

Remarks of the President & CEO



Reproduced at the front of this issue of our annual report is the new LAWPRO vision, mission and values statement developed and adopted by our employees in 2010.

That statement has become an integral part of the way we at LAWPRO plan and execute our responsibilities to manage the company efficiently, effectively and responsibly on behalf of the members of the Ontario bar. This statement also provides me with an ideal framework for my annual accounting of LAWPRO's initiatives and activities in 2010.

Professionalism & Integrity

As our Board chair has stated in his own message, LAWPRO is an insurance company operating in an increasingly regulated market. Insurance itself is a highly specialized and scrutinized business, with many financial imperatives. For example, we need to keep our eye not only on the bottom line, but also on the critical benchmarks that regulators (we are licensed in all jurisdictions across Canada) and the auditor uses to assess our solvency and viability. Throughout, our focus is on the long-term survival of a financially sound insurance program (and by implication, the long-term survival of the capital that has come predominantly from the members of the legal profession). This allows us to serve the best interests of all our policyholders.

We could not take the LAWPRO obligation and responsibility as steward of the profession's resources and provider of superior insurance programs more seriously – as is reflected in our commitment to the values of professionalism and integrity. It is against this principal responsibility that we measure all of our decisions and actions – from the coverage we provide and the risks we underwrite, to the insurance premium we set. As stewardship dictates, our approach must reflect sound insurance business practices.

Recommending a primary professional liability base premium for 2011 of \$3,350 is a case in point. Given the high level of claims costs, which for each of the past four years are expected to top the \$80 million mark, and the relatively lower level of investment returns, a premium increase was inevitable.

We recognize that this is not a popular decision: No one likes paying more for insurance of any type. But we also know that Ontario lawyers – individually and collectively – count on us to be there for them when they need us. So, in the interests of the whole of the bar, we "take the high road" of being fiscally prudent – to ensure the long-term viability, sustainability and integrity of the insurance program.

Being prudent also means keeping a tight rein on the costs we can control. For example, for each of the last two years general expenses for the program (salaries, rent and other overhead costs)

were lower than budgeted and stood at 18 per cent of the total budget, compared to the industry norm of close to 30 per cent. A focused effort to exercise our rights of recovery on E&O claims could generate more than \$1 million in recoveries on only 16 claims files. We also have more than 100 files in promising stages of recovery in the TitlePLUS® portfolio. Whether handling claims or undertaking general expenses, such as our own purchasing of corporate insurance, we understand that our insureds want us to be sensitive to the expense bottom line and obtain savings where prudent to do so.

A restructuring of the claims function into two departments – one focusing on the primary E&O program, the other on the TitlePLUS, excess E&O programs, and difficult coverage files – will further strengthen our focus on managing costs.

The values of professionalism and integrity also drive the priority we put on compliance, and on making rigorous principles, processes and procedures an integral part of our work day.

LAWPRO's 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" – benefits the whole of the bar economically as well as professionally. As is documented elsewhere in this report, LAWPRO won 12 of 13 matters that went to trial, seven of eight matters taken to the Court of Appeal, 19 of 25 summary judgment motions and two appeals from summary judgment motions. And clearly insureds who have first-hand experience with us think we are on the right track: 98 per cent of those responding to an annual survey of insureds with closed claims said they were satisfied with way LAWPRO handled their claim.

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: We welcome creativity and change. Much time and energy were dedicated in 2010 to completing the review of the model our internal and external actuaries use to arrive at their claims cost projections. These projections are vital to our ability to plan for

the E&O program's present and future needs, and to setting appropriate premiums that support the program over the long term. (The Chair in his remarks has discussed the implications of this revision for our 2010 financial results.)

We are applying the same rigor and forward-looking mindset to the need to convert to new international financial standards. In this 2010 annual report, you will find a description of our journey to being IFRS-compliant. Our financial statements effective December 31, 2011, will be produced under the new standards. We are also carefully monitoring discussions on the treatment of the discount rate and how that may affect what we set aside in claims reserves (and ultimately how that affects shareholder's equity).

Because of the vital nature of technology to every aspect of our organization, we have also undertaken a major review of our systems and future needs with a goal of producing a five-year plan that will ensure we continue to be in a position to lead by example on this front.

Service

Service at LAWPRO means more than assisting lawyers on the telephone or providing guidance to those with a potential claim concern – although we do plenty of that. In fact, in 2010, our Customer Service centre alone handled close to 65,000 calls and correspondence.

Service for us means sharing information and knowledge: To that end, we presented our risk management message at 35 seminars, conferences and events; we provided expertise to the Canadian Bar Association's Conflicts of Interest Task force, played a leading role in the development of a large firm model file retention policy and alerted the profession to the challenges of unbundled legal services. We expanded the range of tools we use to get all of our messages into lawyers' hands, making more use of electronic newsletters and producing a first-ever Year in Review – a type of annual review of LAWPRO activities that addresses issues of specific interest to lawyers. And we got very active in the blog world: Our practicePRO® Avoid A Claim blog is credited by dozens of lawyers for alerting them to new and evolving frauds targeting the legal profession.

Leadership

As well as sharing our expertise through presentations, we reach out to the legal community through our participation in more than 50 legal-related organizations, committees and task forces. Our goals: To know and understand the issues facing lawyers; and to bring the LAWPRO perspective and our risk management message to as many tables as possible.

We also actively promote the lawyers' interest to external communities. We continue to meet regularly with key government officials to ensure understanding of the issues facing the legal community, including the importance of a viable real estate bar as an access to justice issue.

We also stepped up our efforts to educate the consumer public about the vital role of lawyers. A series of articles on topics such as cottage ownership, powers of attorney, real estate fraud, and home renovations were picked up by more than 100 media outlets nationally; the accompanying interviews generated coverage in major media across the country including the Globe and Mail and The National Post. The result: Our message that "your lawyer is your trusted advisor" reached more than 10 million Canadians.

In memoriam

We ended the year on a sad note as our friend and colleague Caron Wishart 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. Many of the successes we point to today have their origins in Caron's ideas and innovations, and the fact that our claims function often is referred to as "best in class" among Canadian insurers is to her credit. To honour her tireless efforts on behalf of the bar, LAWPRO established an endowment in her name at her alma mater, the University of Toronto Faculty of Law. 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. Caron knew about this initiative and was thrilled.



Kathleen A. Waters
President & CEO