



**TAB 8**

**Report to Convocation  
January 25, 2018**

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## **Audit & Finance Committee**

### **Committee Members**

**Chris Bredt (Chair)**  
**Suzanne Clément (Vice-Chair)**  
**Teresa Donnelly (Vice-Chair)**  
Peter Beach  
Paul Cooper  
Janis Criger  
Seymour Epstein  
Michelle Haigh  
David Howell  
Vern Krishna  
Jan Richardson  
Cathy Strosberg  
Tanya Walker

**Prepared by the Finance Department**  
**Wendy Tysall, Chief Financial Officer, 416-947-3322 or wtysall@lsuc.on.ca**

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## **COMMITTEE PROCESS**

1. The Audit & Finance Committee (“the Committee”) met on January 10, 2018.
2. Committee members in attendance were Chris Bredt (Chair), Suzanne Clément (Vice-Chair), Teresa Donnelly (Vice-Chair), Peter Beach (phone), Paul Cooper (phone), Janis Criger, Seymour Epstein, Michelle Haigh, David Howell, Vern Krishna, Jan Richardson (phone), Cathy Strosberg (phone) and Tanya Walker (phone).
3. Ross Earnshaw also attended.
4. Law Society staff in attendance: Diana Miles, Wendy Tysall, Fred Grady, Andrew Cawse,
5. Also in attendance: Kathleen Waters and Steve Jorgensen (LAWPRO).

**TAB 8.1**

**FOR INFORMATION**

**LAWYERS PROFESSIONAL INDEMNITY COMPANY  
FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017**

6. **The Committee recommends that Convocation receive the third quarter financial statements for LAWPRO for information.**



Report to the Audit and Finance  
Committee of The Law Society of Upper  
Canada

January 10, 2018



***Report to the Audit and Finance Committee – Law Society  
January 10, 2018***

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## **KEY POINT SUMMARY**

- LAWPRO has sufficient assets to discharge its claims and other liabilities.
- At September 30, 2017, LAWPRO held investment assets totaling \$681.9 million, inclusive of cash and cash equivalents and investment income due and accrued. These funds have been invested in accordance with the Company's investment policy. LAWPRO was in compliance with its policy during the nine months ended September 30, 2017 (see pages 11 and 12).
- LAWPRO's net income for the nine months ended September 30, 2017 was \$3.2 million compared to a budgeted loss of \$1.8 million and a net income of \$11.2 million for the same period in 2016. During the nine months ended September 30, 2017 LAWPRO experienced a total comprehensive income of \$0.1 million, which reflects a decrease in unrealized gains of \$3.1 million on its surplus portfolio, compared to a budgeted loss of \$0.2 million and an income of \$13.0 million for the same period in 2016.
- Overall, earned premiums on the mandatory program were above expected levels, primarily due to real estate transaction levies being significantly higher than budget. Investment income of \$15.3 million for the nine months of 2017 was higher than budgeted levels by \$0.4 million, mainly due to \$7.7 million of realized gains more than offsetting a \$4.1 million decrease in unrealized gains on its asset liability matched portfolio and \$1.7 million of impairment losses. Current year investment income was below the results for the same period in 2016 by \$2.9 million, primarily due to a 4.4 million greater increase in unrealized gains in the prior period.
- Claims and adjustment expenses for the nine months ended September 30, 2017 were \$3.3 million lower than budget primarily due to a \$4.1 million discounting income resulting from higher market investment yields. Current year claims expenses were \$3.8 million higher than the same period last year, mainly due to \$11.0 million greater prior year favourable development for 2016, which was offset somewhat by a \$6.6 million lower discounting result. General expenses for the nine months ended September 30, 2017 were \$0.2 million lower than budget though \$1.0 million higher than the same period in 2016.
- LAWPRO is in compliance with all regulatory requirements regarding solvency and filing of financial information. A summary of LAWPRO's position with respect to its Risk Appetite Statement (including standard insurance ratios) at September 30 is included on page 10.

**Lawyers' Professional Indemnity Company**  
**STATEMENT OF FINANCIAL POSITION**

Stated in thousands of Canadian dollars

**UNAUDITED**

	<b>As at Sep 30 2017</b>	<b>As at December 31 2016</b>
<b>Assets</b>		
Cash and cash equivalents	8,475	15,911
Investments	669,069	646,413
Investment income due and accrued	4,354	2,434
Due from reinsurers	292	503
Due from insureds	2,625	2,288
Due from the Law Society of Upper Canada	26,327	8,024
Reinsurers' share of provisions for:		
Unpaid claims and adjustment expenses	46,026	43,794
Unearned premiums	1,784	-
Deferred policy acquisition expenses	848	-
Other receivables	1,238	1,766
Other assets	1,958	2,487
Property and equipment	670	984
Intangible asset	713	877
Income taxes recoverable	1,306	-
Deferred income tax asset	5,425	5,236
<b>Total assets</b>	<b>771,110</b>	<b>730,717</b>
<b>Liabilities</b>		
Provision for unpaid claims and adjustment expenses	484,221	472,168
Unearned premiums	29,405	1,027
Unearned reinsurance commissions	371	-
Due to reinsurers	1,288	673
Due to insureds	22	280
Expenses due and accrued	1,878	1,456
Income taxes due and accrued	-	1,181
Other taxes due and accrued	353	466
	<b>517,538</b>	<b>477,251</b>
<b>Equity</b>		
Capital stock	5,000	5,000
Contributed surplus	30,645	30,645
Retained earnings	185,429	182,222
Accumulated other comprehensive income	32,498	35,599
	<b>253,572</b>	<b>253,466</b>
<b>Total liabilities and equity</b>	<b>771,110</b>	<b>730,717</b>



**Lawyers' Professional Indemnity Company**  
**STATEMENT OF PROFIT OR LOSS**

Stated in thousands of Canadian dollars

**UNAUDITED**

<u>For nine months ended September 30</u>	<u>2017</u>	<u>2016</u>
<b>Income</b>		
Gross written premiums	114,380	118,523
Premiums ceded to reinsurers	<u>(7,137)</u>	<u>(7,377)</u>
Net written premiums	107,243	111,146
(Increase) decrease in unearned premiums	<u>(26,594)</u>	<u>(27,326)</u>
Net premiums earned	80,649	83,820
Net investment income	15,268	18,131
Ceded commissions	<u>1,116</u>	<u>1,357</u>
	<b><u>97,033</u></b>	<b><u>103,308</u></b>
<b>Expenses</b>		
Gross claims and adjustment expenses	77,714	71,681
Reinsurers' share of claims and adjustment expenses	<u>(2,525)</u>	<u>(246)</u>
Net claims and adjustment expenses	75,189	71,435
Operating expenses	15,127	14,120
Premium taxes	<u>2,584</u>	<u>2,689</u>
	<b><u>92,900</u></b>	<b><u>88,244</u></b>
<b>Profit (loss) before income taxes</b>	<b><u>4,133</u></b>	<b><u>15,064</u></b>
Income tax expense (recovery) - current	1,115	3,726
- deferred	<u>(189)</u>	<u>116</u>
	926	3,842
<b>Profit (loss)</b>	<b><u>3,207</u></b>	<b><u>11,222</u></b>
<b>Other comprehensive income / (loss)</b>		
Unrealized gains / (losses) - bonds	(1,514)	(127)
- equities	(1,587)	1,875
Defined benefit remeasurements	<u>-</u>	<u>-</u>
	<b><u>(3,101)</u></b>	<b><u>1,748</u></b>
<b>Total comprehensive income</b>	<b><u>106</u></b>	<b><u>12,970</u></b>

**Lawyers' Professional Indemnity Company**  
**STATEMENT OF COMPREHENSIVE INCOME**

Stated in thousands of Canadian dollars

**UNAUDITED**

**For nine months ended September 30**

	<b>2017</b>	<b>2016</b>
<b>Profit (loss)</b>	<b>3,207</b>	<b>11,222</b>
Other comprehensive income, net of income tax:		
<u>Items that will not be reclassified subsequently to profit or loss:</u>		
Remeasurements of defined benefit plans, net of income tax expense (recovery) of (\$0) [2016: (\$0) ]	-	-
<u>Items that may be reclassified subsequently to profit or loss:</u>		
<i>Available-for-sale assets</i>		
Net changes unrealized gains (losses), net of income tax expense (recovery) of \$519 [2016: \$1,899]	1,437	5,270
Reclassification adjustment for (gains) losses recognized in profit or loss, net of income tax (expense) recovery of (\$2,097) [2016: (\$1,504) ]	(5,815)	(4,172)
Reclassification adjustment for impairments, recognized in profit or loss, net of income tax expense of \$460 (2016: \$235)	1,277	650
<b>Other comprehensive income</b>	<b>(3,101)</b>	<b>1,748</b>
<b>Comprehensive income</b>	<b>106</b>	<b>12,970</b>

**Lawyers' Professional Indemnity Company****STATEMENT OF CHANGES IN EQUITY**

Stated in thousands of Canadian dollars

**UNAUDITED**

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Equity
<b>Balance at December 31, 2015</b>	<b>5,000</b>	<b>30,645</b>	<b>173,484</b>	<b>28,924</b>	<b>238,053</b>
Total comprehensive income for the year	-	-	8,639	6,774	15,413
Transfer of defined benefit remeasurements from OCI to retained earnings			99	(99)	-
<b>Balance at December 31, 2016</b>	<b>5,000</b>	<b>30,645</b>	<b>182,222</b>	<b>35,599</b>	<b>253,466</b>
Total comprehensive income for the year	-	-	3,207	(3,101)	106
Transfer of defined benefit remeasurements from OCI to retained earnings			-	-	
<b>Balance at September 30, 2017</b>	<b>5,000</b>	<b>30,645</b>	<b>185,429</b>	<b>32,498</b>	<b>253,572</b>

**LAWYERS' PROFESSIONAL INDEMNITY COMPANY  
REPORT TO AUDIT AND FINANCE COMMITTEE - LAW SOCIETY OF UPPER  
CANADA  
MANDATORY E&O INSURANCE PROGRAM  
NINE MONTHS ENDED SEPTEMBER 30, 2017**

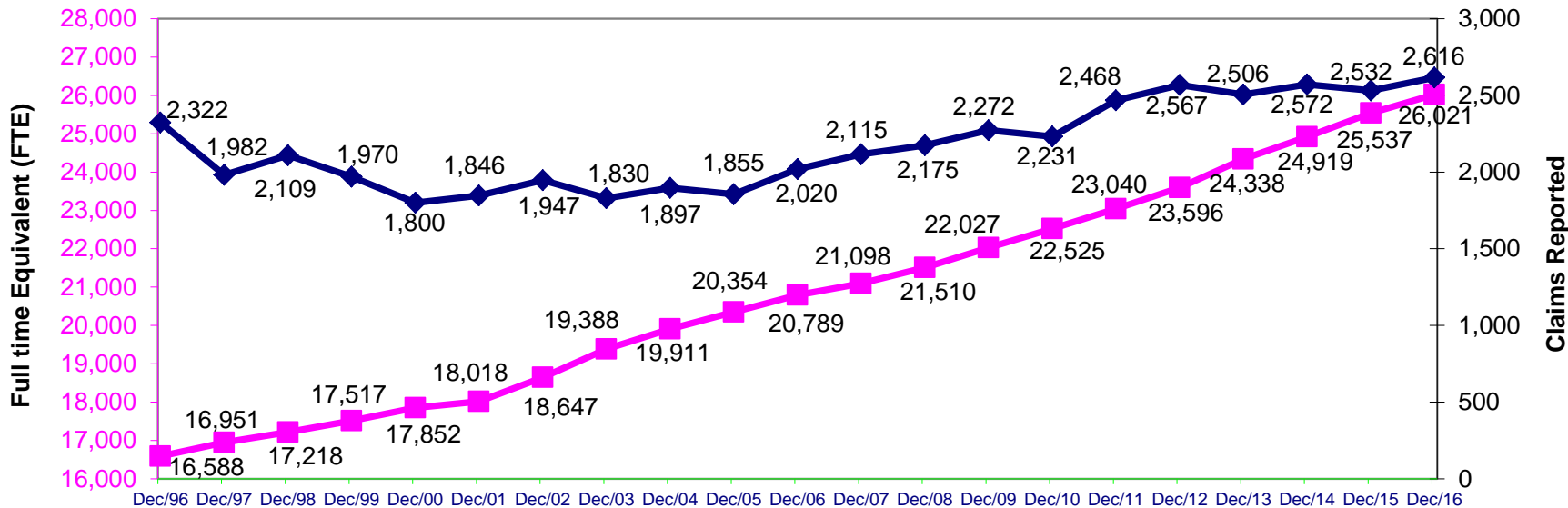
**PREMIUMS**

- The 2017 Ontario mandatory professional liability program performed slightly better than expected. Overall, written premiums were slightly above expected levels. At September 30, 2017, there were 26,677 full-time equivalent practitioners, a level which was slightly below the budgeted amount of 26,700, as all of this year's new calls have not yet been included in the Program.
- For 2017, transaction levies were \$2.1 million above budget and \$1.7 million above the results for the same period in 2016. Transaction levies collected during the first nine months of 2017 were \$20.0 million, compared to \$18.6 million collected during the same period prior year.

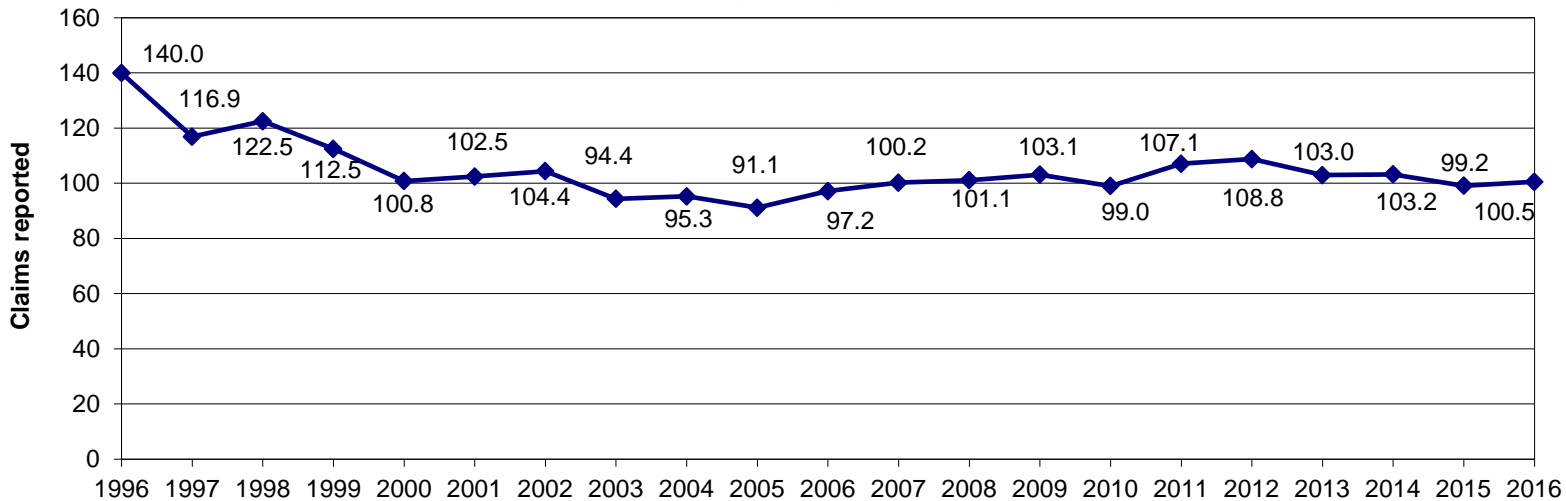
**CLAIMS & ADJUSTMENT EXPENSES**

- In the year of 2017, there were 1,636 new 2017 fund year claim files reported compared with 1,597 new 2016 fund year claim files reported in 2016.
- The number of files remaining open at September 30, 2017 was 3,861, higher than the 3,705 files remaining open at September 30, 2016.
- For all fund years, 2,105 new files were activated through September 30, 2017 (including 124 which were reopened) and 1,971 closed. The comparable figures for the nine months ended September 30, 2016 were 2,052 claims files activated (including 150 which were reopened) and 1,955 closed.
- On an aggregate basis, for the first nine months of 2017 there has been a net favorable development on claims of prior years (in particular fund years 2009, 2015 and 2016, offset somewhat by an unfavourable development for the fund years 2008, 2011, 2012 and 2014). Regarding prior year development, in the same period in 2016, there was a significant net favourable development on claims of prior years (in particular fund years 2013 through 2015).

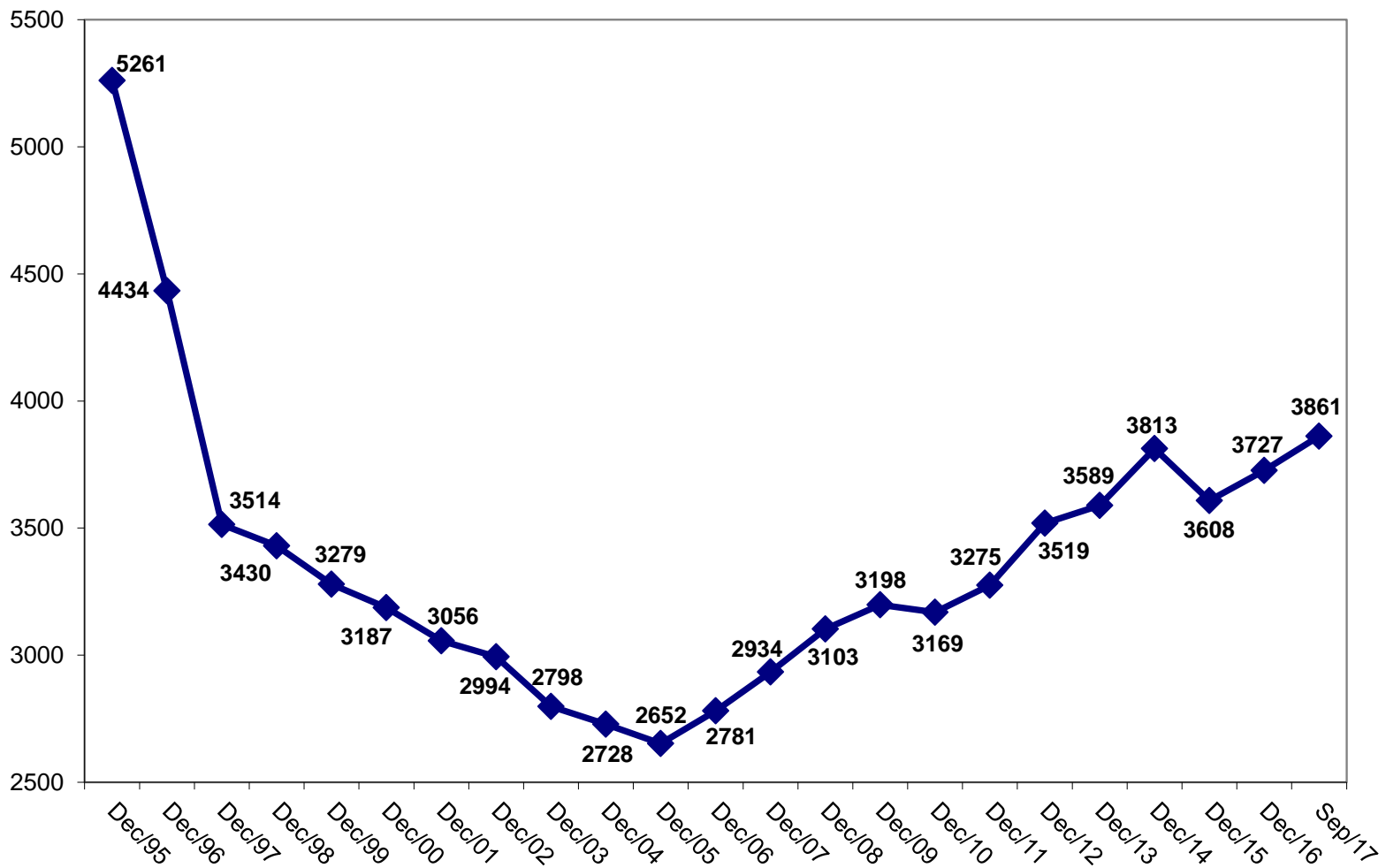
**New Claims Reported & Full Time Equivalents by Fund Year**



**Claims reported per 1,000 FTE**



### Open Claims (for fund years 1995 and forward)



**Exhibit 12 – INSURANCE RATIOS<sup>1</sup>**

TEST	RECOMMENDED RANGE	SEP 2017	DEC 2016	SEP 2016	DEC 2015
<b>I. Solvency Ratios</b>					
<b>1. Minimum Capital Test</b>					
<i>(Measures the excess of capital available to capital required based on a risk-based capital adequacy framework and is used to determine capital adequacy of a company.)</i>	Preferred: 215-240% Minimum: 170%	244%	253%	260%	268%
<b>2. Loss reserves to equity</b>					
<i>(Measures unpaid claim and adjustment reserves as a percentage of surplus and provides a simple test of the leveraged position of the company.)</i>	Preferred: < 225% Maximum: 250%	173%	169%	169%	175%
<b>II. Other Select Ratios</b>					
<b>1. Liabilities as a % of liquid assets</b>					
<i>(Liabilities as a percentage of Cash and other liquid assets-measures company's ability to meet its financial demands.)</i>	Preferred: < 80% Maximum: 105%	69%	65%	69%	66%
<b>2. Net premiums written as a % of surplus</b>					
<i>(Net risk ratio measures the company's ability to absorb financial shocks. The higher the ratio of premiums to surplus, the greater is the potential risk borne by the company in relation to the surplus available to absorb loss variations.)</i>	Preferred: < 80% Maximum: 100%	42%	46%	44%	51%
<b>3. Comprehensive return on equity</b>					
<i>(Measures an insurer's comprehensive income as a percentage of equity. The higher the ratio, the greater the return to shareholders per unit of invested capital. Sustainability of earnings is more important than periods of high returns followed by periods of low returns or losses.)</i>	Greater than 0%	0.1%	6.3%	7.2%	13.2%
<b>4. General expense ratio</b>					
<i>(Measures an insurer's general expenses, excluding commissions, as a percentage of net earned premiums.). This ratio should be maintained at lower than or equal to comparable small insurance companies.</i>	Up to small insurance company benchmark (29% as at Dec 2016)	22%	20%	20%	18%
<b>5. Optional business segment</b>					
<i>(Excess program and TitlePLUS title insurance is planned to achieve break-even or better on a trailing 4 year average basis).</i>	Greater than \$0 (stated in '\$000s)	428	995	806	494

**Note:**

1. Sufficient to maintain/grow MCT.

Better Than Range
Within Range
Outside of Range



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Confidential

October 23, 2017

Subject: Quarterly Compliance Report as at September 30, 2017  
for Lawyers' Professional Indemnity Company

As of and for the quarter ending September 30, 2017, we hereby certify that to the best of our knowledge the investments in the Lawyers' Professional Indemnity Company portfolio were in compliance, based on our records which are issued on a trade date basis, in accordance with the Investment Policy Statement dated January 1, 2017.

Yours truly,

A handwritten signature in black ink, appearing to read "Deborah Lewis", written in a cursive style.

Deborah Lewis, CFA  
First Vice-President





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October 25<sup>th</sup>, 2017

Lawyer's Professional Indemnity Company  
C/O Ms Kathleen A. Waters, President & CEO  
250 Yonge Street, Suite 3101  
P.O. Box 3  
Toronto, Ontario  
M5B 2L7

SUBJECT: COMPLIANCE CERTIFICATE

Dear Ms. Waters,

This is to confirm that, at the end of each month of the quarter ending September 30<sup>th</sup>, 2017, Letko Brosseau was in compliance with the requirements of the Statement of Investment Policies and Procedures, effective January 1<sup>st</sup>, 2017. To the best of our knowledge, we have no reason to believe that we were not in compliance with all such requirements at any other time during such period.

Should you require additional information, please do not hesitate to contact us at your convenience.

Regards,

Original letter signed by Peter Letko

Peter Letko  
Letko Brosseau & Associates Inc.  
PL/mn

**TAB 8.3**

**FOR INFORMATION**

**OTHER COMMITTEE WORK**

14. The Committee reviewed the internal control environment at the Law Society as part of feedback provided to the auditors.
15. The Committee received an update on the current status of the Lawyers Compensation Fund.
16. The Committee reviewed the financial implications of the credentialing part of the action plan on family legal services.
17. The Committee reviewed the operating budget for the Canadian Legal Information Institute (CanLII) for the year ending December 31, 2018.
18. The Committee received an analysis of expenditures on outside counsel fees in 2017 to the end of November.
19. The Committee reviewed the financial implications of the draft Report from the Legal Aid Working Group.