch” list;
- Difficulties collecting reinsurance proceeds after a claim is settled;
- Use of a reinsurer that is unregistered in Canada; or
- Any other events deemed material by the Audit Committee or its advisors.

With respect to any particular reinsurer, should any of the following events occur, Level II Monitoring will take place if its exposure to the reinsurer is significant relative to the reinsurer’s total assets and/or capital and surplus, as set out below:

- Current claims liability exposure (i.e. case reserves and IBNR) for all policy years combined exceeds 10% of the total;
- Current claims liability exposure for the prior policy year exceeds 10% of the total; or
- Claim limit exposure to each reinsurer for the current year exceeds 10% of the total limits provided by CLLAS.

CLLAS’ exposure is considered to be significant to the reinsurer if its share of CLLAS’ total current liabilities or claim limit exposure exceeds 0.1% of the reinsurer’s assets or 0.5% of the reinsurer’s capital and surplus.

Level II Monitoring:

The Broker will provide the Audit Committee with the following information (“Level II Monitoring information”) on all reinsurers triggering Level II Monitoring:



- Stock performance relative to the remainder of the market;
- Early warning signals/ratios (as provided by A.M. Best or equivalent agency); and
- Balance sheet and income statement highlights (as provided by A.M. Best or equivalent agency);

In addition, meetings or direct correspondence with these reinsurers may be undertaken as necessary to discuss the financial health of the reinsurer.