



Statement of Comprehensive Income

Stated in thousands of Canadian dollars

2017
Annual Report

Lawyers' Professional Indemnity Company

FOR THE YEAR ENDED DECEMBER 31	2017	2016
Profit (loss)	\$ 616	8,639
Other comprehensive income (loss), net of income tax:		
<u>Items that will not be reclassified subsequently to profit or loss:</u>		
Remeasurements of defined benefit obligation, net of income tax expense (recovery) of (\$44) [2016: \$36] (note 13)	(122)	99
<u>Items that may be reclassified subsequently to profit or loss:</u>		
<u>Available-for-sale assets</u>		
Net changes unrealized gains (losses), net of income tax expense (recovery) of \$1,693 (2016: \$3,834)	4694	10,632
Reclassification adjustment for (gains) losses recognized in profit or loss, net of income tax (expense) recovery of (\$2,256) [2016: (\$1,663)]	(6,256)	(4,612)
Reclassification adjustment for impairments, recognized in profit or loss, net of income tax expense of \$461 (2016: \$236) (note 5)	1,280	655
F Other comprehensive income (loss)	\$ (404)	6,774
Comprehensive income	\$ 212	15,413

Accompanying notes are an integral part of the financial statements.

F Other Comprehensive loss: (\$0.4 million)

The solid results that the Company experienced on the equity portion of its surplus investment portfolio were offset by adverse bond results due to the rising market yields observed during the year.

After including \$0.6 million in net income (see E for details), shareholder's equity was \$253.7 million at the end of 2017, up from \$253.4 million at the end of 2016 – for a year-over-year increase of \$300,000.

Minimum Capital Test: In the zone

2017 was the final year of a three-year phase-in period for new Minimum Capital Test (MCT) requirements. The MCT is designed to ensure that a financial institution's assets are sufficient to meet its present and future obligations.

Having successfully navigated the tough new capital adequacy rules introduced by regulators in recent years, LAWPRO found itself with a MCT in the low 240s, slightly higher than the preferred operating range

of 215 to 240 established by its Board. After careful consideration, the Company made the conscious decision to lower its base premium by \$400, a move which would lower its net MCT score into the upper portion of its preferred range. The financial results for 2017 confirm that this has had the desired effect: LAWPRO's MCT score on December 31, 2017 stood at 237 per cent. ■

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Claims report

The slow erosion of old truths

Loyal readers of this magazine know that at this time of year we highlight the areas of law and the malpractice errors responsible for the largest share of claims. The highlight reel for 2017 does not forsake familiar leaders: litigation claims continue to lead the pack, and poor communication is still the easiest way to get sued by a client. But just outside the spotlight, claims pattern change is brewing in the form of gentle upward trends, both for areas of law and for causes of loss. These subtle trends have not escaped our attention, and you can expect to hear more about them in coming issues of this magazine.

Claims count and frequency

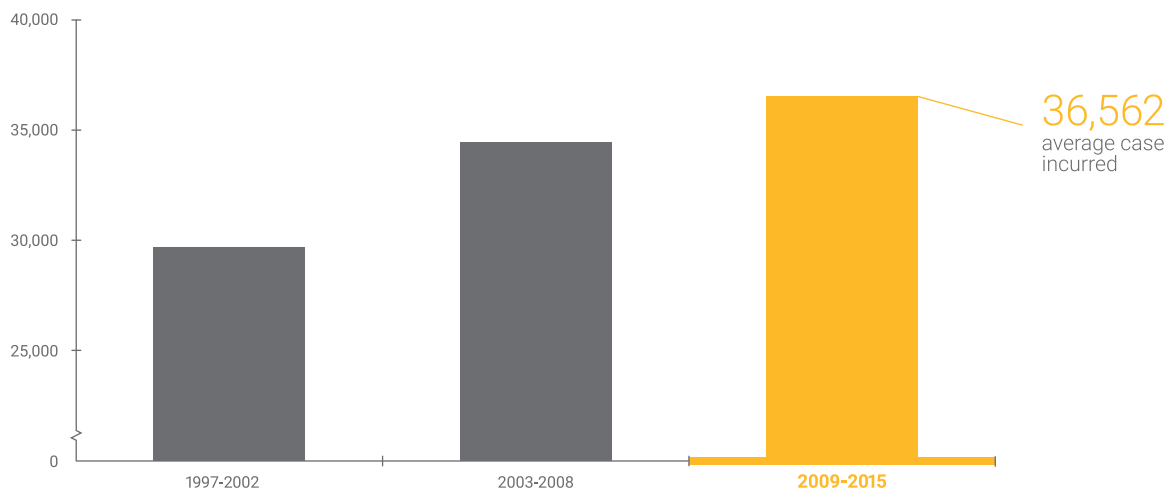
The annual new claims count continues to grow. As of February 28, 2018, there were 2,757 claims reported in 2017. It's important to keep in mind, however, that the number of lawyers in private practice has also grown. Claims frequency – the ratio between the number of practising lawyers and the number of claims – continues to hover close to the 100 claims per 1,000 insureds. In other words, while the overall cost of claims continues to be pushed upward, lawyers are not, on average, becoming more negligent.

Figure 1
Number of claims reported and frequency*



* By report year, as at February 28, 2017

Figure 2
Average cost per claim at 38 months after start of year in which claim was reported*



* As at February 28, 2017



Claims by cause of loss

The investigation of newly-reported claims takes time. It can take up to a year or more for the causes of newly reported claims to come into focus. The figure below reports cause of loss trends to the end of fund year 2017, based on the information that was available at February 28, 2018.

We used to report that lawyers know the law and apply it correctly

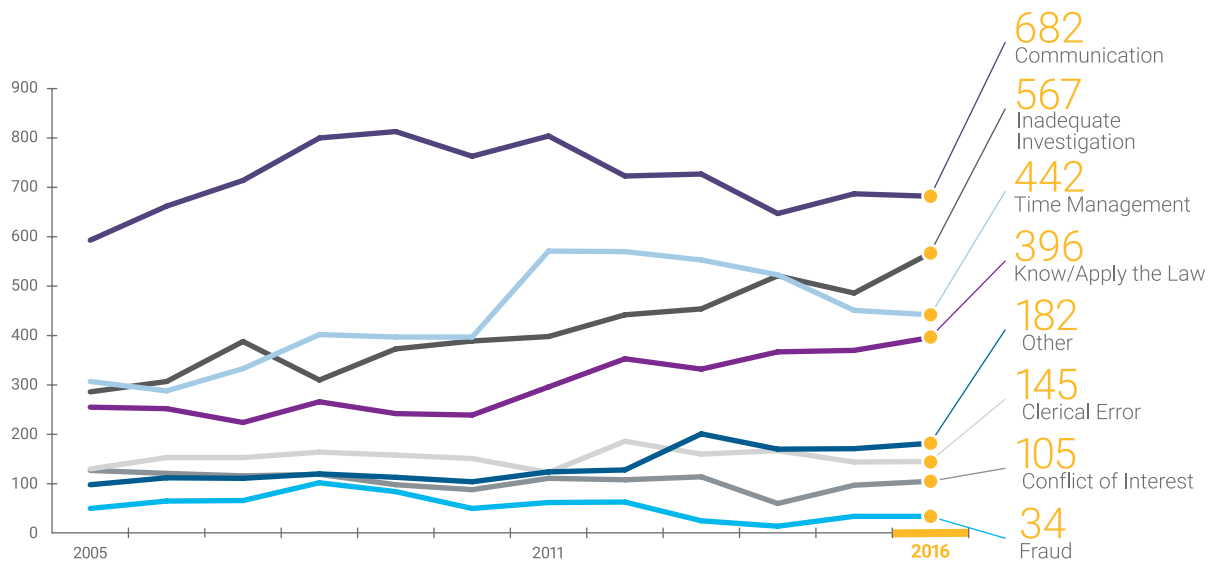
And they (mostly) still do: only 14 per cent (by count) of claims reported in 2017 were based on a failure to know or properly

apply the law. However, 10 years ago, such errors accounted for 11 per cent of claims. The prevalence of this area as a cause of claims has grown in the interval – not enough to set off any alarm bells, but it still merits reflection. What’s going on? Are efforts to contain fees putting the squeeze on legal research? Are lawyers becoming too isolated? We don’t claim to know for certain, but we’re paying attention.

Though time management errors have settled down as lawyers have adjusted to the amendments to Rule 48, inadequate investigation errors continue to show an upward trend. Problems with lawyer-client communication remain the most important cause of claims, accounting for 27 per cent of claims in 2017.

Figure 3

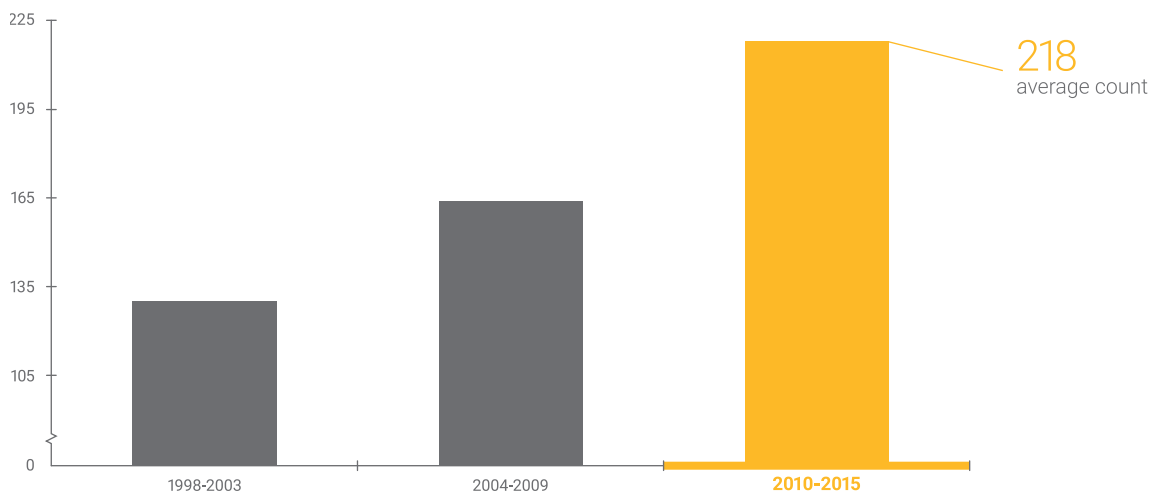
Reported claim count by cause of loss by fund year*



* As at February 28, 2017

Figure 4

Number of claims reported with a value greater than \$100,000*



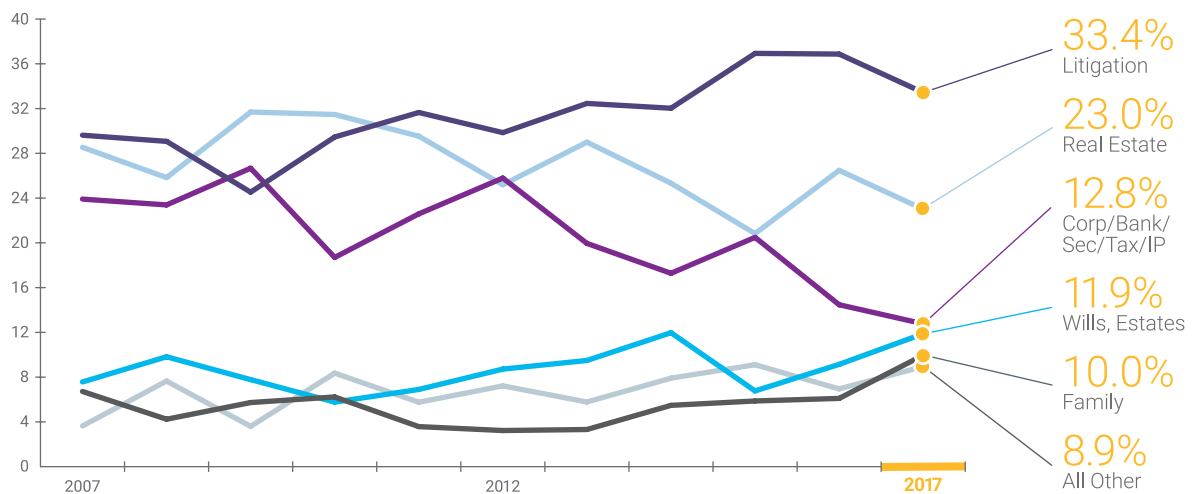
* As at February 28, 2017

Claims creeping up in traditionally “safer” areas of practice

Litigation is the area of practice responsible for the highest count and cost of claims in 2017, with real estate not far behind. LAWPRO continues to monitor claim developments in these areas. However, as is demonstrated in Figure 5 below, there has been a gradual but noticeable upward trend in other claims areas, including family law and wills. Growth in the cost of claims in these areas may reflect increases in the value of real estate, especially in urban centres, and

growth in the number of wills and estates claims may be stimulated by an increase in the relative age of the overall population. As the “baby boomer” cohort begins to bequeath significant assets to the next generation, will drafting grows more complex: lawyers may be asked, for tax purposes, to create dual wills for individual testators, or to draft wills that reflect the needs of blended families, children from multiple unions, and other special situations. Sometimes, these efforts end in litigation. At LAWPRO, we are paying close attention to the growth in wills and family law claims so that we can develop appropriate risk management responses.

Figure 5
Distribution of claims by area of practice* (% of gross claims costs)



* As at February 28, 2017

Our claims handling report card for 2017

In 2017, 96 per cent of insureds who completed a satisfaction survey reported that they were satisfied with our efforts in resolving the claims. LAWPRO defense counsel received high approval ratings, with 86 per cent of insureds stating that they were satisfied with

our selection of counsel. The LAWPRO claims resolution process involves close collaboration between the insured, internal counsel and staff assigned to the file, and in some cases, external counsel.

The annual survey of LAWPRO E&O insureds with a closed claim indicated the following:

96% said they were satisfied with how LAWPRO handled the claim.

87% said they would have the defence counsel firm represent them again.

86% said they were satisfied with our selection of counsel.

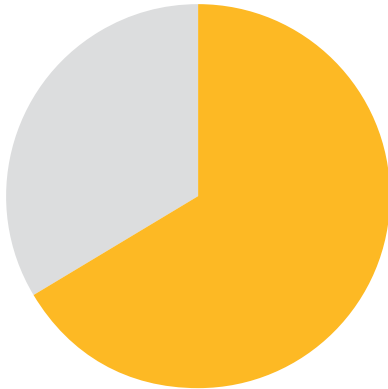
85% said LAWPRO received good value for defence monies spent.



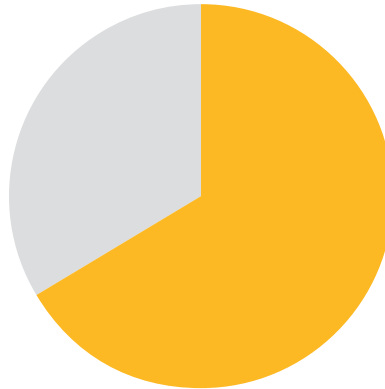
Managing claims costs requires that LAWPRO counsel make strategic dispute resolution choices. While many claims are resolved through negotiation, mediation or arbitration, we go to trial

where the circumstances warrant, typically in an effort to establish precedents that will protect lawyers in the long term. ■

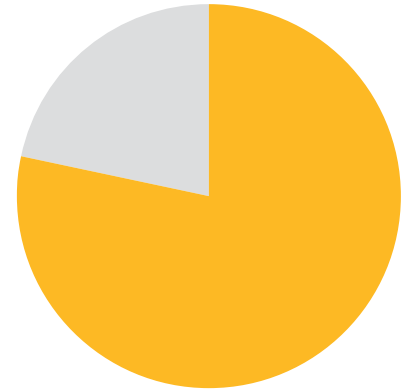
Here is a summary of our litigation results in 2017:



Succeeded in
2 out of 3
matters that went
to trial and for
which a decision
was rendered



Succeeded in
2 out of 3
appeals argued



Won
22 out of 28
summary judgment
motions completed

Figure 6

Claims by
disposition
(outcome)

