Dion Strategic

Unlocking Insurance Capacity for Mass Timber

A Roadmap for Scalable Solutions

September 2025

Dion Strategic

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Executive Summary

Mass timber, an engineered construction material that uses layered lumber to form large, strong structural panels, columns and beams, is gaining traction as a sustainable substitute to steel and concrete. However, its adoption in Canada is being constrained by a lack of options for affordable, scalable course of construction and occupancy insurance.

This report outlines how a dedicated industry-backed facility, potentially supported by public funding, could reduce the risk for insurer participation, improve affordability, and unlock greater underwriting capacity to bridge the gap as the material transitions from early adoption to more mainstream construction.

Key insights include:

- **Market Capacity Breakdown**: Analysis of a sample $8 billion Mass Timber pipeline shows a sharp drop-off in insurability as project size increases, with large projects often unable to secure sufficient limits under current models.
- **Alternative Risk Structures**: The report outlines multiple models to stabilize the market, including a Self-Insured Retention (SIR) layer, captive insurance company, reciprocal exchange, and group deductible pool each aimed at controlling losses, pooling risk, and attracting traditional insurers back into the market.
- **Role of Public and Private Funding**: A modest first-layer reserve (e.g., $2M per claim) supported by government or industry contributions could de-risk insurer participation and significantly expand capacity.
- **Next Step – Phase 2 Feasibility**: Initiating a detailed financial and operational feasibility study to define the best-fit solution and develop a scalable implementation roadmap.

Appendices provide a preliminary pro forma (Appendix A) and a technical overview of insurance options (Appendix B) to support decision-making.

This is a call to action: without a coordinated solution, the Mass Timber sector risks stalling under insurance pressure. With targeted support, the Mass Timber industry and its partners can build a resilient, self-sustaining insurance platform that accelerates Mass Timber adoption in Canada.

Project Context

This engagement was pursued as part of the Mass Timber Insurance Action Plan, a joint project of the Climate Smart Buildings Alliance and the Canadian Wood Council. This project and the other initiative of the Action Plan were supported by Natural Resources Canada's Green Construction through Wood program.

Engagement Background

The Climate Smart Building Alliance (CSBA) engaged Dion Strategic Consulting Group (Dion Strategic) and Borden Ladner Gervais to explore persistent insurance challenges facing frame and Mass Timber construction projects in Canada. In this phase, Dion Strategic led the insurance advisory and feasibility component of the initiative.

Dion Strategic is a boutique actuarial and strategic advisory firm with offices in Toronto, Calgary, and Chicago. With deep experience in alternative risk financing, including captives, reciprocals, and self-insured programs, Dion Strategic provides tailored solutions to clients facing complex insurance market gaps. The firm's work spans actuarial feasibility studies, financial modeling, risk allocation, and regulatory advisory.

With more than 800 lawyers across Canada, BLG serves clients throughout North America, Europe, and Asia. BLG has a skilled insurance team to assist clients in establishing an insurance business, expanding insurance products, re-distributing risk, and navigating the regulatory environment in different jurisdictions. BLG supported the legal and structural analysis behind this initiative and has facilitated dialogue between CSBA and stakeholders. Together, this partnership was formed to assess the viability of insurance solutions that could unlock capacity, lower costs, and support the growth of Mass Timber as a sustainable, mainstream building material.

This report outlines the current state of the Mass Timber insurance market, the challenges that inhibit broader adoption, and a range of strategic solutions, from deductible design to industry-backed insurance facilities and alternative risk structures that could enable the sector to scale safely and sustainably.

Introduction

Mass Timber is an innovative category of engineered wood products that offers a low-carbon alternative to building materials such as steel and concrete. These products, including cross-laminated timber (CLT), glue-laminated timber (Glulam), nail-laminated timber (NLT), dowel-laminated timber (DLT), and laminated veneer lumber (LVL) are formed by bonding layers of smaller wood pieces to create large structural elements with high strength, fire resistance, and design versatility. Mass Timber enables faster, cleaner construction with less waste and minimal environmental disruption.

The Mass Timber construction industry is expanding across Canada and globally, driven by sustainability goals, policy incentives, and advancements in building technology. With buildings accounting for a significant portion of global greenhouse gas emissions, Mass Timber presents a meaningful opportunity to reduce embodied carbon while supporting renewable resource use and responsible forest management. Building code changes have also enabled taller wood structures, positioning Mass Timber as a practical solution for mid- and high-rise development in urban settings.

Canada plays a dual role as both a producer and consumer of Mass Timber. Large-scale domestic manufacturing facilities are emerging to meet rising demand, complemented by specialized imports from more established European markets. As North American adoption increases, this trade relationship continues to evolve alongside local capacity.

Yet despite its promise, Mass Timber faces several structural barriers including regulatory inertia, cost pressures, and limited insurance availability. Insurers remain cautious due to unfamiliarity with the product, which can restrict capacity or inflate premiums. Without initiative-taking solutions, this financial friction risks slowing adoption.

Mass Timber is here to stay but the insurance industry must catch up. Accelerating insurer confidence in the product is essential. Without timely solutions, a lack of insurance capacity could determine what gets built, rather than what *should* be built. This report explores ways to close that gap and ensure insurance availability doesn't become the bottleneck to climate-smart construction.

Framing the Risk

The Mass Timber sector is constrained by a structural gap: insurance capacity has not kept pace with market demand. High premiums, fragmented underwriting, and limited insurer appetite, particularly for larger and more complex projects, are creating a ceiling on growth.

Insurers remain cautious because there is insufficient Canadian actuarial data to reliably price the risk. This uncertainty leads to conservative pricing, limited capacity, and inconsistent terms. The result is a self-reinforcing cycle: elevated costs erode developer confidence, slow adoption, and prevent the very data generation needed to build actuarial credibility.

Without coordinated intervention, this dynamic will continue to stall the market just as demand is accelerating. Closing this gap is therefore not optional — it is essential to enable the safe and sustainable scaling of Mass Timber in Canada.

Issues in the Mass Timber Industry

While Mass Timber presents a promising path toward low-carbon construction, the industry faces several challenges that could affect its application and long-term success. This section draws in part on interviews with underwriters, brokers, and industry stakeholders, and highlights how these issues connect back to insurance capacity in the market.

One of the most pressing constraints is insurance availability. Many carriers still lack the underwriting models and confidence to fully support Mass Timber, resulting in reduced capacity and elevated premiums. This makes insurance the critical bottleneck in enabling projects to proceed at scale.

Beyond insurance, the sector is experiencing typical growing pains for an emerging construction material. Manufacturing capacity remains limited, with domestic supply expanding but still unable to consistently meet demand, particularly for cross-laminated timber (CLT). This has led to some reliance on European imports and exposure to global price volatility.

Regulatory adoption is progressing, but interpretation of building codes can vary across provinces and municipalities, occasionally creating delays and uncertainty. Similarly, the pool of skilled labor and technical expertise—architects, engineers, and contractors with experience in Mass Timber—is growing, though further training and knowledge transfer are needed.

Cost competitiveness continues to evolve. While Mass Timber's upfront material and fabrication costs can be higher than conventional building methods, these costs are often offset by faster project timelines and reduced site disruption provided contractors have effective planning in place and avoid significant delays from regulation, manufacturing, or permitting. In many cases, material cost alone is not the primary barrier; rather, insurance, regulatory, and capacity constraints are more likely to dictate project viability.

Looking ahead, sustainable sourcing will be essential. As demand for wood products increases, ensuring responsible forest management and protecting biodiversity will be critical. Canada already has one of the most robust regulatory frameworks in the world for sustainable forestry, with a significant share of managed forest land certified under internationally recognized programs such as the Forest Stewardship Council (FSC) and Sustainable Forestry Initiative (SFI). These programs, combined with Canada's strict provincial and federal regulations, provide strong assurance that growth in Mass Timber use can align with long-term ecological and economic sustainability.

Despite these challenges, industry leaders remain optimistic. With coordinated investment, policy support, and targeted action to address insurance constraints, Mass Timber is well-positioned to scale responsibly and become a cornerstone of Canada's climate-smart construction future.

Insurance Issues Restricting Mass Timber

Among these challenges, insurance availability stands out as both the most significant and the most solvable. Without affordable and scalable coverage, Mass Timber projects struggle to advance beyond concept, regardless of progress in manufacturing, regulation, or labour. Many carriers remain hesitant to underwrite these projects due to unfamiliarity with the material, lack of local claims data, and perceived volatility. This reluctance creates a systemic bottleneck—raising costs, limiting available capacity, and in some cases delaying or derailing projects.

The most common insurance-related challenges affecting Mass Timber adoption include:

- **Limited underwriting capacity**: Few insurers are willing to offer high coverage limits on Mass Timber projects, especially at the scale required for mid- and high-rise construction.
- **Premium volatility**: With limited actuarial data available, underwriters often price conservatively, resulting in elevated and inconsistent premium levels.
- **Low risk appetite**: Many insurers still categorize Mass Timber as equivalent to combustible wood frame, despite its superior structural and fire-resilient performance.
- **Lack of credible Canadian claims data**: The absence of meaningful domestic loss history forces reliance on foreign or unrelated data sets, making it harder to build local actuarial confidence.
- **Inconsistent underwriting practices**: Different insurers apply varying assumptions, surcharges, and deductibles, creating unpredictability for developers.
- **Lack of market innovation**: Few alternative risk structures exist for Mass Timber, leaving project sponsors reliant on traditional placement approaches that are poorly suited to this emerging material class.

These issues compound other barriers, often becoming the deciding factor that pushes developers to revert to non-combustible materials.

The word ‘new’ does not bode well in the insurance industry. Like prudent investors, insurers avoid backing unfamiliar risks without reliable performance data. Their capital exposure requires a predictable return profile, which means underwriters seek risks they can model. In the absence of data, most will simply walk away. The few who remain tend to offer limited capacity at premium pricing, grouping Mass Timber with traditional frame construction.

For example, construction materials are typically classified by hazard, with steel and concrete being low risk and wood frame being high risk. Mass Timber, if not differentiated, is often lumped into the latter category. This misclassification affects both price and availability of insurance.

Limited capacity results in inefficient placement structures, where coverage must be syndicated across multiple carriers in small tranches (e.g., $5M-$10M). While possible for smaller builds, this becomes operationally and financially burdensome on projects exceeding $100M.

The issue is further compounded by underwriting inconsistency. Without a clear industry standard, insurers apply varying surcharges and exclusions. Projects located in high-risk zones (e.g., earthquake regions) or lacking risk mitigation protocols (e.g., moisture management plans) often face blanket surcharges of 25% or more, not actuarially driven, but precautionary.

To illustrate, the charts below show indicative rates for a medium-sized $100M project. While Mass Timber generally prices better than frame construction when recognized as its own class, many insurers still categorize it as frame, driving costs up. These base rates also exclude additional surcharges for catastrophic exposures (e.g., BC earthquake), contractor inexperience, or missing risk controls, which can add ~25% to the premium.

Type of Construction	Non-Combustible	Mass Timber	Frame/Combustible
Average Rates	0.01	0.04	0.05
Lower Band	0.005	0.035	0.04
Higher Band	0.015	0.06	0.09

**Sourced from interviews with underwriters and brokers active in the Canadian market (2025)*

The Mass Timber rates, while better than frame rely on the insurer recognizing Mass Timber as a different class, otherwise, they often fall into a frame rate and the price goes up significantly. Also noting that these are base rates that do not include surcharges for catastrophic exposures (i.e., BC earthquake), all contractors have relevant experience and take into consideration all risk management strategies. Each of these, if missing, can have an impact on the price by +25% per missing component, which again has a dramatic impact on the overall price. To fully illustrate this, see the difference in base pricing below, assuming a $100M project at 24 months.

Type of Construction	Non-Combustible	Mass Timber	Frame/Combustible
Average Rates	$240,000	$960,000	$1,200,000
Lower Band	$120,000	$840,000	$960,000
Higher Band	$360,000	$1,440,000	$2,160,000
+25% Pricing to Average	$60,000	$240,000	$300,000

**Sourced from interviews with underwriters and brokers active in the Canadian market (2025)*

This lack of consistency highlights the core challenge: absent a common standard and robust data, insurers default to conservative ballpark pricing that inflates premiums and restricts capacity.

Deductibles remain standard when comparing Mass Timber projects to others and are primarily driven by the overall size of the build. Also noting most insurers will provide a separate water damage deductible and all other

perils (AOP) deductible which is for any other loss that is not water. The chart below illustrates general deductible structures based on the size of the project.

Size of Project	Small <$50M	Medium $50M-$100M	Large >$100M
Water Deductible	$50,000	$250,000	$500,000
AOP Deductible	$25,000	$100,000	$250,000

**Sourced from interviews with underwriters and brokers active in the Canadian market (2025)*

The above table further illustrates that water continues to be a major loss concern shown by the deductibles being one level higher than the AOP deductible. Furthermore, insurers will introduce a tiered deductible structure where multiple water losses in the same term will see the deductible increase (i.e., first loss - $50,000; second loss - $100,000).

Consider a building owner getting to the construction stage of a new building and finding out that the insurance cost will be eight times that of a non-combustible build. When insurance is earmarked for 1%-4% of an overall budget, this quickly pushes Mass Timber out of the equation. This leads to the question, is Mass Timber riskier? Below we examine the claims and how they impact the insurance landscape of Mass Timber.

Claims Considerations

Mass Timber faces several key perils during construction and operation, many of which align with those seen in frame construction. These include:

1. Fire

- Historically, the largest driver of losses due to the combustibility of wood.
- Well-understood by insurers with extensive data on probable losses and mitigation practices.
- Effective controls exist (e.g., fire watches, suppression systems, hot work permits).
- However, remediation remains a concern: While charred decorative wood may be structurally sound, its aesthetic value poses underwriter uncertainty due to limited valuation data.[1]

[1] CSBA and CWC are actively working to accelerate remediation research as part of the Mass Timber Insurance Action Plan, including exploring the development of a dedicated test facility to study repair and replacement scenarios.

2. Water Damage

Water damage is now considered the leading peril in terms of insurer concern and capacity impact. The risk profile is not simply about a single event, but about the potential for hidden, long-term moisture exposure that could compromise structural integrity or aesthetic quality over time.

Key unknowns include:

- **Likelihood and timing** – Whether water intrusion is more likely during construction (e.g., rain before enclosure, plumbing mishaps) or later in the building's lifecycle (e.g., leaks from mechanical failures or occupant behavior).
- **Extent of loss** – How much water exposure is required before delamination, rot, or mould occur, and whether remediation involves sanding/drying versus full replacement of panels.
- **Cost implications** – Whether losses would trigger partial cosmetic repairs or major structural replacements, which can drive significant variability in claims costs.

A robust Moisture Management Plan (MMP) covering everything from manufacturing, shipping, and site storage to enclosure timing and ongoing monitoring — is the single largest factor in mitigating this risk. Projects with a well-designed MMP, regular inspections, and real-time moisture tracking present a far more predictable risk profile, and some insurers already recognize this with improved pricing or capacity.

- **3. Contractor and Construction Experience**
  While not a direct peril, contractor and construction experience is a major driver of loss frequency and severity. Underwriters closely assess the track record of general contractors, subcontractors, and design professionals in working with Mass Timber. Gaps in experience often trigger increased premiums, capacity limits, or even outright risk rejection.
- Unique challenge – modular elements: Because Mass Timber elements are precision-fabricated off-site, errors in manufacturing or early-stage installation can be difficult — and sometimes impossible — to correct without full replacement of affected components. This makes experienced contractors and rigorous QA/QC processes critical to preventing costly rework.

Industry initiative – contractor verification: Recognizing this, CSBA and CWC are advancing a parallel initiative focused on contractor verification and prequalification specific to Mass Timber projects. This effort aims to provide insurers and owners with greater confidence that qualified teams are in place, which could improve pricing and capacity over time.

Risk Management

Risk management is key to any construction project and provides security to insurers through reduced risk. This comes from procedures designed to protect the project from perils such as fire and water, and it demonstrates the expertise of the contractor, supplier, and project team, signaling that they are focused on building safely and ensuring long-term performance.

Understanding risk is as important as managing it**.** Mass Timber elements are almost always designed and elevated above water tables and potential flood plains, and building codes already require a range of mitigation measures to address these risks. By systematically documenting and assessing these design elements, the industry can help insurers gain confidence that the risk of catastrophic water or flood loss is low.

Over time, a Mass Timber–specific captive insurance facility could serve as a center of excellence to evaluate mitigation strategies, build a credible loss database, and develop more accurate pricing than the commercial market can today. This approach would not only manage risk but also demonstrate the sector's true risk profile to outside insurers.

Peril-specific considerations remain important. The major quake zones in western B.C. and in Quebec/Eastern Ontario are well understood and supported by strong data. Mass Timber itself does not carry higher quake risk relative to other construction types, but if base rates are high, quake surcharges can still significantly impact premiums.

Flood risk is more widespread and can affect every major Canadian city. This potential for hidden long-term water damage makes robust moisture management plans critical. These plans must cover every stage, from manufacturing to transportation to final installation, with ongoing monitoring to ensure no product is compromised.

Fire remains a key consideration, but Mass Timber has inherent advantages over light wood framing. Unlike traditional frame construction, Mass Timber elements are engineered with built-in fire resistance, similar to how concrete achieves fire protection through its cover. Large structural timber members develop a sacrificial char layer that protects the core, maintaining structural integrity significantly longer than unprotected steel or light wood framing. Even when fire protection materials (e.g., gypsum board) are applied later in the build, the massive size of the elements provides a degree of protection throughout the construction process.

While this inherent resilience reduces the probability of catastrophic structural failure, fire prevention protocols, including hot work permits, fire watches, and on-site suppression equipment, remain essential to safeguard materials and maintain insurer confidence.

Alternative Risk Solutions

The Mass Timber sector faces a fundamental insurance challenge: excessive costs and limited capacity driven by risk uncertainty. While insurers are open to participating, many require more credible claims data, predictable underwriting models, and clear loss control strategies before committing meaningful capital.

To address this gap, a purpose-built insurance facility supported by an industry association, private sector partners, and potentially government could help shift the dynamic. Such a facility would improve capacity, lower costs, and critically, generate the structured claims and policy data needed to build long-term insurer confidence.

Rather than relying on a single mechanism, several alternative risk financing models could be used, either independently or in combination:

1. Self-Insured Retention (SIR) Layer
A Self-Insured Retention (SIR) allows participants to retain losses up to a set threshold before insurance responds. In a group setting, a group of industry players could pool funds to cover the first layer of risk (e.g., the first $1M of any loss) thereby reducing volatility for commercial insurers and improving pricing above that layer.

How this helps: This structure enables group-level risk sharing while preserving access to excess layers from commercial markets. It also encourages better risk management at the front end.

2. Captive Insurance Company
A captive is an insurance company owned and operated by its members, which can issue policies, handle claims, and reinsure certain risks. Captives offer full control over underwriting, pricing, and claims governance, ideal for an emerging sector where flexibility is key.

How this helps: An industry or government-sponsored captive could aggregate multiple Mass Timber projects under a single facility, smoothing losses, setting consistent underwriting and risk management standards, and accumulating long-term claims data. Captives also offer an opportunity to build deep technical expertise, for example, developing Mass Timber-specific risk models, collecting data on perils like water damage or fire remediation, and using that information to educate the commercial market.

Over time, a captive could even serve as a specialty rating and certification hub, assessing project-level risk factors such as moisture management plans, fire protection design, and contractor qualifications. This not only improves pricing accuracy but also helps position the sector as proactive in addressing insurer concerns.

Importantly, because mass timber adoption is of public and national economic interest, there is a compelling case for federal or provincial governments to consider establishing or supporting such a captive. A government-backed approach could be structured to be cost-neutral over time while enabling more projects to access insurance and creating a publicly owned repository of Mass Timber risk data, helping the entire market price coverage more accurately.

Similar models have succeeded in other sectors: for example, the Canadian Nuclear Insurance Association, which pools risks for the nuclear industry, and captive facilities established by transportation and energy sectors to stabilize coverage when commercial markets were unavailable. These precedents demonstrate that sector-wide risk-financing vehicles can be both viable and effective in unlocking private-market participation.

By taking on the riskiest layer and proving performance through data, the captive could attract reinsurance partners and ultimately bring traditional insurers back into the market at scale.

3. Reciprocal Insurance Exchange

A reciprocal is a member-owned insurance facility governed by an attorney-in-fact. Unlike captives, reciprocals are not corporations but contractual risk-sharing pools.

How this helps: Reciprocals provide another way to pool premiums and losses across members, with governance rooted in mutual accountability. They can be faster to start up than captives and are attractive for sector-wide collaboration.

4. Group Deductible Buy-Down Program

A group deductible structure can provide an opportunity for participants to share in higher deductibles collectively, with individual insureds having the ability to “buy down” their portion to a lower level. This approach can create alignment of interests, support loss control, and offer cost efficiencies when structured correctly.

However, the implementation of a group deductible buydown and/or pooling arrangement is subject to regulatory approval. Specifically, regulators may review such structures to ensure they are not deemed to constitute a reciprocal insurance exchange. As such, the most prudent path forward would be to engage with regulators in advance to confirm the permissibility of the structure—or to obtain explicit confirmation that it will not be regulated as a reciprocal—before moving ahead.

Example:

- Imagine a Mass Timber project with a $100M value. The standard deductible for water damage on this kind of project might be $500,000, a significant upfront financial exposure.
- Under a group buy-down structure, the deductible could be reduced to $250,000, with the $250,000 difference covered by a shared pool funded by industry groups. If no claims occur, the pooled funds may carry forward or be refunded proportionally.
- To make this sustainable, participants might contribute a small percentage of their overall premium into the pool. The larger the group, the more diversified the risk. Government support could also be layered in to help capitalize the pool or subsidize contributions, improving uptake and reducing per-member cost.

How this helps: Shifting part of the deductible risk to a common pool reduces the exposure insurers must price for, allowing them to offer more favorable terms and greater capacity on individual placements.

Next Steps: Pro Forma and Feasibility Modeling

A financial pro forma can be applied across all these options to assess startup costs, capital needs, operating assumptions, risk-sharing mechanics, and potential revenues/benefits. A detailed feasibility study would be a recommended next phase, co-led by CSBA and advisors, to select the most suitable structure and implementation pathway.

Together, these alternative risk solutions offer a way to unlock the insurance market, retain control over claims data and policy terms, and accelerate the safe adoption of Mass Timber in Canada.

To illustrate how an industry-backed facility could be structured and financed, a sample pro forma is included in **Appendix A**. This preliminary model outlines key cost inputs, funding contributions, and potential risk-sharing dynamics across stakeholders. A full actuarial and financial feasibility study would be recommended as a next step.

For a more detailed overview of the insurance facility options discussed such as captives, reciprocals, and SIR structures please refer to **Appendix B**. This technical supplement provides additional context on setup, governance, and regulatory considerations relevant to each model.

Below is a quick table of each offering and their relative characteristics:

Structure	Ownership	Control	Capital Required	Scalability	Government Role
Captive	Industry and/or Government	High	Moderate-High	Good	Optional
Reciprocal	Industry Members	Medium	Medium	Moderate	Optional
Group Deductible	Shared	Low-Medium	Low	Limited	Unlikely

Capacity Impact

This section illustrates how a dedicated insurance facility could expand market capacity for Mass Timber projects by addressing current gaps in insurer appetite and risk tolerance. Using a sample $8 billion pipeline of Mass Timber projects, we model capacity constraints under three scenarios: the current state, a projected failure scenario, and two iterations of a facility-enhanced market. The goal is to demonstrate how even partial public or industry-backed support can meaningfully unlock underwriting capacity and enable larger, more ambitious projects.

Projects are grouped by size:

- **Small**: ~$50 million
- **Medium**: ~$100 million
- **Large**: ~$200 million

The x-axis on each chart shows the number of insurers required to subscribe to fully insure the limits for each project size. As project size increases both the limit required and the number of insurers needed increases, eventually hitting a capacity ceiling under the current model.

Chart 1: Current Scenario – Market Fragmentation

In the current market, insurer participation remains limited and uneven. Each project, whether small, medium, or large requires multiple insurance providers to subscribe to their respective share of the total coverage required. However, many insurers remain hesitant to underwrite Mass Timber due to a lack of historical data and concerns about emerging risks (e.g., water damage, fire resistance).

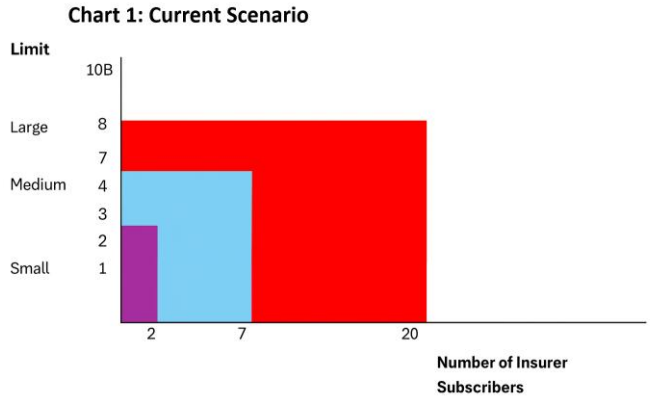


Chart 2: Capacity Constraints – Uninsured Projects

This chart presents a realistic stress scenario based on current market feedback: a situation where available insurer capacity simply does not meet the demands of the pipeline.

In this modeled outcome, all large projects and a significant portion of medium-sized ones fail to secure adequate coverage. The knock-on effect is that these projects are delayed, re-scoped, or abandoned entirely, not due to construction feasibility or financing, but because of risk transfer failure.

This snapshot demonstrates the severity of the issue: without targeted intervention, the industry faces an artificial ceiling on growth that stifles innovation and blocks the very projects most aligned with sustainability and climate goals.

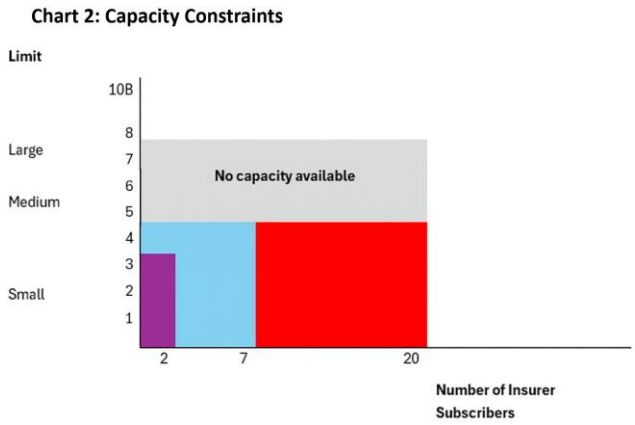


Chart 3: Facility-Enabled Market – Improved Risk Distribution

Now imagine an early intervention: the establishment of an insurance facility or Self-Insured Retention (SIR) layer that absorbs the first $2 million of every claim.

This targeted layer, funded by industry or government partners, eliminates the most volatile portion of the risk from the perspective of traditional insurers. In doing so, it reshapes the risk profile of each project and makes participation more attractive for insurers who otherwise would not underwrite first-dollar loss.

The shift in this chart is subtle but powerful: more medium-sized projects are now able to proceed, and some capacity returns for larger builds. While still not a full solution, this approach begins to bend the capacity curve in the right direction

Chart 3: Facility-Enabled Market: Improved Risk Distribution

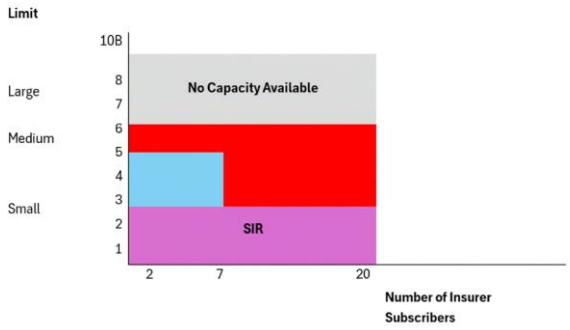


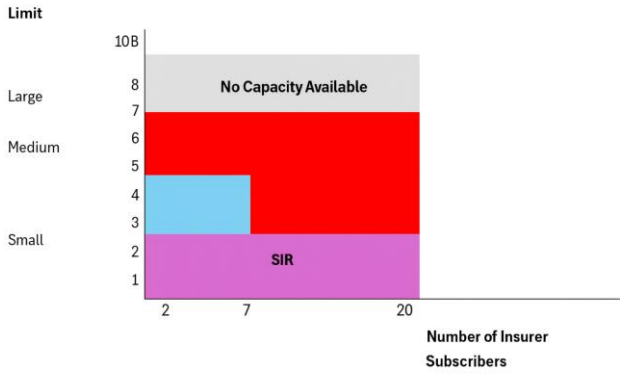
Chart 4: Stabilized Market – Risk Laddering Effect

In the final scenario, we model the full potential of the facility once the market has adjusted. With the $2M SIR layer consistently in place, insurers can now price and participate with confidence, knowing they are only on the hook for larger, less frequent losses.

This risk “laddering” effect means that capacity is unlocked not by lowering risk, but by reconfiguring how it’s shared. Insurers who were once reluctant now see a more predictable and manageable portfolio of risks, and as a result, more of them enter the space.

The chart shows a return to viability across all project sizes. Importantly, this isn’t achieved through subsidies or concessions, but through the strategic deployment of reserve capital and collective risk management.

Chart 4: Stabilized Market: Risk Laddering Effect



Interpretation and Implications

The introduction of a facility, even with a modest $2 million per-occurrence layer, can transform the underwriting landscape for Mass Timber. By removing the most volatile claim layer from the commercial market, it makes participation far more attractive for traditional insurers, increases competition, and ultimately unlocks capacity.

Key points:

- **This is not a subsidy**, but a reserve mechanism. The largest cost component ($5 million) is capital that sits in reserve unless adverse claims occur.
- **Government or industry support** could catalyze uptake without requiring full expenditure upfront.
- **Underwriting profit is a secondary benefit**; the primary purpose is to unlock capacity and scale market viability for Mass Timber construction.

The following section provides further detail on the types of insurance facilities that could be implemented and the structures needed to support them.

Conclusion and Next Steps

Insurance capacity continues to dictate and restrict the usage of Mass Timber in our market. The industry cannot rely on traditional methods of insurance to push through due to unrealistically prohibitive costs. The data that insurers need to better understand and correctly rate mass timber is not likely to appear for years to come so an alternative solution must bridge the gap.

Several alternative solutions are available such as a captive insurance company, a self-insured program, and the shared group risk of a reciprocal. Each of these take extensive resources to put together however the Mass Timber industry will lose more in lost opportunity if they wait as we continue to be hindered. If private and/or public funding can come together to build a facility that will support the industry, this can open the availability of insurance and grow the market without relying on basic insurance. This is a solution for today and not one where the industry has to wait for years of data accumulation. If Mass Timber is going to succeed then all parties involved in its evolution must come forth and support this initiative. In a world facing accelerating climate change, it is our collective responsibility to ensure that Mass Timber succeeds, not in the distant future, but today.

To move forward, CSBA or other public or private mass timber advocates should:

1. Work with partners to advance a Phase 2 Feasibility Study to:
    a. Evaluate the financial and operational viability of a industry or government-led insurance solution (e.g., captive or reciprocal).
    b. Assess capital requirements, governance models, and regulatory considerations in detail.
2. Engage with government partners to:
    a. Secure start-up funding (e.g., for capital reserves or operating setup)
    b. Explore guarantees or backstops that enhance capacity and reduce risk for traditional insurers.

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APPENDICES

Appendix A – Pro Forma Model

This pro forma models the proposed first-layer insurance facility only, not the broader market exposure or total project limits but supports the case for a Mass Timber insurance facility. Its purpose is not to project traditional profit, but to show how pooled insurance capacity, funded through public, private, or hybrid models, can stabilize premiums, unlock capacity for larger projects, and enable long-term control over claims data. The example models a representative mix of small, medium, and large projects, assuming consistent loss ratios and premium rates to highlight cale efficiency. All key assumptions are noted in the footnotes. A detailed financial feasibility study would refine these figures and tailor the structure to the funding approach selected.

The facility is modeled to provide up to $2 million per occurrence, with a $2 million project aggregate and a $10 million total annual limit. To support this, an initial investment of $8 million would be required, split between $5 million in capital reserves and $3 million in operating costs, including captive management fees (detailed later in this report).

Based on the current assumptions, the facility would generate a net surplus of $1.9 million in its first year, growing to $2.6 million by year five, driven by underwriting margin and investment returns. This demonstrates the potential long-term financial sustainability of a centralized risk facility, but it also underscores the importance of prudent claims management, as adverse losses could erode surplus.

While the pro forma illustrates the financial benefits of centralizing insurance control, it assumes a conservative and predictable loss pattern. As always, adverse losses remain a risk and could erode projected surplus, underscoring the need for strong claims management and governance.

Market Example

Project Size	Limit Per Project ($M)	Number of Projects	Total Limit ($M)	Rate per $100/month	Duration (months)	Premium ($)	Loss Ratio (%)	Expected Loss ($)
Small	50	6	300	0.06	12	2,160,000	50	1,080,000
Medium	100	3	300	0.04	24	2,880,000	50	1,440,000
Large	200	2	400	0.03	36	4,320,000	50	2,160,000
Total	350	11	1,000	0.13	72	9,360,000	50	4,680,000

**Assumptions: Assumes pooled capital covers only initial $2M per project; excess coverage assumed to be placed via private market. Rates are illustrative and assume no surcharge or catastrophic loading. Premiums are calculated based on the formula: monthly rate × limit × duration. The modeled loss ratio is 50%, reflecting a conservative but realistic claims environment. Actual feasibility would require actuarial validation and may be adjusted based on regulatory input and real-world claims data.*

Financials

	2025	2026	2027	2028	2029
Written Premium	9,360	9,641	9,930	10,228	10,535
Total Underwriting Expenses	4,634	4,679	4,725	4,772	4,818
Operating Costs	3,000	3,090	3,183	3,278	3,377
Net Operating Income/(Loss)	1,726	1,871	2,022	2,178	2,340
Investment Income	217	219	220	222	223
Net Income/(Loss)	**1,943**	**2,090**	**2,242**	**2,400**	**2,563**

**Values illustrated in millions of dollars ($000s)*

Appendix B – Technical Overview

Captive Insurance Company

This section provides a general overview of the steps required to form and license a captive insurance company in Alberta (a **Captive**), with a focus on the following areas: (**A**) pre-entity creation and (**B**) entity creation, organization, and insurance licensing requirements.

Pre-Entity Creation

i. Feasibility Study

Engaging a Captive business advisor (such as Dion Strategic) to prepare a Captive feasibility study is the first major step to establishing a Captive. Such a feasibility study is a collaborative study of a corporation's or association's (the **Applicant**) risk profile that utilizes actuarial reports, investment models, insurance market conditions and an assessment of regulatory, legal, and tax issues. Based on these, the feasibility study typically provides a recommendation for risk management options, including whether a Captive is a feasible risk management option for the corporation or association.

ii. Determine Captive Type and Form

a) Type

Once the Applicant has determined it wishes to form a Captive in Alberta, it should then determine which one of the following Captive types permissible in Alberta it will seek to form:

Pure Captive

This is a Captive that insures the risks of its parent company and its parent company's affiliates, in addition to the officers, directors, employees, agents and independent contractors of itself, its parent and its parent's affiliated entities against losses while acting on behalf of itself, its parent or its parent's affiliated entities.[2]

Sophisticated Captive

This is a Captive that insures the risks of the sophisticated insureds that comprise its sophisticated insured group and their affiliated entities, in addition to the officers, directors, employees, agents and independent contractors of itself, a sophisticated insured in its sophisticated insured group or the sophisticated insured's

[2] *Captive Insurance Companies Act* (Alberta), s 27(1).

affiliated entities against losses while acting on behalf of itself, the sophisticated insured or the sophisticated insured's affiliated entities.[3]

A "sophisticated insured" is an insured person who, in the Superintendent's opinion, has expertise in insurance matters and whose aggregate annual premiums for insurance on all risks insured by an insurer total at least $500,000.[4,5,6]

Association Captive

This is a Captive that insures the risks of its association, the member organizations of its association and their affiliated entities, and the officers, directors, employees, agents and independent contractors of itself, its association, a member organization of its association or the member organization's affiliated entities against losses while acting on behalf of itself, the association, the member organization or the member organization's affiliated entities.[7]

An "association" is an association of persons, the member organizations of which, or which does itself, whether or not in conjunction with some or all of its member organizations, own all of the Captive's shares (if a body corporate) or own all of the partnership interests in the Captive (if formed as a limited partnership).[8]

b) Form

After determining the desired Captive type, the Applicant should then determine the desired form of Captive. That is, whether to form it as (**a**) a corporation under Alberta's *Business Corporations Act* (the **BCA**)[9] or (**b**) as a limited partnership under Alberta's *Partnership Act* (the **Partnership Act**)[10]. If a limited partnership is desired, there must be only one corporation general partner of the limited partnership that is registered under the BCA.[11]

iii. Initial Engagement with the Alberta Superintendent of Insurance

While setting-up a Captive in Alberta requires a formal application to be submitted to the Alberta Superintendent of Insurance (the **Superintendent**), prior to the submission of the formal application, it is highly recommended that the Applicant – along with its legal counsel and business advisors (including its actuary) – speak with the Superintendent to discuss the proposed Captive to "sound out" the Superintendent's views on a possible application. Perhaps most importantly, this is an opportunity for the Applicant to appreciate any concerns the

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[3] *Ibid*, s 27(3).
[4] *Ibid,* s 27(3)(a) and (b).
[5] *Ibid*, s 1(1)(o)(ii).
[6] *Captive Insurance Companies Regulation*, Reg. 196/2022, s 2.
[7] *Supra* note 1 at s 27(2).
[8] *Ibid,* s 1(1)(b).
[9] *Ibid,* s 2(a).
[10] *Ibid,* s 2(b).
[11] *Ibid,* ss 2(b)(i) and (ii).

Superintendent may have with a possible application, in order to address them before submitting a formal application. In particular, the Superintendent will want to discuss the Captive's (a) proposed owner(s), (b) ownership structure, (c) business plan (much, if not all, of this information would likely be covered in the feasibility study), (d) business drivers for implementing a Captive, and (e) risks the Captive proposes to insure.

Entity Creation, Organization and Insurance License Application

i. Creation

If the Superintendent agrees in principle to the Applicant's establishment of the proposed Captive, the Applicant may then form the Captive as either a corporation under the BCA or as a limited partnership under the Partnership Act (see section(ii)(b) above).

ii. Organization

If the Applicant intends to use a business name for the Captive that is different than the name (or number) under which it is incorporated or formed as a partnership, the Captive will need to register that business name under the Partnership Act.

iii. Insurance License Application

Simultaneous with the Captive's formation application under either the BCA or the Partnership Act, the Applicant may submit the Captive insurance licensing application with the Superintendent.

The following is a list of major items required as part of the insurance licensing application.

1. **Personal Information Returns** for each of the Captive's owners, directors, and senior officers are required.
2. **Consent to act as Attorney for Form** signed by the attorney for services the Captive has appointed in Alberta.
3. The following **ownership and organizational documents**:
    - Current organizational chart with entities, their corporate responsibilities and oversight of the responsibilities.
    - Details on voting agreements or similar arrangements that involve persons exercising direct or indirect control over the Applicant, which may be more complicated depending on structure.
    - List of names of all persons owing any class of shares or ownership interests in the Applicant (and in any of its parents that are not also applicants), and the percentage of shares or ownership interests held.

- Summary of the current and proposed operations, financial services and other key activities carried on by the Applicant, its parent(s), affiliates, or other organizations whose risks are proposed to be insured by the Captive.
- Applicable to pure captives only, details of any plans to expand the number of parent(s)/organizations that will be insured by the Captive and the criteria to be utilized to include potential new insureds.
- Details regarding whether any of the following have been denied a request to establish a financial institution, been convicted of a criminal offence, or been sanctioned by an administrative body: (i) the Applicant and affiliated entities; (ii) their directors and officers; (iii) individuals or entities having legal or de facto control of the Applicant or affiliated entities; and (iv) individuals or entities owning the shares of, or having a direct or beneficial interest in, the Applicant or affiliated entities.
- Certified copy of a resolution of the board of directors of the Applicant, or certified partnership documentation approving the insurance licensing application.
- Certified copies of organizational documents, including all of the following:
  - *Certificate of Incorporation* issued under the BCA or *Certificate of Limited Partnership* issued under the Partnership Act (including the *Certificate of Incorporation* issued under the BCA for the General Partner).
  - Bylaws.
  - Articles of Incorporation.
  - Limited Partnership Agreement, if applicable.
  - Other foundational documents that govern the Captive.
  - Confirmation of fiscal year end.

4. A detailed and robust **business plan** is also required. At this stage in the process, we would expect that much of the Captive's feasibility study can be leveraged to satisfy the business plan's many requirements, which include all of the following:
   - Reasons why the Applicant seeks to establish a Captive.
   - Analysis of the target markets and opportunities that the Captive will pursue and the plans to address them (not applicable for pure captives).
   - Analysis of competitors, showing challenges and opportunities, and plans to address them (not applicable for pure captives).
   - Reasons why the Applicant believes the Captive will be successful and overall strategy for achieving success (including assumptions).

- Detailed description of each line of business to be conducted by the Captive and the products and services to be offered, including how the lines of business interrelate.
- Analysis explaining why the Captive's insured risks will fall within its lines of business and fall within the classes of insurance set out in the *Classes of Insurance Regulation* enacted under the *Insurance Act* (Alberta).
- Copies of all proposed insurance policies and application forms to be used by the Captive.
- Details regarding the projected insurance policy limits by class of insurance.
- Sources of initial and future capital in the form of a capital plan and the Captive's funding policies.
- List of all jurisdictions in which the Captive proposes to underwrite insurance.

5. A minimum **three-year pro forma financial statement (base case and adverse scenario)** for the Captive, including:
   - Balance sheet.
   - Income statement showing premium volumes on a gross and net basis, premiums earned, net claims and adjustment expenses, acquisition expenses, investment income and net income.
   - Details regarding any key assumptions, including actuarial assumptions, supporting the pro forma financial statements, including those related to underlying claims, valuation, pricing, underwriting and expenses.
   - Detailed calculations of financial ratios relevant to the proposed business of the Captive.
6. Detailed **description of all projected reinsurance arrangements** involving the Captive, including planned net retentions per class of insurance requested.
7. Minimum **three-year pro forma Capital Requirement calculations**, including all the following:
   - Support for the Captive's proposed internal target.
   - A detailed description of the Applicant's contingency plans to address adverse scenarios.
   - Details regarding the source(s) of the initial and future capital provided for in the base case, and under more adverse scenarios.
8. A copy of the parent's affiliates', subsidiaries', limited partnerships or general partner's most recent annual report, audited consolidated financial statement for the last three years (balance sheet, income statement, statement of changes in shareholders' or partners' equity) and, if available, a report issued by a recognized credit rating agency.
9. If a sophisticated Captive only, the Applicant must demonstrate it has expertise in insurance matters and pays aggregate annual premiums for insurance on all risks of at least $500,000.
10. A detailed description of any proposed **material outsourcing arrangements** involving the Captive and how these arrangements would be managed.
11. A copy of any proposed **shareholders' agreement**.

12. At the time the application is filed, a written commitment from the Applicant to provide the proposed initial capital of the Captive as detailed in the business plan. Note that while the minimum statutorily-required capital is $250,000 for a pure Captive and $500,000 for a sophisticated Captive or an association Captive[12], it is likely the Superintendent will almost always require more after taking into consideration the nature of the Captive's business, expected volume of business, and any restrictions on its business, pursuant to its prescribed discretion.[13]
13. Confirmation that the Captive will provide the Superintendent with adequate advance notice and obtain prior approval from the Superintendent prior to making material changes to the business plan or the Captive's organizational documents.

14. The following **governance details** are required:
    - A certified copy of the minutes of the first meeting of the Board of the Captive, or the Board of the general partner of the Captive, confirming it has done all of the following:
        - Made bylaws.
        - Adopted forms of share certificates and corporate records.
        - Authorized the issue of shares of the company.
        - Appointed officers.
        - Appointed an auditor to hold office until the first meeting of shareholders.
        - Appointed an actuary.
        - Made banking arrangements.
        - Dealt with any other matters necessary to organize the company.
    - A description of all of the following is required:
        - The composition and mandate of the Captive's Board and its committees.
        - The Board's proposed policies and practices.
        - The proposed self-assessment programs of the Board.
        - The Board's proposed responsibilities with respect to risk management and internal controls.

[12] *Captive Insurance Companies Regulation,* s 3.
[13] *Ibid,* s 18(1)(b).

- A draft copy of the Captive's proposed conflict of interest policy and, if applicable, details regarding the oversight that will be provided by the management committee(s) of the Captive's parent.
- An analysis demonstrating that the Captive's corporate governance policies and practices will comply with the Act.
- Details regarding the Captive's projected staff complement and an organization chart showing reporting lines for senior positions and key responsibilities in the Captive over the lifespan of the business plan, including proposed mandates for each senior position and any senior management committee.
- Details regarding the hiring criteria, including knowledge and experience, for each senior position.
- Information on each proposed senior officer of the Captive, including all the following:
  - A completed Personal Information Return for Directors and Officers.
  - The title of the position the individual would hold within the Captive.
  - Details of whether the individual and/or any entity in which the individual is or was a senior officer, has been subject of any criminal proceedings or administrative sanctions.
  - The individual's current curriculum vitae demonstrating that the individual has the necessary qualifications and expertise to manage the Captive's proposed business.
- The name and address of the appointed actuary of the Captive and confirmation that the appointed actuary meets the suitability requirements set out in section 8 of the Act.
- The name and address of the external audit firm, and the specific partner of that firm, who will be responsible for auditing the Captive, and confirmation that the external auditor meets the suitability requirements set out in section 7 of the Act.
- Identification and detail of the nature of relationship of any key third parties (brokers, other insurers, claims administrators, etc.) who will perform key roles in the operations of the Captive or provide management services.

15. The following details of the Captive's **risk management programs** are required:
    - A detailed description of all relevant risks to which the Captive would be exposed as well as the manner in which it would monitor and manage these risks, including:
      - Market and credit risk.
      - Operational and regulatory compliance checklist.

        - Product design, pricing and underwriting risk.
    - Draft copies of all the following are required:
        - Stress testing policies and procedures.
        - Reinsurance risk management policy.
        - Operational risk management policies.
        - Business continuity management policy, business impact analysis and plans for business continuity and disaster recovery.
        - Investment and lending policies, standards and procedures.
        - Capital management policy and policy respecting dividends or partnership distributions, as applicable.
        - If applicable, a description of any anticipated impairments to be recognized for expected future credit losses in executing the Captive's business plan in accordance with IFRS reporting requirements.
    - Name of the proposed senior officer to be responsible for risk management oversight of the Captive and a description of the resources and authority allocated to discharge this responsibility.
    - Risk appetite framework.
    - Details of any proposed risk management and control processes that will be integrated with those of the operations of the Applicant or other entities in the Applicant's group.
    - A description of the proposed mandate, organization structure, and methodology and practices of the internal audit function.
    - Where applicable, a description of the involvement of any internal audit group(s) of the Captive's affiliates to assess the internal controls of the Captive.

16. Details of the Captive's **compliance programs** are required to ensure compliance with the following:
    - The Act, regulations and guidelines issued by the Superintendent, including the name of the proposed senior officer that would be responsible for such compliance, and a description of the resources and authority to be allocated to that person to discharge this responsibility.
    - Sections 83.08 to 83.12 of the *Criminal Code* (Canada) and the *Regulations Implementing the United Nations Resolutions on the Suppression of Terrorism* (**UNSTR**) and related directives issued the Government of Canada, including the name of the proposed senior officer that would be responsible for compliance with the Criminal

Code and UNSTR, and a description of the resources and authority to be allocated to that person to discharge this responsibility.

- The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (**PCMLTFA**),and related guidelines issued by the Financial Transactions and Reports Analysis Centre of Canada and the Office of the Superintendent of Financial Institutions Canada (**OSFI**) *Guideline B-8 - Deterring and Detecting Money Laundering*, including:
  - The name of the proposed Chief Anti- Money Laundering Officer that would be appointed under the PCMLTFA
  - A description of the resources and authority to be allocated to that person to discharge this responsibility
  - An assessment of the money laundering and terrorist financing risks relevant to the proposed Captive's business plan.

17. A copy of the Captive's **information technology plan**.
18. A non-refundable **application fee** of $500, along with a non-refundable **class of insurance fee** for each class of insurance for which the Captive is applying to underwrite ($600 for each of life, property, accident and sickness, and hail; and $100 for any other class of insurance).

Summary and Cost Estimate

The Alberta Superintendent of Insurance has committed to an application review timeline of six weeks after all application documentation is received in good order. Based on our experience with the Superintendent to date, the are very motivated to work with Captive applicants in a pragmatic manner during the application process.

Based on our experience to date, assuming an association Captive formed as a limited partnership is selected, we would expect the following estimate of costs for legal fees (plus HST):

- Incorporation and formation of association – CAD 5,000 to CAD 7,500
- Incorporation of general partner – CAD 2,500 to CAD 3,000
- Drafting limited partnership agreement – CAD 40,000 to CAD 50,000
- Preparation and submission of licensing application – CAD 75,000 to CAD 95,000

The time periods and legal fees noted herein may be less if all materials, Applicant decisions, business plans and related materials are well prepared, responsive to the Superintendent's needs (and those of the other provincial regulators, if applicable) and provided promptly. Conversely, the time periods and legal fees can also increase if (i) circumstances require more than one draft of agreements or (ii) the materials presented to the

Superintendent (and the other provincial regulators, if applicable) give rise to concerns, additional information requests, or protracted negotiations.

Reciprocal Insurance Exchange

A reciprocal insurance exchange (a **Reciprocal**) is defined under the *Insurance Act* (Ontario) as "a group of persons (known as "subscribers") exchanging reciprocal contracts of indemnity or insurance with each other through the same attorney.[14]

Unlike a Captive, a reciprocal is not an incorporated entity or a partnership. Rather, it is a contractual arrangement between subscribers. Like Captives, however, Reciprocals are highly regulated under the insurance legislation of the province in which they are formed.

The first step in establishing a reciprocal is to commission a feasibility study to understand whether it is a viable alternative risk solution.

Ontario Reciprocal's laws are generally representative of the respective Reciprocal laws across Canada. As such, we will focus on Ontario's laws hereinafter.

Establishing a Reciprocal

To establish and obtain licensing for a Reciprocal in Ontario, the Reciprocal must apply to the Financial Services Regulatory Authority (**FSRA**).[15] The application must include all the following:

1. The name of the attorney and the name or designation under which reciprocal contracts of indemnity or insurance are issued.
2. The classes of insurance to be effected or exchanged under the Reciprocal.
3. A copy of the subscribers' agreement, which, at a minimum satisfies all of the following elements:
    - Provides for the establishment of an advisory board to be responsible for the supervision of the Reciprocal.
    - Sets out the powers and duties of the advisory board.
    - Describes how the Reciprocal will establish the investment and lending policies, standards and procedures that are required under the Act.

[14] *Insurance Act*, R.S.O. 1990, Chapter I.8, section 1.
[15] *Ibid*, section 382(1).

4. A copy of the form of the contract or contracts of indemnity or insurance to be effected or exchanged.
5. A copy of the form of power of attorney under which reciprocal contracts of indemnity or insurance are executed on behalf of the Reciprocal's members by a person other than a member.
6. The location of the office from which reciprocal contracts of indemnity or insurance are to be issued.
7. A plan of operation, in a form approved by FSRA, that provides information with respect to the business of the Reciprocal.
8. Evidence satisfactory to FSRA that it is the practice of the Reciprocal to require its subscribers to maintain in the hands of the attorney, as a condition of membership in the exchange, a premium deposit reasonably sufficient for the risk assumed by the exchange.
9. Evidence satisfactory to FSRA that the management of the affairs of the Reciprocal is subject to the supervision of an advisory board in accordance with the Act's requirements.[16]

When assessing the application, FSRA may issue a license to the Reciprocal if it is satisfied that the Reciprocal meets all the following requirements and criteria:

1. The name or designation of the Reciprocal must not be so similar to any other name or designation previously adopted by any Reciprocal or by any licensed insurer as in the opinion of FSRA to be likely to result in confusion or deception.
2. The Reciprocal must be financially viable, having regard to the credit worthiness of the subscribers and the number and diversity of risks to be insured through contracts of indemnity or insurance.
3. There must be a reasonable degree of similarity among the subscribers.
4. Adequate arrangements for the funding of losses must have been made.
5. It must be the practice of the Reciprocal to require its subscribers to maintain in the hands of the attorney, as a condition of membership in the exchange, a premium deposit reasonably sufficient for the risk assumed by the exchange.
6. The management of the affairs of the Reciprocal must be subject to the supervision of the advisory board in accordance with the terms of the subscribers' agreement.
7. The subscribers' agreement complies with the requirements of the Act.[17]

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[16] *Ontario Regulation 637/00: Reciprocal Insurance Exchanges*, section 1(1).
[17] *Ibid*, section 2.

Required Reserves

a) ***Required Cash or Investments***

At all times, the Reciprocal is required to maintain a sum of cash or investments of not less than 50% of the net written premiums reported in the most recent annual statement submitted to FSRA.[18] In determining the amount of such cash and investments for a Reciprocal with its principal head office in Ontario, it's the value of only investments the Reciprocal is permitted to make under the Act.[19]

b) ***Required Minimum Surplus***

At all times, the Reciprocal is required to maintain a minimum surplus of assets in excess of all liabilities, amounting to not less than $50,000.[20]

Summary and Cost Estimate

In our experience, it is not as common to see Reciprocals being created over Captives. The higher ongoing operation costs of a Reciprocal versus a Captive is one of the main reasons we see clients making this decision.

Based on our experience to date, assuming an association Captive formed as a limited partnership is selected, we would expect the following estimate of costs for legal fees (plus HST):

- Drafting plan of operation – CAD 30,000 to CAD 40,000
- Drafting subscribers' agreement – CAD 60,000 to CAD 75,000
- Preparation and submission of licensing application – CAD 75,000 to CAD 95,000

The time periods and legal fees noted herein may be less if all materials, Reciprocal decisions, and related materials are well prepared, responsive to the regulator's needs (and those of the other provincial regulators, if applicable) and provided promptly. Conversely, the time periods and legal fees can also increase if (i) circumstances require more than one draft of agreements or (ii) the materials presented to the regulator (and the other provincial regulators, if applicable) give rise to concerns, additional information requests, or protracted negotiations.

[18] Supra note 13, section 386(1).
[19] Supra 15, section 3(2).
[20] *Ibid*, section 4.