Lawyers' Professional Indemnity Company
Annual Report

service

excellence

1999 results

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Lawyers' Professional Indemnity Company

Lawyers' Professional Indemnity Company (LPIC) is an insurance company that is headquartered in Toronto and licenced in Ontario, Newfoundland, Nova Scotia and Nunavut to provide lawyers' professional liability and title insurance.

LPIC was organized and incorporated in 1990 by the Law Society of Upper Canada (LSUC) to provide professional liability insurance to its members. It operated under the control and direction of the Law Society's Finance and Insurance Committee for its first four years.

Since 1995, LPIC has operated as an independent, fully operational insurance company with its own management structure and its own Board of Directors, separate and apart from the Law Society of Upper Canada.

LPIC operates in a commercially viable and responsible manner in accordance with the regulations of the Ontario Insurance Act, the Ontario Corporations Act, and other applicable legislation.

In 1999, LPIC provided liability insurance to more than 17,500 members of the Law Society of Upper Canada and managed the liability insurance program for the members of the Law Society of Newfoundland.

Remarks of the Chairman

Once again, I am pleased to report that thanks to the efforts of many people, LPIC continues to show improved results. Since the reorganization of 1995, we have continued to run LPIC according to our plan, which was to make it an economically viable insurance company, vigorously defending claims whenever possible, and charging premiums that are determined in a commercially reasonable manner reflecting risk experience.

I believe that the profession would agree with this direction for LPIC, and furthermore, I believe that the profession would agree that the Law Society of Upper Canada should continue to follow the mandatory captive insurer model in providing professional liability insurance to its members.

At this time, LPIC has $364 million in assets, $59.7 million in equity, and in 1999, an after-tax profit of $6.2 million. New innovations at TitlePLUS and practicePRO, as well as sound management of the claims portfolio, speak to LPIC's strong service commitment to the profession.

The base premium in 2000 is down to $3,150, and depending on options selected, lawyers may enjoy discounted premiums as low as $1,454. While the base premium is essentially a function of the cost of claims divided by the number of members in the insurance plan, every effort will be made to continue to reduce insurance premiums. Risk rating has been achieved by applying transaction levies and other levies and discounts to premiums.

Since 1995, LPIC has managed the liability insurance program independently of the Law Society. The interests of the profession are well represented on the Board through our six Bencher Directors, and Directors from CDLPA, CBAO and the Advocates' Society. We also have the benefit of input from our non-bencher Directors, who represent the insurance, financial, and legal sectors and bring their expertise to the table as we review all aspects of LPIC's operations. They also bring their insight, knowledge and views on matters affecting the legal profession.

I am now serving in my ninth year as a Bencher of the Law Society of Upper Canada and I have been on the LPIC Board since 1995. I continue to believe that the insurance program model that has been adopted by Convocation is a model that is in the interests of all the members of the profession, and I believe that it should be continued in the foreseeable future.

On behalf of Convocation and the Board, I would like to thank Malcolm Heins, his strong management team, and his enthusiastic and highly competent staff for their outstanding efforts. I would also like to thank my fellow Board members for their ongoing support and counsel during my tenure as Chairman of LPIC.

Ross W. Murray

Ross W. Murray, Q.C.

Remarks of the President

For my remarks this year, I've borrowed the old line, "There's good news, and there's bad news." First, the good news: LPIC'S financial and operational results are solid, the profession by and large is prospering and most lawyers say they're busier than they've been in a long time. Yet many lawyers I meet are uneasy, discontented, even disenchanted. Stress levels are high. The question is, why?

Two years ago I indicated that new challenges facing the profession would test both it and LPIC's ability to respond. Higher client expectations, increasingly complex legislation and law, competition, technology, and an ever-expanding view of lawyers' obligations are conspiring to make the practice of law more difficult, and to increase lawyers' anxiety. The cumulative effect of these forces on legal practice is profound; nor is there any evidence that these changes in the practice climate are abating.

We see the effect of these pressures in our claims experience. No matter what the practice sector, the first or second-ranked underlying cause of claims is the breakdown of the solicitor/client relationship. Why should we be concerned if the number of claims and their costs are stable? Because we've seen this phenomenon before, in good economic times, only to subsequently find a sharp deterioration in claims experience. As well we're concerned that the good claims management practices at LPIC may well be masking a worsening claims experience.

The types of situations our claims teams are dealing with also are much more difficult than in the past. Complex factual and legal scenarios, uncompromising litigants, claims in which the litigants are self-represented, usually because they don't like the advice they would otherwise receive, all point to a significant shift in the practice climate – and to increased pressures on members of the legal community.

How can LPIC help the profession steer its way through these changing times, while focusing on its core mandate of managing LPIC in a fiscally responsible manner? By providing insurance products and services that enhance the viability and competitive position of lawyers. Over the last two years, we've met that challenge by focusing on risk management – on helping lawyers prevent claims in the first place. That emphasis acknowledges that there are few, if any, additional savings to be wrung out of the claims management process; it also addresses head-on the fact that lawyers need practical tools to better manage their practices, and their lives.

practicePRO and TitlePLUS reflect this commitment to risk management. practicePRO takes a client-centred approach to practice management, and provides tools and resources on a variety of practice management, communications skills, CLE and wellness topics. Its strong technology focus is reflected on our web site, which I urge each of you to visit.

TitlePLUS is an another example of our proactive, practice-oriented approach to risk management. We're encouraged by its commercial success in 1999 and the support of many loyal users. If you haven't yet used TitlePLUS, I encourage you to do so. Our dedicated team can put you in touch with a real estate practitioner and TitlePLUS user in your area, who can answer your questions in a practical way and in the context of local conveyancing practice.

The bad news: change is on us, and it will change us all. The good news: LPIC is well positioned to adapt to a changing practice climate and to a changing profession – and by extension to help the profession manage that changing environment. Whether its MDPs, LLPs, national law firms or international practices, we have the resources and expertise to assist the profession with its insurance and risk management needs.

All of us at LPIC are dedicated to operating the company prudently and responsibly with the interests of the profession in mind. I would like to thank the Board of Directors, my management team and each of our employees for their dedicated efforts in 1999, and I look forward to another year of innovation and success.

Malcolm Heins

Insurance Services
A Solid Foundation

LPIC's core business – the foundation on which it builds programs and services to meet the evolving needs of the legal profession – is liability insurance. Key elements of its insurance programs are the Underwriting and Customer Service functions which work in concert to provide Ontario's 17,500 practising insured lawyers with a comprehensive, flexible and responsive liability insurance program.

Underwriting determines the structure and scope of the primary and excess insurance programs that LPIC offers. The Customer Service team, many of whom are lawyers, act as a resource to the profession. They help individual lawyers understand coverage specifics, and respond to inquiries that range from how to calculate transaction levies to explanations of run-off and excess coverage; they also process all applications, notifications of change in status and more, ensuring that LPIC's database of insured lawyers is current and accurate.

In 1999, the Underwriting and Customer Service groups focused on building awareness of the very real and potentially costly risk associated with law practice, and of the options available to lawyers to ensure they have adequate insurance coverage in place.

LPIC's Customer Service Representatives (from top left, clockwise): Antonella Coluccio, Diane Seminara, Sophie Nicholson-Clarke, David Smith and Bonnie Redekop last year handled close to 55,000 calls from lawyers.

premiums

LPIC provided significant premium reductions to the 17,517 Ontario lawyers in private practice insured under the primary program:

- Base insurance premiums were reduced by $1,000 per lawyer (21 per cent) to $3,650 per insured lawyer from $4,650 in 1998.
- Further premium reductions of 10 to 40 per cent were provided to 5,206 lawyers (30 per cent of the practising bar) who qualified for the new lawyer, restricted area of practice or part-time practice discounts.
- Premiums were reduced by an additional $200 per insured lawyer for 5,000 lawyers who opted for the lump sum payment option, a savings of $1 million for the practising bar.

program

In keeping with its commitment to be responsive and customer-focused, LPIC streamlined and simplified the year 2000 insurance application process:

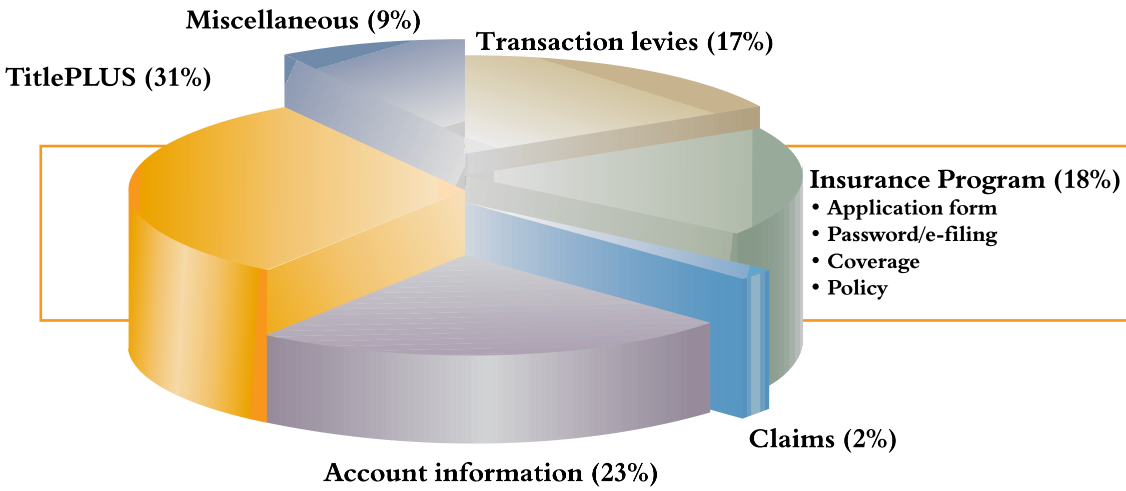
- We revamped both the print and online application/program information package to provide step-by-step instructions for completing forms and selecting appropriate options.
- More than 10,500 lawyers took advantage of the online filing option and the $50 per application e-file discount (a savings to the bar of about $500,000).
- We introduced an online password retrieval system that enabled lawyers to immediately verify their password (a pre-requisite for e-filing), eliminating delays associated with phone-in password verification.

service

By streamlining its internal operations and expanding into new media, Customer Service was able to maintain its consistently high service standards, responding to 96 per cent of calls within one minute.

- Call volumes relating to the insurance program decreased 20 per cent from 1998, due largely to the simplified application process LPIC put into place and increased comfort levels among lawyers with online technology.
- TitlePLUS call volumes increased 11 per cent from 1998, reflecting increased activity in TitlePLUS business in 1999.

Customer Service Inquiries
(54,669 inbound calls)



llence

In 1999, Customer Service also handled just under 10,000 pieces of correspondence (excluding applications and levy filings):

- The increased use and acceptance of e-mail correspondence enabled LPIC to shorten the turnaround time for responding to mail requests to less than one day from an average of two days.

excess program

In 1999, LPIC launched a concerted drive to make it easier and less costly for small firms and sole practitioners to access Excess Insurance:

- We produced a booklet and information campaign to help lawyers assess risk, resulting in a 300 per cent increase in the number of firms securing excess coverage through LPIC.
- In preparation for the 2000 program, we made it easier to access information on the costs and benefits of Excess Insurance:
  - A multi-faceted education and promotion campaign helped lawyers assess their own exposure and need for excess insurance.
  - We introduced risk-rated premiums based on claims history, areas of law and other criteria for the 2000 program, and were able to reduce excess premiums for most firms in the target market by between 10 and 35 per cent.
  - Customized preliminary estimates mailed to firms in the target group in early fall enabled firms to assess Excess Insurance as part of their overall insurance costs and budget appropriately for 2000.
  - As a result of LPIC's concerted efforts, 150 firms which had never carried excess coverage have secured this additional layer of insurance protection, and the number of firms buying LPIC's Excess program for 2000 doubled to more than 500.

service

www.lpic.ca

LPIC revamped its website to provide lawyers with around-the-clock access to information on insurance matters, allowing them to complete virtually all LPIC-related transactions online, at a time and place convenient to them:

- We expanded the range of functions lawyers can complete via the website to include online filings of insurance applications, transaction levies and claims notification; electronic record updates; and online ordering of LPIC resource materials.
- We streamlined and simplified the e-filing process for the 2000 application, prompting a record 10,550 lawyers to complete applications online.
- We customized information on insurance programs and options to enable all categories of lawyers – those in private practise, retired lawyers, corporate counsel and lawyers in government and education – to easily access information on insurance coverage and options specific to their situation.
- We introduced current news sections and an online version of the LPIC News, to provide quicker access to the latest developments at LPIC and in the world at large.

exce

Claims Management
A Proactive Balancing Act

Through its 22-member Claims team, LPIC provides lawyers with advice, help and representation if and when a claim is made against them. LPIC's claims management philosophy is built around two key mandates: to manage claims with integrity, providing lawyers with the defence to which they are entitled from their insurer; and to manage the claims portfolio in a fiscally responsible manner.

In practice, this philosophy translates into three key strategies:

- If an action against a lawyer is found to be frivolous, LPIC will aggressively defend the lawyer rather than offer a settlement to simply rid itself of the claim;
- If there is liability on the part of the lawyer, claims are resolved quickly and efficiently, with LPIC using a variety of early resolution strategies, including repair and early mediation, to derail, wherever possible, the claim from the litigation process; and
- LPIC will aggressively defend claims that can only be resolved at trial.

Although claim numbers and costs have stabilized at around 2,000 new claims reported in each of the last few years, two new trends were evident in 1999: Many new claims are increasingly complex, as are the legal issues that are associated

LPIC Claims Examiner Ian Smyth and Claims Manager Yvonne Bernstein meet with an insured lawyer to discuss resolution strategies.

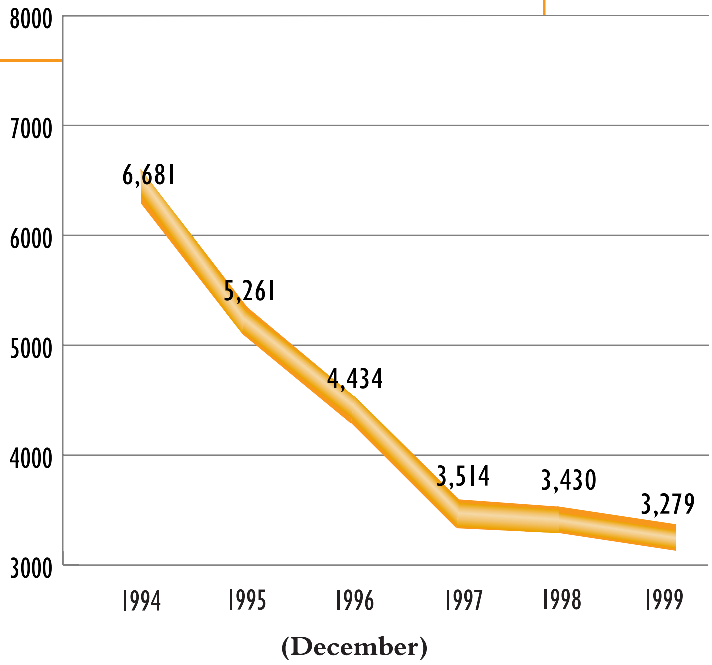
with each; and an increasing number of claimants are unrepresented. Despite the cost implications of these trends, the Claims team's concerted efforts to maintain controls over litigation enabled LPIC to keep total claim costs paid in 1999 stable at around $60 million.

numbers

At December 31, 1999, the number of open files stood at 3,279 – less than half of the peak load of 6,681 in December 1994, when LPIC assumed responsibility for the operations of the Law Society's Errors and Omissions program.

- In total, the Claims team closed just under 2,000 files in 1999.

Number of Open Files (1994-1999)

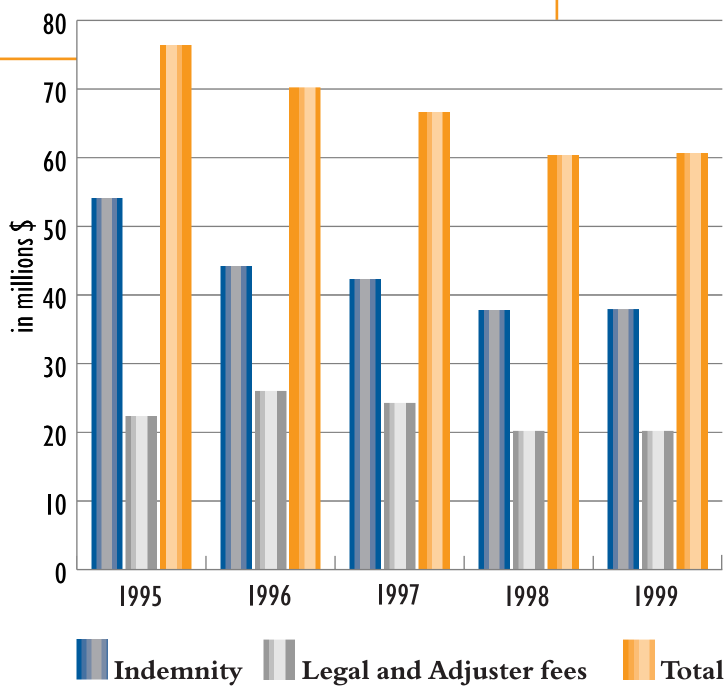


In each of the last four years, the number of new claims reported in that year has stood at around 2,000.

- Of the 2,000 new claims reported in 1999, 38 per cent (751) were closed by year end, a slight increase from 34 per cent closed in 1998 and a noticeable improvement from previous years.
- Of these 751 files closed, 70 per cent were closed without any payment (defence or indemnity) made, and 97 per cent were closed without any indemnity payment made. This track record reflects LPIC's early resolution strategy and its policy of not paying out on frivolous claims.

costs

Gross Claims Paid (1995-1999)



Total claims costs paid in 1999 were $60.7 million, consistent with 1998 results.

- Adjuster and legal fees of $20.2 million were identical to 1998 costs.
- Indemnity payments too remained constant at $37.9 million.
- Payments for expert reports, appraisals, early mediation and other early resolution strategies increased slightly to $2.6 million in 1999 from $2.4 million in 1998.

in court

In keeping with its claims management strategy, LPIC took a proactive position on a number of key claims matters:

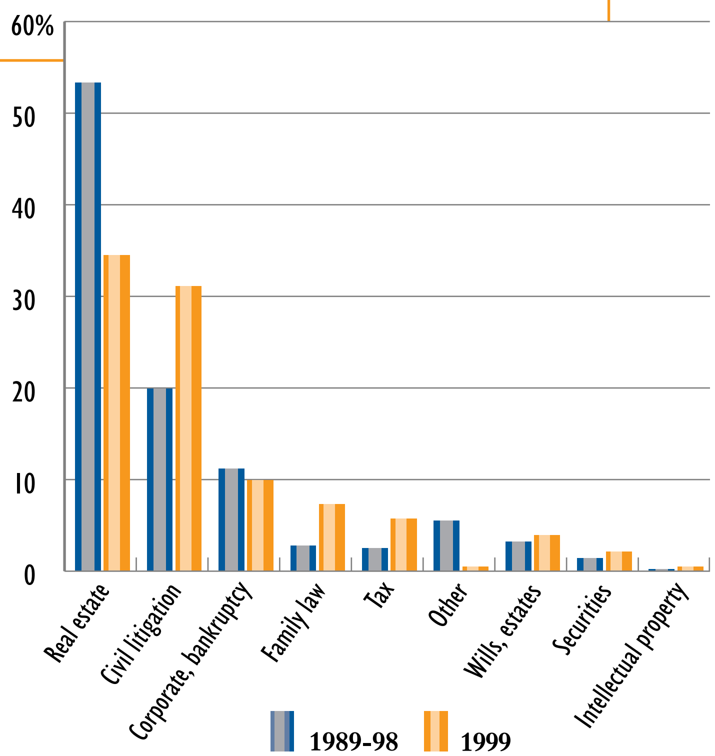
- We took to trial 20 cases that could not be resolved without trial, winning 15, losing 4, with judgment still reserved on one.
- We applied for summary judgment on 12 matters, winning 10.
- Of 7 matters before the Court of Appeal (many brought by plaintiffs), LPIC won 5, lost 1 and 1 is still reserved.

service

As part of its accountability drive, LPIC meets regularly with defence counsel to revisit its expectations and guidelines, and share evaluation information.

- Working with practicePRO and TitlePLUS, LPIC's senior claims team set up a series of regional meetings to update counsel on LPIC's plans and activities.
- Claims team members met with defence counsel firms billing $500,000 or more to review each firm's open files and ensure strategies and budgets were on track and being followed.
- A survey of lawyers whose claims were closed in 1999 indicates a high positive rating for the work of defence counsel:
  - 87% said counsel made quick initial contact and kept them well-informed of developments;
  - 93% said lawyer's expertise matched needs;
  - 83% would use the same firm to represent them again, if needed;
  - 77% said LPIC received value for monies spent.

Claims Distribution by Area of Practice
(% of Gross Claims Costs)



trends

The past two years have seen a shift in the areas of practice that generate the most claims numbers and costs.

- Although real estate claims still account for the bulk of claims numbers and costs, the percentage of real estate claims relative to the total number of claims has been decreasing steadily in the last few years.
  - In 1999, real estate claims accounted for 32 per cent of claims reported and 34 per cent of claims costs, down from 34 per cent and 39 per cent respectively in 1998.
  - 1999 statistics compare favourably to those of 1995, when more than 44 per cent of claims reported and more than 50 per cent of claims costs were generated by real estate practice.
- Civil litigation has emerged as the "growth" area in terms of risk. In fact, in terms of overall claims distribution, civil litigation now represents almost as much risk as does real estate practice. In 1999, civil litigation claims accounted for 34 per cent of claims reported (compared to 32 per cent for real estate) and 31 per cent of claims costs (compared to 34 per cent for real estate practice). In other words, litigation claims cost the profession almost as much in 1999 as real estate claims.
  - The cost of resolving civil litigation claims, as a percentage of all claims costs, has almost doubled since 1995: In 1999, civil litigation accounted for 31 per cent of all claims dollars, compared to 18 per cent in 1995.

practicePRO YOUR PARTNER AT LARGE

No matter where lawyers gather around the globe, the buzz in legal circles today centres around change. Forces such as technology, global practice, the client-controlled marketplace, competition from outside the legal sphere, and new practice models are redefining the legal profession.

In 1998, LPIC created practicePRO to help lawyers manage this change imperative and practise in a more risk-averse fashion. Its mandate: to assist the profession in becoming more PROficient, PROfessional and PROgressive, and ultimately more profitable.

Over the past two years, practicePRO has evolved into a multi-faceted initiative that uses all media, including print, presentations and internet technologies to put information and resources at the profession's fingertips. The tools and resources in its repertoire range from hands-on practice aids to online, web-based self-coaching tools, to electronic links that let lawyers access resources around the world. And because of the multi-dimensional nature of law practice, practicePRO addresses diverse needs that range from wellness and balance in law practice to continuing legal education (CLE) to practice management tips and updates on technology developments.

In keeping with its commitment to help move lawyers to technology, practicePRO in 1999 focused on providing lawyers with technology-based services. One initiative that's been lauded for breaking new ground is practicePRO's online COACHING CENTRE, an interactive, web-based self-coaching tool launched mid-year.

service

David Decker of Beard, Winter receives a hand-on demonstration of practicePRO's website from LPIC Risk Management Counsel Karen Bell.

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website

practicePRO enhanced all sections of its website, adding new topics, links to more resources and more depth to online content.

- We provided online access to the content and checklists of booklets on *Managing Conflict of Interest Situations* and *Managing the Lawyer/Client Relationship*.
- We updated the Techno Info section to include tips, checklists and background information on Y2K issues.
- The Education section was expanded to include information on Law Society's CLE calendar and competence initiative.

online COACHING CENTRE

practicePRO launched the online COACHING CENTRE (OCC), an internet-based self-coaching tool to help lawyers enhance their business, organizational and people skills – the "soft skills" that are vital to successful law practice.

- OCC provides access to more than 150 learning modules in six skills-specific workshops such as Overcoming Procrastination, Powerful Communications, Business Development and Emotional Intelligence.
- Self-assessment tools in each workshop pinpoint areas of strength and weakness, enabling users to customize a self-coaching program using specific modules available in the OCC.
- OCC has attracted widespread attention from technology and legal groups, as well as from several major law firms who plan to use the online COACHING CENTRE as a group practice management tool.

other activities

practicePRO again made use of the LPIC News, LPIC's quarterly newsletter, to provide ready access to its many tools and resources.

- We reproduced key checklists and tips from the *Managing Conflict of Interest Situations* booklet.
- We provided a detailed overview of how to use the insurance program and coverage options as a risk management tool.

For the third consecutive year, practicePRO hosted an LPIC Risk Management seminar as part of the Law Society's Bar Admission course's Professional Responsibility and Practice Management module.

promotion

In 1999, practicePRO focused on communicating the many benefits of practicePRO directly to lawyers.

- We developed a direct mail promotion campaign that included a postcard and flyer encouraging use of practicePRO and LPIC websites.
- We launched a "Partnerships" program with provincial and regional law associations, law firms and other stakeholders to bring the practicePRO message to individual lawyers across the province:
  - We prepared and delivered customized personal presentations to more than 20 groups across Ontario.
  - We participated in exhibitions, sponsorships and other regional events and will expand this initiative in 2000.
  - We developed a "practicePRO on the road" campaign featuring personal presentations to lawyer groups; this program also will be expanded in 2000.

llence

TitlePLUS The New Face of Residential Conveyancing

TitlePLUS is LPIC's unique one-stop closing services package. It consists of a software program that streamlines and simplifies closings; a comprehensive title insurance policy that insures both the title-related risks and the lawyer's legal services; and an optional package of ancillary products and services that add value and enable TitlePLUS lawyers to strengthen their position as one-stop service providers.

Since its introduction in the fall of 1997, TitlePLUS has helped reshape conveyancing in Ontario. Title insurance is now widely-recognized as a vital tool for real estate lawyers – and a desirable option among home buyers. Our partnership with CAKEsoft has advanced the concept of a single desktop for real estate practice. The decision to deliver TitlePLUS policies through Teraview®, Ontario's electronic gateway to online registration, has reinforced the need for lawyers to adopt technology.

In 1999, TitlePLUS set out to position itself as the quality service provider in the title insurance marketplace. We expanded the ways in which lawyers can obtain TitlePLUS policies, enhancing access to TitlePLUS for all. We capitalized on our in-house legal expertise to facilitate closings and provide ready access to legal resources for TitlePLUS lawyers. And we developed new sales and marketing tools, including a revamped website, that reinforce our partnership role with lawyers in the changing world of real estate practice.

Jonathan Hager (left) a TitlePLUS Consultant regularly provides in-office training sessions to new TitlePLUS subscribers such as Mark Baker of Toronto-based Baker & Company.

growth

1999 was the most successful year yet for TitlePLUS.

- We strengthened our subscriber base by 20 per cent to just over 1,200 lawyers.
- We tripled the number of issued policies compared to 1998, with consistent volume growth continuing into 2000.
- We captured close to 20 per cent of the new development market through the GoodStart (New Home Closing) program, an all-inclusive package for the new home and condominium market:
  - Close to 30 developers, including industry leaders such as Tridel, Greenpark, Heron and Fram participate in the program.
  - More than 60 developments, representing upward of 12,000 new home and condominium units across Ontario, are registered in the program.

the team

TitlePLUS created a dedicated Customer Service team of analysts and underwriters to respond to the significant increase in call and policy volumes. The majority of team members are lawyers and all are very knowledgeable about both title insurance and conveyancing.

- As well, we assembled a sales team to introduce lawyers, one-on-one, to TitlePLUS, provide in-office training and recommend strategies for integrating TitlePLUS into everyday real estate practice.

enhancing service

TitlePLUS expanded options for ordering policies to include phone-in and fax service, to provide ready access to TitlePLUS to a larger cross-section of the real estate bar.

- This initiative has introduced another 500 lawyers to the benefits of TitlePLUS.

We introduced new programs and services that help lawyers use TitlePLUS more frequently.

- Market-specific initiatives such as the Mortgage Only, Relocation Services, Volume Deals and Rental Housing Support programs expand the range of situations in which lawyers can recommend TitlePLUS.
- The Certified Specialist program enhances the competitiveness of qualified, experienced real estate practitioners by offering them beneficial premiums on selected properties.
- Offering TitlePLUS lawyers access to our legal resources helped facilitate closings. For example, we provided rent control opinions, as well as customized instructions to TitlePLUS GoodStart lawyers participating in multi-deal closings.

future practice

As well as enhancing the existing TitlePLUS software, we developed RealtiPLUS, a new real estate management/document production software package. Scheduled for commercial release in 2000, RealtiPLUS puts shape to the integrated real estate desktop.

- Real estate practitioners complete all functions needed in the transaction from a single point of entry.
- TitlePLUS applications are created “invisibly” in the background, without the need to duplicate data entry.

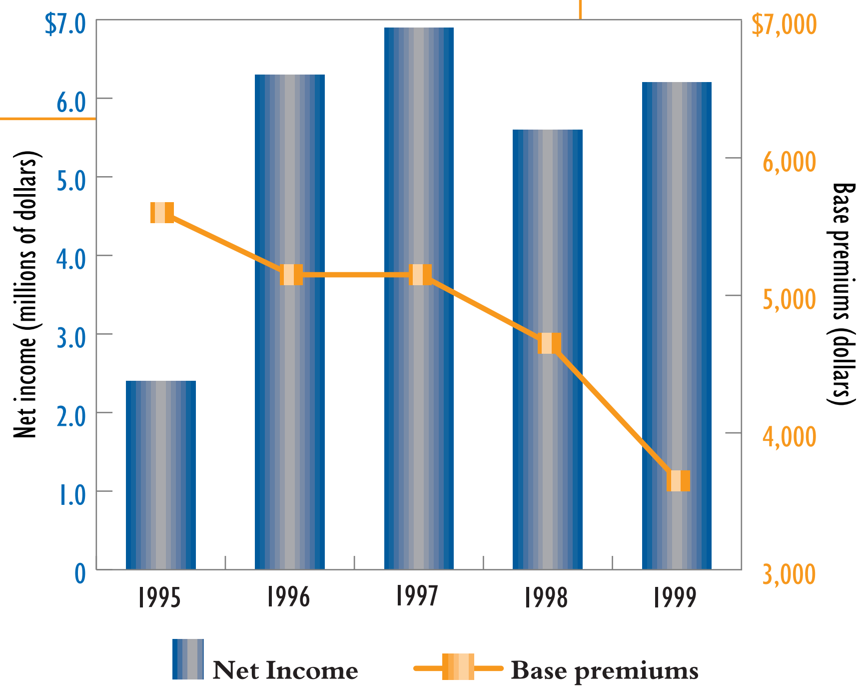
llence

marketing

In 1999, TitlePLUS launched a comprehensive, integrated marketing and advertising campaign that supports lawyers by focusing on the pivotal role of lawyers in conveyancing.

- We developed a One-Stop Closing campaign to position lawyers as full service providers.
  - The campaign highlights the benefits of TitlePLUS, and the wide range of optional products and services available to the home buying public.
- We developed individual advertising campaigns targeted at consumers and realtors.
  - Consumer ads placed in community newspapers across the province featured contact information on local TitlePLUS lawyers, as part of our campaign to help build business for TitlePLUS lawyers.
  - Realtor ads placed in trade publications helped raise awareness of TitlePLUS in the real estate market.
- We revamped the TitlePLUS website, to make it a comprehensive resource on both title insurance and TitlePLUS.
  - The "Locate a Lawyer" function allows online searches for TitlePLUS lawyers: In 1999, TitlePLUS provided more than 2,000 lawyer referrals to consumers.
  - The site includes sections that address the specific information needs of lawyers, home buyers, realtors and lenders.
  - A TitlePLUS subscribers' section provides central access to forms, letters, reports and other resources used in practice; legal updates; and other TitlePLUS background information.
- We participated in numerous consumer, realtor and lawyer-oriented programs including the Canadian Bar Association of Ontario's Annual Institute, the National Home Show, home buyers' seminars sponsored by the Greater Toronto Home Builders' Association (GTHBA), and law association conferences and seminars across Ontario. As well, we provided lawyer referrals to hundreds of home buyers attending GTHBA seminars.

Premiums and Profits (1995-1999)



Over the past five years, LPIC has been able to maintain stable profits while decreasing the base insurance premium by 65%.

1999 results

In 1999, the Company generated net income of $6.2 million, an increase of $0.7 million over 1998. Income before income taxes increased by $1.2 million to $11.2 million. Increases in underwriting income of $2.4 million were partially offset by the decline in investment income of $1.2 million as outlined further below.

income statement

Premiums Earned

Premiums increased by $3.3 million to $82.6 million in 1999. This is the result of changes to the professional liability program combined with increased issuance of title insurance policies in the year. Professional liability premiums grew as a result of the addition of approximately 300 practitioners in the year, while the drop in base premiums of $1000 per lawyer was more than offset by the increase in transaction based premiums.

Reinsurance Ceded

The Company continues to partner with Canadian licensed reinsurers in 1999, and consistent with reinsurance strategy first introduced in 1995, shares risk proportionately from first dollar of loss in both its Ontario professional liability and title insurance lines of business. In 1999 these programs were reinsured 50%. The cost of this protection decreased in 1999 from 1998.

The Newfoundland program continues to be reinsured 100%, removing all exposure to the Company from claims in this program.

Net Claims and Adjustment Expenses

Incurred claims increased by $1. 7 million in 1999 from 1998. In 1998 incurred claims were reduced by $2.5 million over 1997 results – a result of reductions in reinsurance reserves held for the 1990-91 years.

The number of claims reported in 1999 were roughly consistent both in average severity and in number with those reported a year earlier. Claims of prior years continue to settle well within established reserves.

Commissions Earned

The Company earns commissions on that portion of premiums that is ceded to reinsurers. Commission earnings decreased by $0.6 million in 1999.

General Expenses

Expenses in 1999 were unchanged from levels expended in 1998.

Investment Income

In 1999, $7.4 million in investment income was generated, a decrease of $1.2 million from the previous year. The reduced investment yield reflects the crystallization of $1.2 million in losses in the portfolio during 1999, while in 1998 the Company realized $0.9 million in gains. At December 1999, the market value of the portfolio exceeds book value by $3.1 million (1998 - $1.2 million).

Investments

Investment assets, inclusive of cash and short term deposits, increased by $21.6 million to $187.7 million at December 31, 1999. This increase largely mirrors the increase in the Company's net provision for unpaid claims and adjustment expenses which totals $15.7 million, plus the increase in tax liabilities of $6.5 million. Investment assets are invested in accordance with investment policy approved by the Company's Board of Directors in a diversified, high quality portfolio.

Provision for unpaid claims and adjustment expenses and Reinsurers' share of provision

The provision for unpaid claims represents the amount required to satisfy all of the Company's obligations to claimants without offset for reinsurance. This has increased by $20.9 million. The change in reinsurance recoveries totals $5.2 million, and accordingly the net change in provision is $15.7 million. These changes are the result of the addition of 1999 claims, net of payments, during the year.

The estimation of claims liabilities introduces processes that generate measurement uncertainty and are subject to variation. The Company attempts to ensure these estimates are prudently conservative.

Deferred Taxes

Adjustments to taxable income for the increases in the market value of the equity portfolio, and the actuarial value of unpaid claims have created timing differences which caused a prepayment of income taxes of $5 million in 1999. These deferred taxes are non-admitted assets for purposes of insurance accounting and are included in the higher statutory appropriations in 1999.

Shareholder's Equity

Equity has increased by $6.2 million, the amount of net income generated in the year. The Company has assets well in excess of liabilities, as measured by regulatory tests.

Auditor's Report

Deloitte & Touche

To the shareholder of Lawyers' Professional Indemnity Company

We have audited the balance sheet of Lawyers' Professional Indemnity Company as at December 31, 1999, and the statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles including the accounting requirements of the Financial Services Commission of Ontario.

Toronto, Ontario
February 10, 2000

Deloitte & Touche LLP
Chartered Accountants

Actuary's Report

Eckler Partners Ltd.
[illegible]
Report for Financial Statements at December 31, 1999

role of the valuation actuary

The valuation actuary is appointed by the Audit Committee of the company. With respect to the preparation of these financial statements, the actuary is required to carry out a valuation of the policy liabilities and to report thereon to the company's shareholders. The valuation is carried out in accordance with accepted actuarial practice, except as specifically disclosed to the contrary, and regulatory requirements. The scope of the valuation encompasses the policy liabilities as well as any other matter specified in any direction that may be made by the regulators. The policy liabilities consist of a provision for unpaid claims and adjustment expenses on the expired portion of policies and of future obligations on the unexpired portion of policies.

In performing the valuation of the liabilities for these future events, which are by their very nature inherently variable, the actuary makes assumptions as to future rates of claims severity, inflation, reinsurance recoveries, expenses and other matters, taking into consideration the circumstances of the company and the nature of the insurance coverage being offered. The valuation is necessarily based on estimates, consequently, the final values may vary significantly from those estimates. The actuary also makes use of management information provided by the company, and uses the work of the auditor with respect to the verification of the underlying data used in the valuation.

valuation actuary's report

I have valued the policy liabilities of the Lawyers' Professional Indemnity Company for its balance sheet as at 31 December 1999, and their changes in its statement of income for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Pursuant to the authority granted by the *Insurance Act* for the Province of Ontario, the Superintendent of Insurance has directed that the valuation of some policy liabilities not reflect the time value of money. My valuation complies with that directive.

In my opinion, the amount of the policy liabilities makes appropriate provision for all policyholder obligations, except as noted in the previous paragraph, and the financial statements fairly present the results of the valuation.

B.G. Pelly

Toronto, Ontario
February 10, 2000

Brian G. Pelly
Fellow, Canadian Institute of Actuaries

BALANCE SHEET

LAWYERS' PROFESSIONAL INDEMNITY COMPANY

Stated in thousands of dollars

As at December 31	1999	1998
Assets		
Investments (note 3)	180,523	161,471
Cash and cash equivalents	7,164	4,596
Investment income due and accrued	1,852	1,971
Due from reinsurers	9,468	8,604
Due from insureds	518	373
Reinsurers' share of provisions for:		
Unpaid claims and adjustment expenses (note 2)	155,425	150,244
Unearned premiums	219	200
Due from the Law Society of Upper Canada	1,097	162
Other assets	271	397
Fixed assets	1,084	1,048
Deferred income taxes (note 7)	6,607	1,609
Total assets	**364,228**	**330,675**
Liabilities		
Provision for unpaid claims and adjustment expenses (note 2)	286,041	265,164
Due to reinsurers	8,018	8,443
Due to insureds	1,033	354
Expenses due and accrued	1,855	2,215
Income taxes due and accrued	6,543	48
Premium taxes payable	574	575
Unearned premiums	437	400
Unearned commissions	39	36
	304,540	277,235
Shareholder's Equity (note 6)		
Capital stock issued and paid	5,000	5,000
Contributed surplus	30,645	30,645
Earned surplus	16,120	14,422
Statutory appropriations	7,923	3,373
	59,688	53,440
Total liabilities and shareholder's equity	**364,228**	**330,675**

See accompanying notes

On behalf of the Board ______ Director ______ Director

Statement of Income

LAWYERS' PROFESSIONAL INDEMNITY COMPANY

Stated in thousands of dollars

Year ending December 31	1999	1998
Premiums earned	82,617	79,271
Reinsurance ceded	39,024	40,515
Net premiums earned	**43,593**	**38,756**
Net claims and adjustment expenses (note 2)	36,894	35,162
Commissions earned	(7,800)	(8,400)
Premium taxes	2,496	2,396
General expenses	8,281	8,298
	39,871	37,456
Underwriting income	**3,722**	**1,300**
Investment income	**7,435**	**8,675**
Income before income taxes	11,157	9,975
Provision for income taxes - current (note 7)	9,907	3,862
- deferred (note 7)	(4,998)	527
Net income	**6,248**	**5,586**

See accompanying notes

Statement of Cash Flows

LAWYERS' PROFESSIONAL INDEMNITY COMPANY

Stated in thousands of dollars

Year ending December 31	1999	1998
operating activities		
Net income	6,248	5,586
Items not affecting cash:		
Deferred income taxes	(4,998)	377
Depreciation	539	643
	1,789	6,606
Changes in non-cash working capital balances:		
Premium taxes payable	(1)	(75)
Income taxes due and accrued	6,495	198
Due to/from reinsurers and insureds	(755)	(3,878)
Provision for unpaid claims and adjustment expenses	20,877	31,795
Reinsurers' share of provisions	(5,200)	(14,941)
Unearned premiums and commissions	40	65
Expenses due and accrued	(360)	510
Investment income due and accrued	119	(281)
Other assets	126	169
Due to/(from) the Law Society of Upper Canada	(935)	1,522
Total funds provided by operating activities	**22,195**	**21,690**
investing activities		
Fixed asset purchases, net	(575)	(353)
Investment purchases, net	(19,052)	(21,944)
Net change in cash and cash equivalents	2,568	(607)
Cash and cash equivalents, beginning of year	4,596	5,203
Cash and cash equivalents, end of year	**7,164**	**4,596**

See accompanying notes

Stated in thousands of dollars

As at December 31, 1999

Lawyers' Professional Indemnity Company ["the Company"] is an insurance company licensed in Ontario, Newfoundland, Nova Scotia, and Nunavut. It is licensed to provide lawyers' professional liability and title insurance.

1. significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles. The most significant accounting policies are as follows:

Investments

The Company records its investments in debt securities at amortized cost. Premiums and discounts from par value are amortized on a straight-line basis over the term to maturity. Investments in term deposits and common and preferred shares are carried at cost.

Gains and losses on investments are included in investment income when realized.

Fixed assets

Fixed assets are presented at cost, net of accumulated depreciation and amortization. Depreciation and amortization are charged to expense on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	Term of lease
Furniture and equipment	3 to 5 years
Software	1 to 3 years

Premium related balances

Professional liability premium income is earned evenly over the term of the insurance policy, generally one year except for policies for retiring members. Most policies are written to follow the calendar year, the portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

The reinsurers' share of unearned premiums is recognized as an asset at the same time using principles consistent with the Company's method for determining the unearned premium liability.

Title insurance premium is earned at the inception date of the policy.

Premiums receivable are recorded at amounts due less any required provision for doubtful amounts.

Claims related balances

a) *Provision for unpaid claims and adjustment expenses*

The insurance program covers claims made against insureds in the policy period.

The provision is determined using case-basis evaluations plus an amount for future development and delayed reporting and is an estimation of the ultimate cost of all insurance claims to December 31, 1999. The estimates are regularly reviewed and updated and any resulting adjustments are included in current income.

Claims liabilities are carried on an undiscounted basis.

b) *Reinsurers' share of provisions for unpaid claims and adjustment expenses*

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability.

c) *Members' deductibles*

The insurance policy calls for insured members to pay deductibles ranging from nil up to $25,000. Expected deductible recoveries on paid and unpaid claims are recognized net of any required provision for uncollectible accounts using principles consistent with the Company's method for establishing the related claims liability.

Income taxes

Income taxes are recorded on the tax allocation basis whereby income taxes are recorded in the period in which transactions affect income, regardless of when such transactions are recognized for income tax purposes. Deferred income taxes arise primarily from the discounting of the provision for unpaid claims and the recognition of unrealized common share gains for income tax purposes.

2. measurement uncertainty

The settlement of professional liability claims involves processes the outcome of which is inherently uncertain. Consequently, the estimation of the ultimate settlement costs of claims made to date that underlies the provision for unpaid claims and adjustment expenses and any related recoveries for reinsurance or deductibles, involves estimates and measurement uncertainty. The amounts are necessarily based on estimates of future trends in claim severity and other factors which could vary as the claims are settled. Variability can be caused by receipt of additional claim information, changes in judicial interpretation, or significant changes in severity or frequency of claims from historical trends. Ultimate costs incurred will inevitably vary from current estimates, to some extent. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information. Estimates are reviewed at least annually by an actuary and, as adjustments to these liabilities become necessary, they are reflected in current operations.

To limit losses through the spreading of risks, the Company cedes reinsurance to other insurers. In the event that a reinsurer is unable to meet obligations assumed under reinsurance agreements, the Company is liable for such amounts. The Company has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. Based on current information of the financial health of the reinsurers, no provision has been made in the accounts for doubtful collection.

The Company has in a few instances purchased annuities from life insurers. No provision for credit risk related to these insurers is required at December 31, 1999 (1998 - nil).

The nature of the insurance coverage, the risk retention and reinsurance structure and various management practices, including claims handling and settlement practices, were modified, commencing in late 1994, by the new management of the program. These modifications were designed to better control the level and incidence of costs incurred by the program. However, the effects of these modifications cannot be precisely measured.

Changes in prior year loss estimates

Changes in claim liabilities recorded in the balance sheet and their impact on reduced net claims and adjustment expenses were an improvement of $250 for the year ended December 31, 1999 (1998 - $3,644).

Fair value

Under accepted actuarial practice, the amount calculated to be equal to the cost of settling claims takes into consideration the time value of money and provisions for adverse deviations.

As at December 31, 1999, the Superintendent of Financial Services does not recognize that these actuarially determined liabilities represent the appropriate amount at which policy liabilities should be stated. The following discussion is based on the evaluation of policy liabilities valued under accepted actuarial practice.

The basic assumptions made in establishing actuarial liabilities are best estimates of possible outcomes. To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are adequate to pay future benefits, actuaries are required to include margins in some assumptions. A range of allowable margins is prescribed by the Canadian Institute of Actuaries relating to claim development, reinsurance recoveries and investment income variables.

Below, is a comparison between policy liabilities as recorded in the Company's financial statements and policy liabilities computed in accordance with accepted actuarial practice. Management believes that policy liabilities computed in accordance with accepted actuarial practice provide a reasonable measurement of the fair value of such liabilities.

December 31		Recorded in the accounts	According to accepted actuarial practice
1999	Unpaid claims	286,041	272,675
	Reinsurers' share of unpaid claims	(155,425)	(146,020)
1998	Unpaid claims	265,164	254,118
	Reinsurers' share of unpaid claims	(150,244)	(140,205)

3. investment information

The company holds a diversified portfolio consisting of securities with investment grades of "A" or better.

Estimated fair values and unrealized gains and losses

The book values, estimated fair values and unrealized gains (losses) on investments as at December 31 were as follows:

	1999			1998		
	Book value	Estimated fair value	Yield %	Book value	Estimated fair value	Yield %
Debt Securities	164,188	160,996	5.6	148,676	149,743	5.3
Equities	16,335	22,579		12,795	12,937	
	180,523	183,575		161,471	162,680	

The estimated fair values of debt securities and common shares are based on quoted market values.

Liquidity and interest rate risk

The maturity profile of debt securities as at December 31, 1999 is as follows:

	Within 1 Year	1 to 3 Years	Over 3 Years	Book Value
Debt securities	12,276	73,264	78,648	164,188
Percent of total	7%	45%	48%	

The average duration of the portfolio at December 31, 1999 is 2.7 years, limiting the Company's exposure to changing interest rates.

Common shares have no specific maturities.

4. statutory insurance information

a) The Company is the beneficiary of a trust account in the amount of $13,965 (1998 - $13,519) for reinsurance ceded to unregistered reinsurers. This trust balance is not reflected in these financial statements but is considered in determining statutory reserve requirements.

b) The Ontario Insurance Act restricts amounts available for shareholder dividends to unappropriated surplus, subject to minimum capital requirements.

c) The Company has deposited securities with the regulatory authorities having a market value of $215 (1998 - $227).

5. related party transactions

Pursuant to a service agreement implemented January 1, 1995, the Company administers the Errors and Omissions Fund of the Law Society and provides all services directly related to operations and general administration in consideration for the Law Society insuring its mandatory professional liability insurance program with the Company.

For the year ended December 31, 1999, 96% of the premiums written related to insurance coverage provided to the Law Society and its members. Under the insurance policy in force between July 1, 1990 and December 31, 1994, the Company is responsible for claims in excess of Law Society and member deductibles. The provision for unpaid claims and adjustment expenses is net of amounts relating to policies for years prior to 1995 that are payable by the Law Society. This amount is currently estimated to be $52,085 (1998 - $69,799).

Commencing January 1, 1995, there is no longer a Law Society deductible and 100% of the risk over the individual member deductible is insured through the Company. The annual policy limits through the period January 1, 1995 to December 31, 1999 are $1 million per claim and $2 million per member in aggregate.

6. shareholder's equity

a) Common Shares: Par value of $100 each, authorized, issued and outstanding		30,000
Preferred Shares: Par value of $100 each, 6% non-cumulative, redeemable, non-voting, authorized, issued and outstanding		20,000
b) Reconciliation of earned surplus	**1999**	**1998**
Beginning of year	14,422	7,871
Net income for the year	6,248	5,586
Decrease/(increase) in statutory appropriations		
Fixed and other assets	(63)	306
Deferred income taxes	(4,998)	377
Reinsurance ceded to unregistered reinsurers	511	282
End of year	16,120	14,422

7. income taxes

The Company's effective tax rate does not differ significantly from the applicable Canadian statutory income tax rate of 44.62%.

The amount of income taxes paid, net of refunds was $3,423 for 1999 ($3,963 in 1998).

The Company's deferred tax asset is the result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The sources of these temporary differences and the tax effects for each year are as follows:

	1999	**1998**
Common shares	2,784	(63)
Debt securities	(543)	(1,346)
Actuarial liabilities	4,203	2,572
Other	163	446
	6,607	1,609

8. commitments

The Company is committed to monthly lease payments under an agreement in effect until January 31, 2002. Annual lease payments in each of the next two years are $867.

9. comparative financial statements

Certain amounts in the comparative financial statements have been reclassified to conform to the presentation used in the 1998 financial statements.

10. uncertainty due to the year 2000 issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, have been fully resolved.

Management Team

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Malcolm L. Heins
President & Chief Executive Officer

Dagmar Kanzler
Director of Communications

Craig A. Allen
Vice President & Actuary

Michelle L.M. Strom
Senior Vice President &
Chief Financial Officer

Duncan D. Gosnell
Vice President Underwriting

Kathleen A. Waters
Vice President TitlePLUS

Caron E. Wishart
Vice President Claims

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Principal
Lawrence A. Eustace

Marshall A. Crowe*
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Ross W. Murray

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Nancy L. Backhouse

Eric J. Schjerning
Assistant General Counsel
Canada Life Assurance Company

(*Bencher, Law Society of Upper Canada)

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