Remarks of the Chair

In 2016, our commitment to stand behind lawyers led us to inform, defend, protect and support our insureds.

Our goal is to operate the company in a commercially reasonable manner while providing prudent and stable premiums to our insureds. Our record of consistent premiums, tailored coverage options, and expense management has resulted in another strong year.

Net earned premiums were slightly higher than budget due, in part, to higher than normal real estate transaction levies. The number of claims continued to climb as the number of insureds continues to increase, with a concomitant increase in general expenses. Still, LawPRO ended the year with an expense ratio of 20 per cent – eight per cent lower than comparable insurance companies. Keeping general expenses at a moderate level is a key value LawPRO offers the bar.

Along with premiums and levies, investments are a main source of income, at $17.5 million for the year. Investment returns were positively affected in 2016 by strong equity markets and challenged slightly by low bond returns.

The company's capital position is measured by the minimum capital test (MCT). This calculation is used by regulators to judge an insurance company's solvency. The company's MCT ratio at December 31, 2016 was 253 per cent, significantly above our recently established internal target of 170 per cent, and above the company's preferred operating range of 215 to 240 per cent. We are in the second year of a three year phase-in process of a new method of calculating the MCT. Without the phase-in adjustment, our MCT would still be strong at 242 per cent.

Our current five year plan includes a measured reduction in revenues to reflect the Company's current capital position and investment environment. You have already seen the first step in this process which was the reduction in base premium for the 2017 insurance program. Through the premium reduction we are purposely giving value back to the primary program insureds. As a result we anticipate a controlled reduction in the MCT measurement to the preferred operating range of 215 to 240 per cent over the next few years, subject to annual monitoring through our Own Risk and Solvency Assessment (ORSA) process.

Overall, 2016 was a successful year where we remained strong with steady financial results and managed our business to provide commercially reasonable coverage for our insureds at an affordable rate.

Susan T. McGrath

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Chair