



annual review  
2013/14

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## Office Bearers and Executive

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### **Members of the Lawcover and Lawcover Insurance Boards**

Mr Robert Dolk – Chair  
Mr Justin Dowd  
Mr John Eades  
Ms Susan Doyle  
Mr Robert Harrison  
Mr Michael Tidball  
Mr Duncan West

### **Executive**

Mr Michael Halliday  
Chief Executive Officer  
Mr David Martin  
Chief Financial Officer  
Ms Kerrie Lalich  
Chief Operations Officer

### **Registered Office**

Level 13, 383 Kent Street  
Sydney NSW 2000  
Tel: (02) 9264 8855  
Fax: (02) 9264 8844  
Email: lawcover@lawcover.com.au

### **Professional Advisers**

Auditors: PricewaterhouseCoopers  
Actuaries: Finity Consulting  
Internal Auditors: Deloitte  
Reinsurance Brokers: Willis Re

### **Legal Panel**

Colin Biggers & Paisley  
DLA Piper  
Gilchrist Connell  
HWL Ebsworth  
K&L Gates  
Kennedys  
Mullane & Lindsay  
Sparke Helmore  
Yeldham Price O'Brien Lusk

Lawcover Pty Ltd. ABN 48 003 326 618  
Lawcover Insurance Pty Ltd. ABN 15 095 082 509

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## About Lawcover

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The Lawcover group of companies consists of Lawcover Pty Limited and Lawcover Insurance Pty Limited. Both are wholly-owned subsidiaries of the Law Society of New South Wales. Lawcover Insurance (Lawcover) is the approved professional indemnity insurer to law practices in NSW and is an approved insurer in the Australian Capital Territory.

Lawcover holds a unique position in Australia as the only 'profession owned' licensed and regulated insurer of the legal profession. We match a strong ethos of mutuality with rigorous financial prudence in managing the insurance business.

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## our mission

**To provide enduring insurance protection and claims prevention support to lawyers**

## our vision

**To support and protect lawyers through:**

- A broad, sustainable and affordable professional indemnity insurance policy
- Rigorous defence of unmeritorious claims
- Quick and fair compensation to consumers of legal services for legitimate claims
- Practice support and claims prevention education
- Expert advice and assistance

## our values

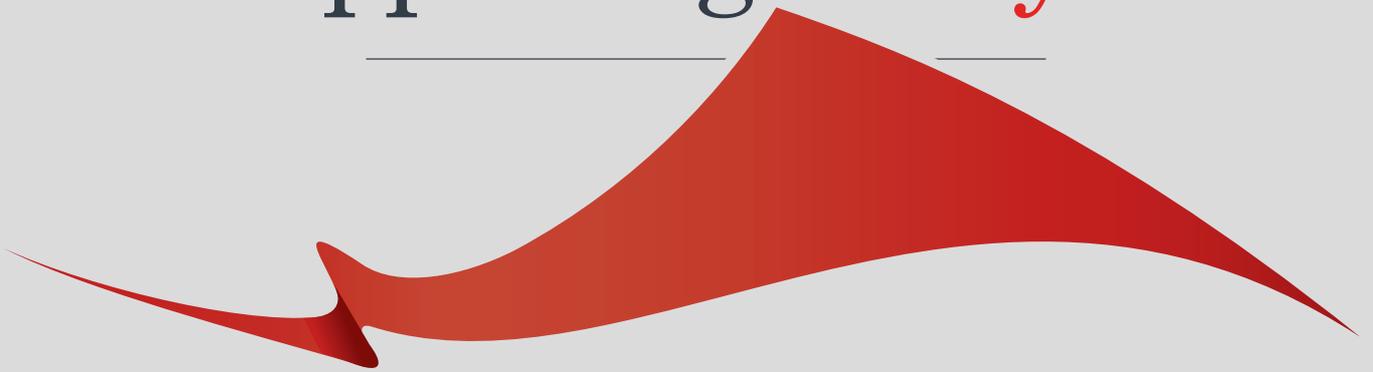
- **Respectful**
- **Trustworthy**
- **Proactive**
- **Responsible**
- **Open Communication**
- **Collaboration & Teamwork**



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# Protecting & Supporting Lawyers

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## Report from the Chair of the Board

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**Robert Dolk** is the Chair of the Board of the Lawcover Group of Companies comprising Lawcover and Lawcover Insurance. He is a Chartered Accountant with over 30 years experience in financial services in Australia, Europe and Asia. He joined the Lawcover Board in March 2010 and was appointed Chair in March 2012.

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It is with pleasure that I am able to report that Lawcover Insurance (Lawcover) has successfully closed its second transformational year.

It is a decade since Lawcover Insurance was formed in 2004 to provide reliable, sustainable and high quality professional indemnity insurance to the NSW legal profession. Lawcover was uniquely established as Australia's only 'legal profession owned' licensed and APRA regulated professional indemnity insurer. During this time it has gone from strength to strength. With dedication Lawcover has pursued its role – *To rigorously defend insured solicitors against unmeritorious claims, but equally to provide quick and fair compensation to consumers of legal services for legitimate claims.*

Through reinsurance and prudent capital management, Lawcover has been able to build a strong capital base while maintaining a stable premium pool. Lawcover has also invested in a number of operational initiatives including in its risk and practice support services aimed at embedding best practice and thereby reducing incurred claims.

The effect of these initiatives has been a further strengthening of our capital base to the extent that Lawcover is in a position to pass on to eligible insured law practices the releases from claims reserves that are excess to an actuarially determined prudent margin. The Policyholder Rebate was provided to eligible

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## **Report from the Chair of the Board**

continued

insured law practices in September 2014. In addition current trends may support the possible reduction of insurance premiums in the future.

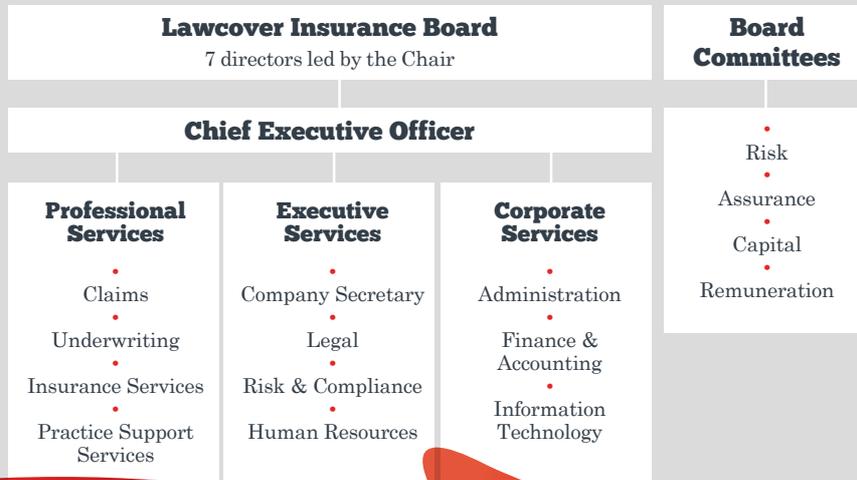
Lawcover is led by a Board of Directors with complementary experience and skills. They have been selected to meet all of the requirements of an insurance company regulated by APRA as well as a deep appreciation of the purpose for which Lawcover exists. We are therefore able to provide a sound governance framework for the company, which in turn enables us to meet both the needs and the expectations of insured law practices. It is the commitment and experience of Board members past and present that has positioned Lawcover so well.

I would like to thank the CEO Michael Halliday and the wonderful team he leads for both embracing the mission of Lawcover to serve the legal profession and for achieving the benefits from a well articulated process of change. I would also like to thank Lawcover's insured solicitors for their ongoing support and for a wide adoption of best practices to minimise the occurrence and cost of professional indemnity claims.

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Robert Dolk  
**Chair of the Board**

## Organisational Structure



Lawcover is the approved professional indemnity insurer to law practices in NSW and is an approved insurer in the Australian Capital Territory.

- It operates as a licensed and regulated insurer and is a wholly owned subsidiary of the Law Society of New South Wales. It issues insurance policies to law practices and it is responsible for compliance with all legislative and regulatory requirements.
- The Lawcover Board's responsibilities include:
  - Setting the strategic direction of Lawcover and monitoring management's implementation of the strategy
  - Risk management strategy focusing on capital, investment and compliance
  - Monitoring financial outcomes and the integrity of reporting such as approval of annual budgets and longer term strategic business plans
  - Ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance and social responsibility) are adhered to at all times
- All Board members of Lawcover comply with APRA's 'fit and proper' requirements for being a Director of a licensed general insurer.

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## Report from the CEO

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**Michael Halliday** is CEO of the Lawcover Group of Companies comprising Lawcover and Lawcover Insurance and has responsibility for all Group operations. He has 30 years experience in the provision of professional indemnity insurance in Australia and Europe. Michael joined Lawcover as CEO in September 2012.

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The CEO report for 2013/14 represents a milestone, as it is a decade since the establishment of Lawcover Insurance (Lawcover) in 2004. As noted in the Chair's report, Lawcover's role has not altered in that time.

However Lawcover's role goes beyond transactional insurance based cover. By our corporate structure we are a part of the legal profession and as such we have both a desire and an obligation to assist lawyers in optimising the practice of law and thereby minimising the likelihood of claims of negligence. We do this by the provision of risk management and claims prevention activities through our specialist team in Practice Support Services. These activities are aimed at improving the professional lives of solicitors with a consequential benefit that it can improve personal wellbeing.

There is compelling evidence to support the effectiveness of the various programs we run and about the benefits for those who participate in them. One of the key measures of the success of the programs is the lower than expected incidence of claims and costs associated with those claims.

One of the key outcomes of that is our continuing strong financial position together with the provision of a Policyholder Rebate to eligible insured law practices in the new financial year.

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## **Report from the CEO**

continued

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On this sound financial base, over the last two years we have invested in operational efficiencies including streamlined information technology, more effective and flexible claims handling, a more dynamic risk and capital management approach and significantly expanded practice support services, the effectiveness of which has been evidenced by actuarial analysis. In June this year the company relocated to more modern premises enhancing the ability to provide efficient and effective service to our insured law practices.

### **Financial Performance**

I am pleased to report Lawcover's strong financial results to the profession. Please refer to the next two sections of this Review – Prudent Financial Management and Financial Performance.

Our secure financial position provides a platform for our commitment to deliver affordable and secure professional indemnity insurance today and into the future, backed by exceptional standards of service.

The company holds net assets of \$93.0 million at 30 June 2014, up from \$88.9 million at 30 June 2013, an increase of \$4.1 million.

### **Premiums**

Since 2012/13 the size of the Primary premium pool has fallen by more than 4%, despite an increasing number of insured solicitors year on year. Our focus will continue to be on key management strategies to put downward pressure on premiums. Our objective is to provide sustainability and affordability of professional indemnity insurance to the legal profession.

### **Notifications (Claims and Circumstances)**

Notifications have been trending stable to downwards over the last several years, despite an increase in the number of insured solicitors. The number of notifications reported for the year to 30 June 2012 was 635. This has fallen by more than 5% to 601 notifications reported for the year to 30 June 2014.

## Report from the CEO

continued



### Percentage of total incurred claims costs - area of practice

The following table presents the percentages of total costs incurred by area of practice for the 2013/14 year with comparisons to prior years.

Area of Practice	% of Total Incurred	% of Total Incurred	% of Total Incurred
	2013/14	2012/13	2011/12
Commercial	3	8	10
Sale & Purchase of Business	3	2	7
Conveyancing	24	17	13
Leases	3	5	5
Mortgages & Commercial Borrowing	21	19	23
Tort & Workers Compensation	6	9	5
Out of Time Personal Injury	3	7	4
Out of Time - Other	3	4	0
Other Litigation	15	15	11
Matrimonial	2	2	3
Probate and Wills	15	3	3
Others *	2	9	16
	<b>100%</b>	<b>100%</b>	<b>100%</b>

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## Report from the CEO

continued

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We continue to monitor emerging trends in claims and circumstances and where appropriate target areas of concern through risk analysis and targeted claims prevention strategies.

### Summary

In closing, I wish to acknowledge the outstanding commitment of Lawcover's staff to our insured solicitors and to their efforts in working with and on behalf of the legal profession to:

- Reduce the incidence and cost of claims, including
  - Financial costs
  - Reputational costs
  - Personal wellbeing costs
- Provide a broad and enduring professional indemnity insurance policy tailored for the legal profession
- Provide availability and sustainability of insurance through affordability

I also wish to acknowledge the ongoing support of the legal profession in respect of Lawcover and its objectives. It has been a genuine pleasure meeting many of you since I commenced as CEO two years ago and learning of your own commitment to the legal profession and the best practice of law.

Michael Halliday  
Chief Executive Officer

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## Prudent Financial Management

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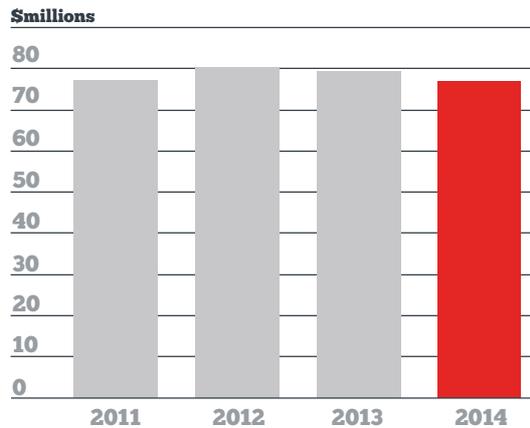
The financial year ending 30 June 2014 has been a strong one for Lawcover.

A combination of lower than anticipated claims and associated costs, together with a focus on efficiencies and effectiveness in claims identification and claims management has resulted in a release of prior year claims provisions. A modest increase in our net asset position is balanced against a Policyholder Rebate which was paid to eligible insured law practices in the new financial year.

### Premium stability

The target primary premium pool for 2014/15 has reduced by more than 4% since 2012 and is now at a level last seen from 2009 to 2011. This is despite a growing number of solicitors in insured law practices, estimated at up to 4% per annum.

Lawcover premiums are set with long term security in mind, balanced by a desire for both sustainability and affordability. To this end, a modest surplus has been retained to capital this year and surplus prior year claims provisions will be returned as Policyholder Rebates.



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## **Prudent Financial Management**

continued

### **Investment returns**

Lawcover holds a low risk investment portfolio to assist in maintaining financial stability. In considering the composition of the investment portfolio we carefully consider the day-to-day liquidity needs of the company, the volatility in some categories of investments and the settlement patterns of claims.

The investment return for the year was \$10.3 million, which is slightly greater than the \$10.1m return reported at 30 June 2013.

### **Net assets**

Lawcover's net assets have increased from \$88.9 million at 30 June 2013 to \$93.0 million at 30 June 2014. A modest surplus was set for Lawcover in the 2013/14 budget to provide capital growth in order to maintain a prudential level of financial security.

Each year Lawcover, in conjunction with its consultant actuaries, models a number of potential impairment variations to assess the likelihood and impact a major adverse outcome, or a series of adverse outcomes, could have on our capital position. This modelling assists us in determining an appropriate capital adequacy ratio above the ultimate expected costs of claims as they develop.

Lawcover's capital adequacy ratio provides a significant buffer above the minimum ratio in the company's target operating range set by the Lawcover Board.

For additional security, Lawcover purchases reinsurance from global reinsurers, which provides protection from volatility such as losses from large single or large multiple claims.

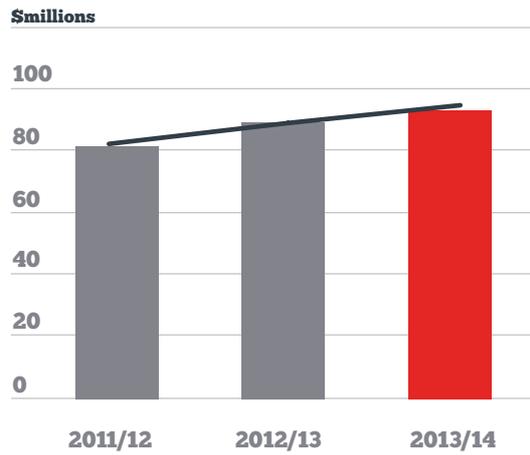
Lawcover is in an excellent financial position, which means insured law practices can be confident in the event they are the subject of a claim of negligence.

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## Prudent Financial Management

continued

### Net Assets



## Financial Performance - Highlights

The following are highlighted items extracted from the audited Financial Statements for the year ended 30 June 2014 which were published in the Annual Report of the Law Society of New South Wales. For full Financial Statements please refer to the Annual Report at this link

<https://www.lawsociety.com.au/about/organisation/annualreports/index.htm>

<b>Item</b>	<b>2014</b>	<b>2013</b>
	\$000's	\$000's
1. Premium Income		
(Policyholder Rebate)	(23,000)	-
(Premium Income)	82,378	83,034
2. Claims Experience		
Net Claims Incurred	(17,065)	(35,529)
Claims Expense	(24,751)	(56,941)
3. Underwriting Result	6,866	10,715
4. Investment Income	10,322	10,174
5. General and Administration Expense	11,839	10,054
6. Profit after Tax	4,014	7,357
7. Total Assets	380,281	373,161
8. Total Liabilities	287,280	284,174
9. Net Assets	93,001	88,987

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## Operational Focus

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Lawcover management focused on a number of initiatives during 2013/14 including:

- An organisational restructure to reflect a modern, efficient and strong professional indemnity insurer
- Relocating to more modern, efficient and purpose built premises
- A refreshed brand and communications style to engage with the legal profession in a contemporary way – reflecting Lawcover’s position as part of the profession
- Revised insurance policy wording to reflect a modern insurance framework while maintaining the breadth of cover provided
- A claims management protocol to drive efficiencies and economies from the claims management process, while ensuring:
  - Appropriate standards of service and defence where claims of negligence are defended; and,
  - Appropriate levels of compensation where claimants have suffered a loss through negligence by an insured law practice or practitioner
- An Online Services system to make renewal of insurance easier and more efficient and new internal workflow practices to support that
- A different approach to reinsurance resulting in a more secure and less costly structure
- Increased resources for risk management and claims prevention education to the profession and increased activity and interaction with the profession
- A reduction in the premium pool for 2014/15 and thereby the cost of premiums to many of our insured law practices

Each of the activities within these initiatives has assisted Lawcover in reaching the strong financial position it is in this year. Of equal importance,

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## Operational Focus

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continued

Lawcover has worked in partnership with the profession in bringing both the frequency and size of claims down through risk management and claims prevention strategies.

A comparison of attendees at key Risk Management and Claims Prevention activities in 2012/13 and 2013/14 documents increased engagement by the profession.

<b>Event</b>	<b>Attendees 2012/13</b>	<b>Attendees 2013/14</b>
Risk Management Education Program	289	759
One Day Claims Prevention Seminar	201	525
Claims Prevention Roadshows	285	348

All of these activities have resulted in perhaps the most positive outcome of all for 2013/14 – the provision of a Policyholder Rebate to eligible insured law practices which was paid in September 2014.

It is through operating as a professional indemnity insurer which is part of the profession that Lawcover can best contribute to the legal profession it serves.

That is our continuing intention.

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## Policyholder Rebate

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In June 2014 the Lawcover Insurance (Lawcover) Board resolved to launch a Policyholder Rebate in the 2014/15 Financial Year. The effect of the Policyholder Rebate was to pay to eligible insured law practices a rebate arising from overall positive claims trends which are better than originally anticipated.

When determining professional indemnity insurance premiums each year, Lawcover takes into account actuarial assessments of potential total costs arising from claims in the following policy year. Certain claims can take many years to resolve before final costs become known. The lower than anticipated claims costs that have been experienced over recent years resulted in stronger than expected financial performance for Lawcover in 2013/14 (see Financial Performance).

As well as being able to provide a Policyholder Rebate to eligible insured law practices as a result of positive claims trends, we are pleased to advise that Lawcover has again strengthened its capital position to provide security into the future. However if the observed positive trends in claims continue, Lawcover may also be able to continue reductions in premiums and/or make further Policyholder Rebates.

We attribute much of this improved experience to our insured law practices' employment of risk management and claims prevention strategies and we consider that the Policyholder Rebate is the best way to acknowledge this positive claims experience.

The Policyholder Rebate was paid to eligible insured law practices in the first quarter of the 2014/15 Financial Year.

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## **The Executive Team**

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**Michael Halliday**  
**Chief Executive Officer**

Michael joined Lawcover in September 2012. Previously, he was Chief Operating Officer of MDA National, an Australia-wide medical professional indemnity insurance provider.

With over 30 years experience in the professional indemnity insurance industry, in both Australia and the United Kingdom, Michael has consulted to medical and other professional indemnity/insurance organisations providing expertise on both strategy and operational management, with extensive experience in supporting the professional indemnity needs of professionals.



**David Martin**  
**Chief Financial Officer**

David joined Lawcover in September 2000. From 1978 to 1990 David worked for KPMG Peat Marwick primarily in the audit division with clients in the Banking and Financial Services Industry. Two years within this period was spent in the National Technical area advising clients and staff on technical auditing and accounting issues.

In 1990 David was appointed as Financial Accounting Manager for the Australian Stock Exchange, with responsibility for the finance function within the ASX. Prior to joining Lawcover David was responsible for all financial operations at the Credit Union Services Corporation (Australia) as the Chief Group Financial Controller.

David is a member of Institute of Chartered Accountants in Australia, Chartered Secretaries Australia and Australian Institute of Company Directors.

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## **The Executive Team**

continued



**Kerrie Lalich**

**Chief Operations Officer**

Kerrie joined Lawcover in February 2013 as Chief Operations Officer with primary responsibility for leading Professional Services of Lawcover – Claims, Insurance Services & Underwriting and Practice Support Services.

Kerrie was admitted as a solicitor in NSW in 1996 and her career has spanned several Sydney law firms. She specialised in personal injury, professional indemnity and insurance litigation.

In 2001 Kerrie moved from legal practice to the insurance industry, focusing on public liability, personal injury/catastrophic claims, professional indemnity and financial lines. Her insurance career has included time with AMP/GIO, QBE and most recently MDA National.

Kerrie's broad expertise includes leading diverse teams delivering professional indemnity, advisory and risk management education services with a key focus on successful outcomes, business rigour and client value.

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The Executive is fortunate to lead a team of staff who are dedicated to working on behalf of the legal profession to deliver secure professional indemnity insurance backed by excellent service.

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## **Directors of Lawcover Insurance**

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### **Mr Robert Dolk Chair**

Robert is a chartered accountant with over 30 years experience in financial services, working in Australia, Europe and Asia for organisations such as BNP Paribas, HSBC and Deutsche Bank.

He is also currently a non-executive director of Zurich Financial Services Australia Limited and its general insurance subsidiary, Alinta, and Indonesia Infrastructure Finance.

He joined the Lawcover board in March 2010 and was appointed Chair in March 2012.

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### **Mr Justin Dowd**

Justin's current board positions include:

- Director, Law Council of Australia;
- Director, World Congress on Family Law & Children's Rights;
- Director, Paralegals Pty Limited;
- Director, LawAsia.

In 1994 Justin was accredited by the Law Society as a specialist in family law, having become a solicitor in 1976 and specialising in family law since 1987. Since 1995, he has been a Partner at Watts McCray, one of the largest specialist family law practices in Australia.

A highly experienced litigator, with over 35 years' experience, Justin specialises in international family law matters. He is a long-standing member of LawAsia and in their Family Law and Children's Rights Section, as well as the Family Law Section of the Law Council of Australia.

Justin was President of the Law Society of New South Wales in 2012. Since joining the Law Society in 2007 as a Councillor, he has served on a number of committees including Professional Conduct, Family Issues, Dispute Resolution, Audit, Finance, and the Executive Committee.

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## **Directors of Lawcover Insurance**

continued

### **Ms Susan Doyle**

Susan has had an extensive executive career in funds management, working with Commonwealth Funds Management, Suncorp and IAG.

She is a Member of the Future Fund Board of Guardians and a Director of the Securities Exchange Guarantee Corporation Limited. Her current directorships also include the Barbara May Foundation, a member of the State Library of New South Wales Council and a Director of Taronga Zoo Conservation Society.

Susan is the former Chair of the Commonwealth Superannuation Scheme (CSS) and a former Member of the Takeovers Panel.

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### **Mr John Eades**

**BA. LLB**

John has been a partner at Noyce, Salmon & D'Aquino Solicitors in Griffith since 1972, having been with the firm since 1969. He has been a Law Society of New South Wales Councillor since 2001 and President of the Riverina Law Society since 1997.

He was a member (appointed) of the Country Committee - Family Law Section of the Law Council of Australia from 1986 to 1998 and an elected member of the Family Law Section of the Law Council of Australia from 1990 to 1992.

John is currently the Senior Vice President of the Law Society of New South Wales and in 2015 will be the President.

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## **Directors of Lawcover Insurance**

continued

### **Mr Robert Graham Harrison**

Robert is a former Chairman and CEO of Aon Australia Holdings. He has also been chairman, deputy chairman, managing director and CEO of related companies in the United Kingdom, Europe and Africa. He has previously served as chairman of Freemans Australia.

Current directorships include Citystate Insurance Holdings, Citystate Risk Services, Citystate Capital Asia (Singapore), Eclipse Property Group, Austcorp Consulting and Dalinclair Consulting.

He has 57 years experience in the insurance industry, which includes 44 years with Aon and related companies in the UK, Zimbabwe, South Africa and Australia.

He is a fellow of AIM, and the Australian and New Zealand Institute of Insurance and Finance (ANZIIF). He is a past president Fellow of the National Insurance Brokers Association (NIBA) and of the Australian Institute of Company Directors (AICD).

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### **Mr Michael Tidball**

**BSocSc, MMgt, FAICD**

Michael was appointed Chief Executive Officer of the Law Society of New South Wales in September 2006. He joined the Law Society in 2001 as Chief Operating Officer where he was responsible for the operational management of Law Society activities and had oversight of the reorganisation of the entity as it entered voluntary membership on 1 July 2004.

Prior to working at the Law Society, Michael worked in senior management roles in the public and private sectors. He was a ministerial advisory chief to the New South Wales Government from 1989 to 1995, prior to heading up the Government Division of Minet (now AON) Insurance and Risk Management. He has also worked in senior executive roles in the private health care sector.

Michael is a fellow of the Australian Institute of Company Directors and was, until recently, Chairman of the Centenary Institute for Cancer Research and Cell Biology Foundation, having previously served on the Board of Governors and as Treasurer of the Institute.

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## **Directors of Lawcover Insurance**

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continued

### **Mr Duncan West**

Duncan was Executive General Manager of Insurance for MLC & NAB Wealth until November 2013 and now holds a number of non-executive Board positions including with Lawcover Insurance.

He has more than 25 years experience in the insurance industry in Australia, the United Kingdom and India. He has a deep knowledge and understanding of all aspects of insurance. Prior to joining MLC and NAB Wealth, Duncan was Chief Executive of CGU Insurance at IAG Ltd. During this time he was accountable for the profitability and strategic direction of CGU.

Duncan has also held senior roles at Promina Group between 1998-2007 where he was Executive General Manager, Group Strategy and Chief Executive of Vero Insurance. From 1996-1998 he was Chief Executive Officer India for Royal & Sun Alliance Group.

He holds a Bachelor of Science in Economics, is a Fellow of the Chartered Insurance Institute, a senior associate of ANZIIF and a Graduate of the Australian Institute of Company Directors. He is also a past President of the Australian and New Zealand Institute of Insurance and Finance.



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