

Putting LAWPRO's vision and values to work – for you



I am pleased to present our second annual review of LAWPRO operations.

Unlike our [annual report](#) – which you can find on our website – this review is light on the financials and heavy on the kind of information you need to know: What's happening with claims and how does that affect premiums; how we're continuing to evolve our programs and services to better meet your needs; and how LAWPRO is working on your behalf in industry, regulatory and government circles.

To give added focus to these efforts, and to mark our 15th anniversary in 2010, the LAWPRO team developed a vision, mission and values statement – a high-level road-map that helps us identify priorities, guides our activities, and provides a benchmark against which we measure ourselves. It also provides an ideal framework for comments on how LAWPRO meets its mandate to be efficient, effective and accountable – for the benefit of all insureds.

Professionalism

We take very seriously our role as stewards of the profession's resources, and to that end hold ourselves to the highest professional standards in everything we do – whether we are helping an insured with a claim, communicating with the profession or crunching the numbers and preparing our annual financial statements.

The very solid and stable results we reported for 2010 speak to this commitment to stewardship. The company reported a

net income of \$15.2 million as a result of which shareholder's equity – the investment the profession has in the company – grew to \$159 million. Our investment portfolio generated income of just over \$19 million and the company has assets of just under \$560 million.

This healthy bottom line is not the result of an improved claims experience. It is, however, an example of professionalism at work. Two years ago, our internal and external actuaries began an extensive review of the actuarial model which LAWPRO uses to project ultimate claims costs. The goal: models that would allow for more robust claims cost projections that reflect the unique nature of our E&O program, and draw on our more than 10 years of claims experience since the original models were adopted in 2001. Under the new models, we were able to release more than \$20 million of gross claims reserves, contributing to claims costs as reported in our financial statements of just under \$80 million.

But as professionals we focus not on this one-time solid result, but on the need to manage a claims portfolio that continues to nudge the \$85 million mark in annual claims costs. As documented on the following pages, we are working on many fronts to manage this challenge – from stepping up our risk management efforts to keeping a tight rein on general expenses (which at 18 per cent of the total budget compare favourably to the industry norm of close to 30 per cent) to exercising our

rights of recovery on claims in both our E&O and TitlePLUS portfolios, which could generate more than \$1 million in recoveries.

Integrity

Stewardship also dictates that our approaches reflect sound insurance business practices. As an insurance company we operate in an increasingly regulated and scrutinized market. In the interests of all policyholders, we keep our eye on both the bottom line and the critical benchmarks that regulators (we are licensed in all jurisdictions across Canada) and auditors use to assess our solvency and viability. Our focus is on the long-term survival of a financially sound insurance program (and by implication, the long-term survival of LawPRO's capital that has come predominantly from the members of the legal profession).

That is why, for example, we recommended a primary professional liability base premium for 2011 of \$3,350. Given the high level of claims costs and the relatively lower level of investment returns, a premium increase was inevitable – difficult and unpalatable a decision as it was. Guided by this commitment to integrity – to being consistent, fair and accountable – we “take the high road” of being fiscally prudent.

The long-term viability and integrity of the program is also uppermost in our minds when we say that the robust financial results of 2010 are exactly what the doctor ordered. A key benchmark against which our regulator evaluates our performance each year is the Minimum Capital Test (MCT) which at year end was 226 per cent. Pending changes to the way the regulator calculates the MCT could result in a significant drop in all insurers' MCTs – without the companies themselves making any changes to their underlying business. It behoves us to ensure LawPRO is positioned to cushion itself against this MCT fallout when it inevitably comes our way. For a more detailed explanation of MCTs,

see the [September 2010 issue of LawPRO Magazine](#).

Also challenging our bottom line will be new financial reporting standards for insurance contracts expected to be adopted by the accounting profession worldwide. As well as requiring more disclosure as of 2011, these new standards (which we explained in the [December 2010 issue of LawPRO Magazine](#)) could dramatically affect how we treat funds held in reserve to pay for claims in the future and ultimately shareholder's equity.

There are many other examples of how we exercise our commitment to integrity. Our principled approach to E&O claims management – which sees us defend to the highest level if appropriate, resolve claims expeditiously where there is liability and refuse to entertain economic settlements – is one that benefits the whole of the bar economically as well as professionally.

The same principled approach applies to our underwriting guidelines: For example, when it became clear that building compliance issues were a major source of loss in the TitlePLUS program, we implemented measures to help lawyers identify these issues – and help their clients avoid a claim altogether. A proposed pilot project in one Ontario municipality to automate this process as part of the TitlePLUS application will further enhance the information lawyers have at their fingertips when closing a real estate transaction – as well as mitigating our underwriting risk. This initiative could well prove to be a major breakthrough that benefits lawyers, municipalities and, of course, LawPRO.

Innovation

Like any successful organization, we will not rest on our laurels. To deliver on our values, we need to be constantly innovating. The review of our actuarial models described earlier is a case in point, as is practicePRO's AvoidAclaim blog. We are

applying the same rigor and forward-looking mindset to the need to convert to new international financial standards. Because technology underpins every aspect of our organization, we have also undertaken a major review of our systems and future needs and are developing a five-year plan that will ensure we continue to be in a position to lead by example on this front.

Service and Leadership

Later in this special annual review we discuss in some detail how LawPRO delivers on the service and leadership values. Sharing information and knowledge – whether on the phone, through our practicePRO risk management efforts, by educating lawyers in seminars or reaching out to the legal community and even the consumer public through other avenues – is integral to the way we think and act at LawPRO.

Final thoughts

One of the most difficult moments for us all in 2010 was the loss of our friend and colleague Caron Wishart, who passed away shortly before Christmas after a courageous battle with cancer. As Vice-President, Claims, Caron steered the LawPRO Claims Department from 1995 to 2010. In her honour, LawPRO established an endowment in Caron's name at her alma mater, the Faculty of Law at the University of Toronto. Many have donated to this cause. Thanks to the matching grants program of the Ontario government, that endowment now stands at \$100,000 and will fund one scholarship each year for a second-year law student. We are hopeful that this endowment will continue to grow as donations continue to roll in. Caron knew about this initiative and was thrilled.



Kathleen A. Waters
President & CEO