

strong stable vigilant

LEGAL PRACTITIONERS' LIABILITY COMMITTEE 2010 ANNUAL REVIEW

Contents

Report of the Chairman	1
Report of the CEO	2
Solicitors: Claims	4
Solicitors: Risk management report	6
Barristers: claims	8
Barristers: Risk management report	8
Investments	10
Legal Practitioners' Liability Committee	11
Legal Practitioners' Liability Committee Management	14
Organisational chart	16
Supplementary information	17
Financial Report for the year ended 30 June 2010	19
Notes to the Financial Statements	24

Serving the Profession

The Legal Practitioners' Liability Committee has been insuring the legal practitioners of Victoria since 1986.

Pursuant to the *Legal Profession Act 2004* LPLC is the insurer to law practices engaging in legal practice in Victoria. It is the successor body to the Solicitors' Liability Committee.

The Solicitors' Liability Fund became the Legal Practitioners' Liability Fund in 1996.

The Fund is administered by the LPLC.

To engage in legal practice in Victoria, law practices must take out insurance with the LPLC.

The functions of the Committee are:

- to provide professional indemnity insurance to law practices
- to undertake liability under contracts of professional indemnity insurance entered into with law practices
- any other functions conferred upon it by the *Legal Profession Act 2004*.

The LPLC also provides risk management services to law practices.

The LPLC has the power to enter into contracts or arrangements relating to insurance and reinsurance.

The LPLC is an independent body which reports to the Attorney-General and Minister for Finance of the State of Victoria.

Report of the Chairman

The reporting year began with a number of uncertainties. It is easy to overlook the gloomy global economic outlook that pervaded as the year began.

LPLC faced the difficult decision of raising its premiums off a low base to meet the possibility of low investment returns with the economy in retreat. Our past experience meant that we had to be prepared for a climate where claims might increase in both cost and number.

Fortunately, Australia appears to have been spared many of the woes of other economies and our claims experience was very good. Our investment returns improved through out the year to yield of 7.9% return. This, together with our consistent and moderate claims experience, enabled LPLC to resolve during the reporting year to reduce the premium pool for the 2010-11 year.

The increase we imposed for the reporting year, brought the level of premiums close to those paid by solicitor practitioners between 1992 and 1997. In real terms, applying 2009 values, premium levels were in fact 45% less than the value of the premiums paid in 1992.

LPLC's aim is to provide premium stability. We are not focussed on profit. For solicitor practitioners, our aim is to maintain premiums which are as low as possible and consistent with prudent practice – something we have done since 1998. We have consistently and deliberately underwritten the cover we provide at less than cost. This has certainly justified LPLC's position as sole insurer to Victorian Solicitors and as an insurer of large national firms.

For barristers, the premiums now paid are approximately 45% less than they were when barristers were insured in the commercial market, immediately before barristers joined the LPLC.

From time to time we hear arguments that insurance would be cheaper and better if there were more insurers in the market.

Ten years ago the solicitors of England and Wales began a market insurance scheme. Practitioners there, now face a very difficult renewal on the 1st of October 2010. Many small practices have not been able to find insurance and have been forced into an assigned risks pool where they must pay 25% of their Gross Fee Income by way of premium. This trend is likely to continue.

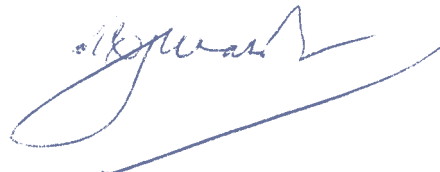
In Victoria, compulsory insurance schemes that rely on the commercial insurance market have had similar experiences, particularly in the case of compulsory cover for builders. When the last underwriter withdrew, the Victorian Managed Insurance Authority, a statutory corporation, had to step into the breach to provide insurance.

These examples demonstrate that market provision of universal compulsory cover, unless delivered through a master policy scheme or a sole provider scheme, is almost impossible to achieve over time. There will always be enthusiastic insurers at the beginning of such schemes who believe they will pick and choose the best risks, but they often retreat, as the Victorian and English experience indicate. These examples are reminders of how compulsory, sole provider schemes serve not only Victorian, but Australian practitioners very well.

The National Taskforce for National Legal Profession Reform has reached a similar view. All governments have committed to continuation of the current insurance arrangements in each State and Territory and this has the support of the legal profession

LPLC looks forward to the continued support of its insured practitioners.

I thank the management and staff for their dedicated efforts in what was a challenging year.



Matt Walsh
LPLC Chairman

Report of the CEO

LPLC is now in its 25th year of providing professional indemnity insurance to solicitor practitioners, and its fifth year of providing cover to barristers.

I am pleased to report that during the reporting period, we received the lowest numbers of claims and notifications for solicitor practitioners since 1989. This figure is extraordinary after taking into consideration the fact that we now insure more than twice as many solicitor practitioners as we did in 1989.

Our claims experience has been remarkably stable over the last decade and a half, despite the growth in the number of firms we insure as a result of national firms joining the LPLC pool at the start of the decade.

Risk management remains our focus and we believe we now have evidence that firms that take their risk management seriously have much better claims performance. The converse is also true—those that pay little regard to managing their risk, incur claims that damage their risk rating, drive up the cost of insurance and damage their reputation and profitability.

National Legal Profession

LPLC has now been governed by three different Acts regulating the legal profession, and it appears likely, that there will be a fourth, as a result of the National Legal Profession Reform Project.

During the reporting period, the National Legal Profession Taskforce developed and released for comment a consultation package, which included the draft bill and rules.

While this was being developed, Victoria kept key stakeholders informed. LPLC was one of these stakeholders. As CEO I attended regular meetings with stakeholders chaired by Louise Glanville of the Department of Justice, who was a member of the National Legal Profession Reform Taskforce appointed by the Council of Australian Governments.

The aim expressed in the Consultation Report of the 14th May 2010 is to ensure that existing professional indemnity schemes in each state and territory are not interrupted by national law.

LPLC has also been a part of the Law Council of Australia Professional Indemnity Working Group, which has developed minimum terms and conditions to be applied to all schemes to ensure that they maintain their high quality cover which is consistent in each jurisdiction. The working group also developed a proposal for a uniform system of exemptions.

The draft Bill was circulated during the reporting period. The aim of the taskforce in relation to professional indemnity insurance was to essentially retain the current jurisdictional insurance arrangements, which have served Australia very well for more than 20 years.

Responses to the Bill are to be made by 13th August 2010.

National Electronic Conveyancing Project

Over the past 12 months, the Committee has continued to play an active role as a participant on the NECS National Project Team as slow but steady steps have been taken to develop a single and truly national electronic conveyancing platform. The enormity of this project is not easily understood, as it involves distilling a single nationally consistent system for electronic lodgement, financial settlement and registration of dealings from 8 autonomous jurisdictions each with their own entrenched property laws and practices.

The Committee has consulted extensively with other State-based insurance schemes for lawyers and conveyancers insurers and made submissions on the proposed legal framework and client-identification standard for practitioners. We are particularly conscious of the risk of identity fraud and the misapplication of client funds in the electronic environment, and the risks practitioners will face in a system that will require them to digitally sign instruments of transfer and mortgage on behalf of transacting clients and certify as to the authenticity and correctness of documentation. It is essential NECS contain comprehensive risk mitigation measures to deal with these fraud risks, and not simply out-source it to practitioners, their insurers and fidelity schemes.

We are confident that National E-conveyancing Development Ltd (the newly created entity responsible for bringing the project to fruition) understands this, and that with the continued co-operation of all stakeholders over the next couple of years practitioners should see the emergence of a new national electronic conveyancing system with the capacity to deliver significant benefits to consumers, Banks, practitioners and Land Registries alike.

I thank the staff of the LPLC for their efforts over the reporting period.

A handwritten signature in black ink, appearing to read 'Miranda Milne', with a stylized flourish at the end.

Miranda Milne
Chief Executive Officer

Claims

While both the number and cost of claims has decreased, the estimated cost has not decreased as much as might be expected, after taking into account the low number of claims and notifications.

Claims were, for a second successive year, dominated by errors and omissions in conveyancing and mortgages – together, these two areas of practice accounted for more than half the cost of claims.

The significant increase in the cost of mortgage claims arose from:

- A re-emergence of Amadio claims, highlighting the need for practitioners to take particular care in certification.
- Failure to obtain any, or adequate security.
- Fraud and forged mortgages.
- Failure or delay in registering mortgages and caveats.

There was a significant rise in the cost of claims arising from mortgage fraud. Stolen titles and identity fraud were features of these claims.

In the property area, mistakes were made in relation to:

- Subdivisions.
- Drafting errors.
- Failure to lodge caveats.
- Failure to conduct check searches.
- GST issues.
- Rescission notices.

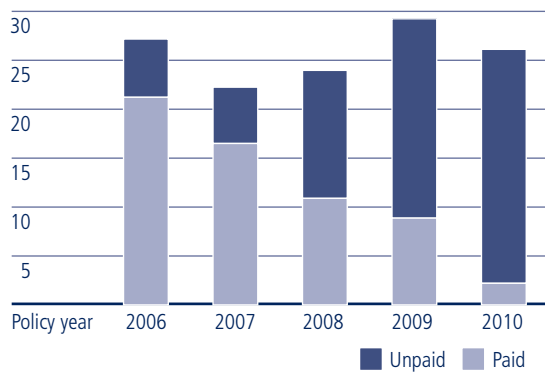
We have also experienced a small number of expensive claims arising out of leases - in particular, drafting errors in rent review clauses.

In the litigation area, there was a high incidence of counterclaims for negligence arising from practitioners having to sue for costs. This is a reminder that timely and regular billing should be part of every firm's risk management strategy.

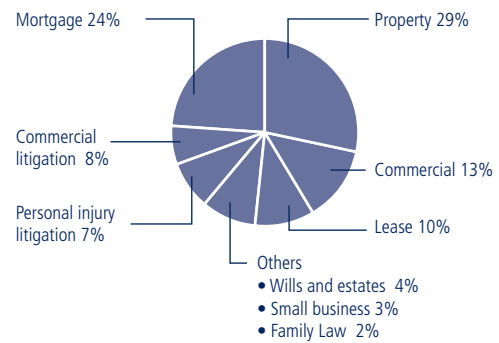
Failing to manage legal issues was the dominant underlying cause of claims this year, and this was most evident in the property and conveyancing area.

Retainer management dominated the claims in commercial and mortgage areas, while poor communication pervaded commercial, property and leases.

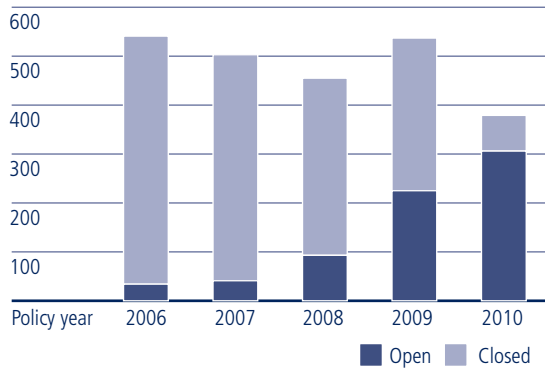
Paid and unpaid claims for Solicitors (\$m)



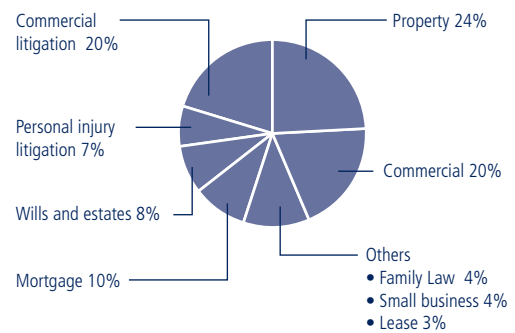
Percentage cost of claims by area of practice



Open and closed files for Solicitors



Percentage number of claims and notifications by area of practice



Risk Management Report 2009–2010

The objective in all our risk management programs is to assist practitioners and firms to incur fewer claims.

We achieve this through our

- conferences;
- presentations and workshops;
- bulletins;
- newsletters;
- Law Institute Journal column;
- website;
- GST Hotline;
- new Water Hotline; and
- telephone enquiry service.

In the reporting year, these activities were:

Annual Risk Management Intensive – Melbourne

The program was repeated on three separate days in July and August, with a total of **506** practitioners attending. The topics covered were:

- How best to make mediation work
- Emerging risks in the personal property security register, anti-money laundering and the new family law de facto legislation
- Water rights unbundling
- Assessment of decision-making capacity
- Claims relating to difficulties in obtaining finance

Country Risk Management Seminar Series

Seminars were held at eight locations across Victoria: Mt Eliza, Traralgon, Bendigo, Warrnambool, Ballarat, Wodonga, Shepparton and Mildura. This year we offered country firms the opportunity to send a clerk to the seminar free of charge with every legal practitioner who attended. **440** participants attended.

The program comprised three one hour sessions on:

- Property law claims involving conditional contracts and rescission notices
- Administration of estates claims
- Why country claims are different

LIV Conferences and seminars

LPLC spoke at the LIV annual conference on Property Law, the LIV Eastern Suburbs Law Association annual conference and the LIV Mildura Compliance Program and three LIV compliance programs in the city. We also spoke at an ILP Forum organised by the LIV.

Other seminars and speaking engagements

- Leo Cussen all day Property Law Conference.
- Suburban Law Association meetings.
- In house workshops targeted at all levels of practitioners were conducted for many firms during the year.
- LPLC conducted workshops for law students at the University of Melbourne.

College of Law – Leo Cussen Institute

LPLC more than doubled the number of workshop and introductory seminars for Leo Cussen and College of Law this year with 13 two hour workshops for the College of Law and the introduction to 14 risk management programs run by Leo Cussen Institute, which was previously designed by LPLC.

Publications

Risk Management Booklets

This year we published four revised risk management booklets:

- *Claim Free Conveyancing*
- *Looking After Leases*
- *Managing Mortgage Risk - Amadio and beyond*
- *Focusing on Family Law*

Booklets were sent to every firm in Victoria.

In Check Newsletter

The popularity of the newsletter is evidenced by the regular phone calls received from the profession to discuss issues raised after each newsletter is published. The newsletter is now sent electronically to practitioners. The topics canvassed this year included:

- Case notes including one about a NSW case where a solicitor was personally liable for breaches by directors of the *Corporations Act 2001* (Cth)
- Note about the new Sale of Business Contract
- A reminder that festive season pressures can lead to mistakes
- A warning about risks involved in the practice of documenting lease incentives outside the lease
- Legislation repealing Table A of the Seventh Schedule of the *Transfer of Land Act 1958* (Vic)
- A change to the *Owners Corporations Act 2006* (Vic) clarifying that owners corporation certificates need to be sealed
- State Revenue Ruling in relation to the meaning of 'rent reserved'
- Further land tax changes in relation to administration trusts
- A reminder about timing in Rule 10.20 of the *Magistrates' Court Civil Procedure Rules 2009*
- Note about new Victorian and Commonwealth unfair terms legislation
- Reference to a Revenue Ruling about when deceased's property may lose stamp duty exemptions

Law Institute Journal Column

LPLC's full page risk management column has continued each month. Topics included were:

- *Defamation*
- *Delay*
- *Conflict and losing*
- *Self Audit for Incorporated Legal Practices*
- *Good Communication*
- *Client retention*
- *Changes to the Family Law Act*
- *Perils of tracking changes*

Bulletins

Two emergency bulletins were published this year, dealing with

- two recent decisions of the Victorian Supreme Court affecting 'off the plan' sales, which had had immediate and significant impact on how practitioners drafted 'off the plan' sales contracts.
- amendments to the *Duties Act 2000* (Vic) which imposed stamp duty on leases in a wide variety of circumstances and it was arguably much broader than the Government had intended.

Water Hotline

The Water hotline continued to operate this year along similar lines to the GST hotline. All client-related questions are directed to LPLC and those that cannot be answered by LPLC staff are referred to our water panel expert for advice. The first half hour of the advice is paid for by the LPLC.

Website

LPLC's website at www.lplc.com.au is continually updated with our risk management publications. It contains all recent publications as well as an In Check and LJ column archive, all risk management booklets, Q & A for GST, and details of all forthcoming risk management seminars.

LPLC GST Hotline

Derry Davine continued to provide the service this year on behalf of LPLC. Practitioners who use the service are grateful for the opportunity to have their questions answered in an efficient and accessible way, thereby avoiding the potential of claims in this complex area.

Telephone enquiry service

LPLC risk managers and claims managers field a large number of telephone enquiries from the profession. Often the enquiry is in relation to a topic covered in one of our publications or seminars. Practitioners call because they sense that there is a risk in what they have been asked to do and need to talk to someone about it.

Barristers Annual Report 2010

This was the fifth year of LPLC insuring Victorian barristers.

Since 2005 the claims experience for the Bar has been very stable. The cost of claims has enabled the Committee to deliver quality insurance cover for barrister practitioners at an affordable price.

Premiums for barristers in the coming year (2010–2011) are, on average, now 45% lower than rates charged in 2004 when barristers were insured in the commercial insurance market.

LPLC insured 1,823 barrister practitioners in the 2009–2010 policy year. Cover provided is \$2m per claim, with unlimited reinstatements, and automatic run-off entitlements for all barristers who have ceased private legal practice whether as a result of appointment to the Bench, retirement or death.

Claims

There were 35 claims and notifications in the reporting year. These claims had an incurred value of \$1.52m, a slight increase on earlier years.

Problems encountered by barristers in the matters notified during the reporting year included the following themes:

- Acting without actual authority of a client, resulting in a personal costs order being made against Counsel
- Failure to advise that relevant parties be joined to proceedings
- Errors in assessing the strengths and weaknesses of claims and defences:
 - » forming conclusions based on uncertain facts, but without relevantly qualifying the advice
 - » failing to consider relevant authorities when advising on the law
 - » not wanting to give aggressive clients meek (i.e. less than positive) advice, resulting in doubtful claims and defences being pursued without sufficient warning as to risks
 - » trying to find a remedy where one did not exist on the available evidence
 - » failing to foresee potential alternative claims, that subsequently crystallise in the form of amendments at trial and necessitate a late revision as to the client's prospects of success
- Judicial criticism of Counsel's conduct of litigation fuelling client complaints about the cost and outcome of the case
- Over-charging
- Dissatisfied litigants complaining about the preparation and presentation of their cases
- Settlement agreements with inadequate 'default' provisions

Failure to manage legal issues and communication problems were at the heart of most claims and notifications.

Failure to manage the legal issues (43%) encompassed failures to analyse the case and identify the correct legal issue, as well as getting the law wrong. Communication problems (37%) included not listening to the client or the instructing solicitor sufficiently to ensure complete instructions were taken, failing to confirm oral advice in writing, and rushing the documentation and execution settlement agreements at the end of long and difficult negotiations.

Claims from earlier policy years have continued to be resolved within reserve estimates.

Risk Management

LPLC's experienced claims solicitors provide a confidential telephone service for barristers with specific queries about their exposure to a claim for professional liability, as well as any queries that arise throughout the year in relation to the coverage provided by the policy. This service is well utilised by members of the Bar.

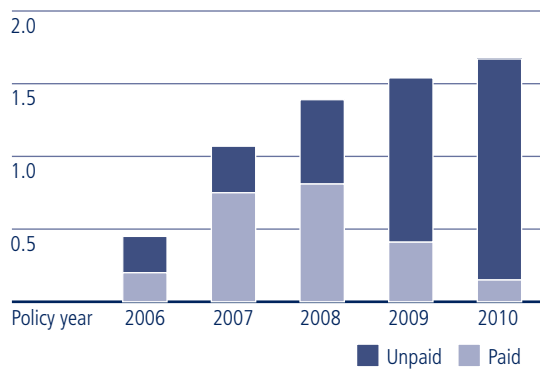
LPLC's website includes a number of articles, seminar papers and risk bulletins which are a handy source of reference material for members of the Bar, in relation to professional liability risks they face in their everyday practice. These materials are relevant to the experienced and the less experienced.

Victorian Bar

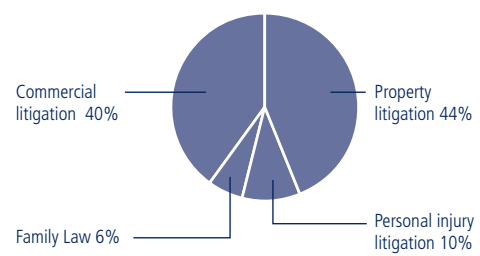
LPLC liaises with the Bar in relation to a variety of insurance and risk management issues including any changes to the policy wording, any emerging risk issues relating to barristers' practice of law, and provides support to enable the Bar to comply with its reporting obligations to the Professional Standards Council.

We acknowledge the assistance of the Victorian Bar, in particular Stephen Hare (General Manager) and Alison Rock (Manager, Compliance) for their work with LPLC in dealing with insurance queries raised by members of the Bar from time to time.

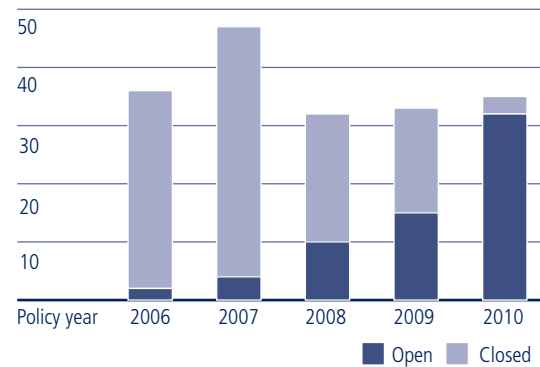
Paid and unpaid claims for Barristers



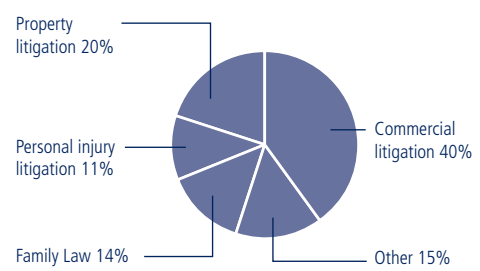
Percentage cost by area of practice



Open and closed files for Barristers



Percentage of claims and notifications



Investments

The reporting year saw recovery in investment markets. Not only has LPLC seen a return to positive investment results, but the result was very pleasing at 7.9%, which is considerably above our benchmark of 6.1%.

LPLC remained conservatively invested throughout the reporting period, with 47% of its fund of \$180M invested in cash as at 30th June 2010.

The improving commercial property market led to the Dexus Property Trust being declared liquid after being illiquid for eight months of the reporting period. The value of those units began to increase towards the end of the reporting period.

During the period, the Committee held investments with

Australian Equities

Challenger Managed investments Limited (until March 2010)

Integrity Investment Management (from August 2009)

Solaris Investment Management (from March 2010)

International Equities

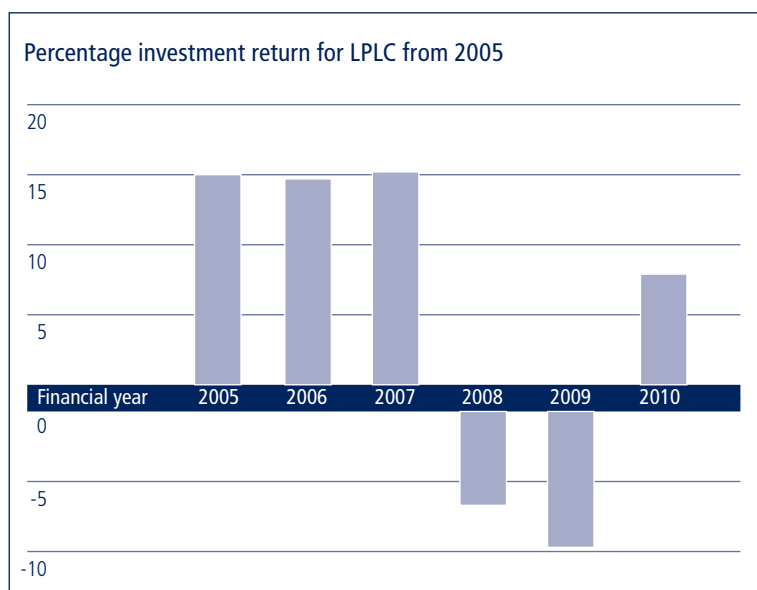
Alliance Bernstein Investment Management (until August 2009)

MFS (Massachusetts Financial Services) Investment Management

Property

Dexus Wholesale Property Fund

JANA Investment Advisers were the Committee's advisers.



Legal Practitioners' Liability Committee and Management

The LPLC:

- Manages and conducts the affairs of and is responsible for the organisation and business of the LPLC.
- Provides professional indemnity insurance for law practices.
- Determines the terms of and submits policies of professional indemnity insurance for legal practitioners in Victoria for approval by the Legal Services Board.
- Oversees investment of the Legal Practitioners' Liability Fund.
- Develops policy in relation to national practice issues and professional indemnity insurance.
- Oversees implementation of effective risk management for legal practitioners.

The **Audit Committee** comprised of Leanne Planck (Chairman), (until 31st December, 2009), Mary Radisich, Peter Fox and Patricia Kelly (from 1st January, 2010).

The Audit Committee oversees:

- financial reporting
- internal risk and control procedures
- actuarial and reserving functions
- audit
- reporting compliance
- corporate governance
- conduct of audits.

The **Fund Investment Sub Committee**, comprised of Matt Walsh (Chairman), Peter Daly, Geoff Rees and Miranda Milne.

The Sub Committee:

- makes recommendations to the LPLC as to benchmarks, asset classes and asset allocation
- monitors the fund's investment strategies
- makes recommendations to the Committee as to the appointment of fund managers and investment advisers.

	COMMITTEE MEETINGS		AUDIT COMMITTEE		FUND INVESTMENT SUB COMMITTEE	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Peter Daly	11	10			5	5
Peter Fox	11	11	4	4		
Patricia Kelly	5	5	1	1		
Leanne Planck	6	6	3	3		
Miranda Milne	11	10			5	5
Mary Radisich	11	8	4	3		
Matt Walsh	11	11			5	5
Geoffrey Rees	11	10			5	5

Legal Practitioners' Liability Committee and Management continued

Matt Walsh

Chairman

Matt Walsh was formerly a partner of Mallesons Stephen Jaques and was chairman of that firm from 1988 to 1990. On retirement in July 2000, he was appointed as Special Tax Counsel to Gadens Lawyers, specialising in commercial and taxation law.

Matt is a past president and life member of the Law Institute of Victoria and a past chairman of the Taxation Institute of Australia (Victorian Division). He is a director of several private companies and a member of the board of a public charitable fund.

Peter E Daly, AM

Committee Member

Peter E Daly has a wealth of experience in the financial industry. He has been President as well as CEO of the Insurance Council of Australia. He is Chair of the Financial Services Compensation Scheme and formerly Chairman of Financial Ombudsman Service, AAMI Limited and was Managing Director of Norwich Winterthur Group Limited. Peter continues to hold a number of Directorships with private companies. He is also Chairman of HDI-Gerling Australia Co Pty Ltd and Aioi Insurance Co Limited.

He is a former Deputy Chairman of the Zoological Parks & Gardens Board and the Federal Government Self Regulation Task Force.

Peter Fox

Committee Member

Peter Fox is a practising Barrister and a part time Senior Fellow of the Melbourne Law School. He has practised as a commercial lawyer for more than 30 years, as a barrister, as a partner of Mallesons Stephen Jaques, as a senior counsel of the World Bank in Washington DC, and as an overseas service fellow of the Law Council of Australia assigned to the Monetary Authority of Singapore.

Patricia Kelly

Committee Member (from 1st January, 2010)

Tricia Kelly has extensive experience in the Financial Services Industry. Over the past 10 years she worked for Suncorp/AAMI where her most recent role included Executive General Manager Strategy & Business Development Personal Insurance and General Manager AAMI New South Wales. Prior to that she was a Director & Executive General Manager Life & Superannuation of Norwich Union Life Australia.

Tricia is a past president and honorary life member of the Insurance Institute of Victoria and a former Director of the Australian Insurance Institute. She is currently a Director of RACV Limited.

Miranda Milne

Executive Member

Miranda Milne was solicitor to the Committee until 1986 and has been CEO since 1996.

Prior to her appointment to the Committee, Miranda engaged in private practice, specialising in litigation and professional indemnity insurance.

She is a member of the executive committee of the Trinity College Foundation..

Leanne Planck

Committee Member (until 31st December 2009)

Leanne Planck operates her own consulting company specialising in business process improvement and post merger integration for a number of top 100 companies. As well as being a non executive director and chair of the Audit Committee for Legal Practitioners' Liability Committee, she is also a non executive director and member of finance and audit committees for Melbourne Health and Metropolitan Ambulance Service.

Prior to starting her consulting business, Leanne worked for Shell in senior finance executive roles including holding European and worldwide roles. She was previously a Director at Ernst and Young Consulting and worked for Price Waterhouse.

Leanne holds a Bachelor of Economics (major accounting) from Monash University and is a fellow of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors.

Geoffrey Rees*Committee Member*

Geoff is a graduate from Melbourne University in law and commerce and is a Law Institute of Victoria accredited business law specialist. He is one of the two founding partners of Brian Ward & Partners.

With a broad commercial and litigation experience, Geoff regularly advises and presents to institutions and their controlled entities on operational risk management strategies.

He is a member of the Uniseed Board, a \$60M pre-seed fund of Westscheme and three of the leading research universities. The fund invests in research outcomes from the institutes, and manages the early stages of the commercialisation of that research.

Mary Radisich*Committee Member*

Mary Radisich is a former counsellor with Casey Cardinia Legal Service and a former mediator for the Dispute Settlement Centre of the Department of Justice.

Mary has been manager of the Dispute Settlement Centre of Victoria and has extensive experience in both consumer and community affairs. Her community involvement has included being a councillor for the City of Knox and a member of the board of management of the Angliss Hospital. She is currently a counsellor with Local Community Support & Information Centre.

She is also a member of the Financial and Consumer Rights Council of Victoria.

LPLC Management

Miranda Milne

Chief Executive Officer

The Committee began its operations in January of 1986. Miranda Milne was solicitor to the Committee from May 1986 until October 1996 and has been the chief executive officer since that time.

She previously worked in private practice in the area of insurance litigation, particularly professional indemnity insurance.

Justin Toohey

Deputy Chief Executive Officer

Justin joined the Committee in 2005 from IBL Ltd where he was employed for four years as National Claims & Risk Manager with the professional indemnity scheme run by the Royal Australian Institute of Architects.

Prior to 2001, Justin was a partner with Tress Cocks & Maddox specialising in professional indemnity litigation, and was a panel solicitor to the Committee conducting the defence of claims against members of the profession for more than 10 years.

Alex Macmillan

Claims Solicitor

After 17 years in private practice, specialising in insurance litigation, Alex Macmillan joined the Committee on secondment as a partner from Lander & Rogers. She subsequently joined the Committee staff permanently in 1994.

Bronwyn Hine

Claims Solicitor

Bronwyn joined the Committee in 2006 from the Melbourne office of specialist insurance firm Moray & Agnew.

In the 10 years prior to joining the LPLC, Bronwyn worked in private practice in Victoria and South Australia as a professional indemnity solicitor.

Anthony Kearns

National Risk Manager

Anthony has worked as an insurance litigation solicitor in a number of law firms in Canberra, Sydney and Perth.

Following his time as a claims manager for a national insurer he became Risk Manager for the professional indemnity subsidiary of the Royal Australian Institute of Architects. He then joined a multi-national engineering firm, Lincoln Scott, as their Chief Operating Officer. It was from this role that Anthony joined the LPLC in September, 2007.

Heather Hibberd

Risk Manager

Heather practiced as a solicitor for 8 years in Insurance Litigation at Minter Ellison specialising in professional indemnity litigation before joining the Committee on secondment in 1999. She became a permanent member of staff in 2001.

Catherine Hannebery

Risk Manager

Catherine joined the Committee in July 2006. Her career started in private practice and moved to legal publishing. Prior to coming to the Committee, Catherine worked for 9 years on publications and continuing legal education for the insurance practice at Phillips Fox.

Peter Richards

Chief Financial Officer

Peter joined the Committee as Chief Financial Officer in December, 2003. He previously worked in the Retail Industry where he held senior accounting positions with Myer and more recently Daimaru. Peter manages the Accounting, Finance and Payroll functions.

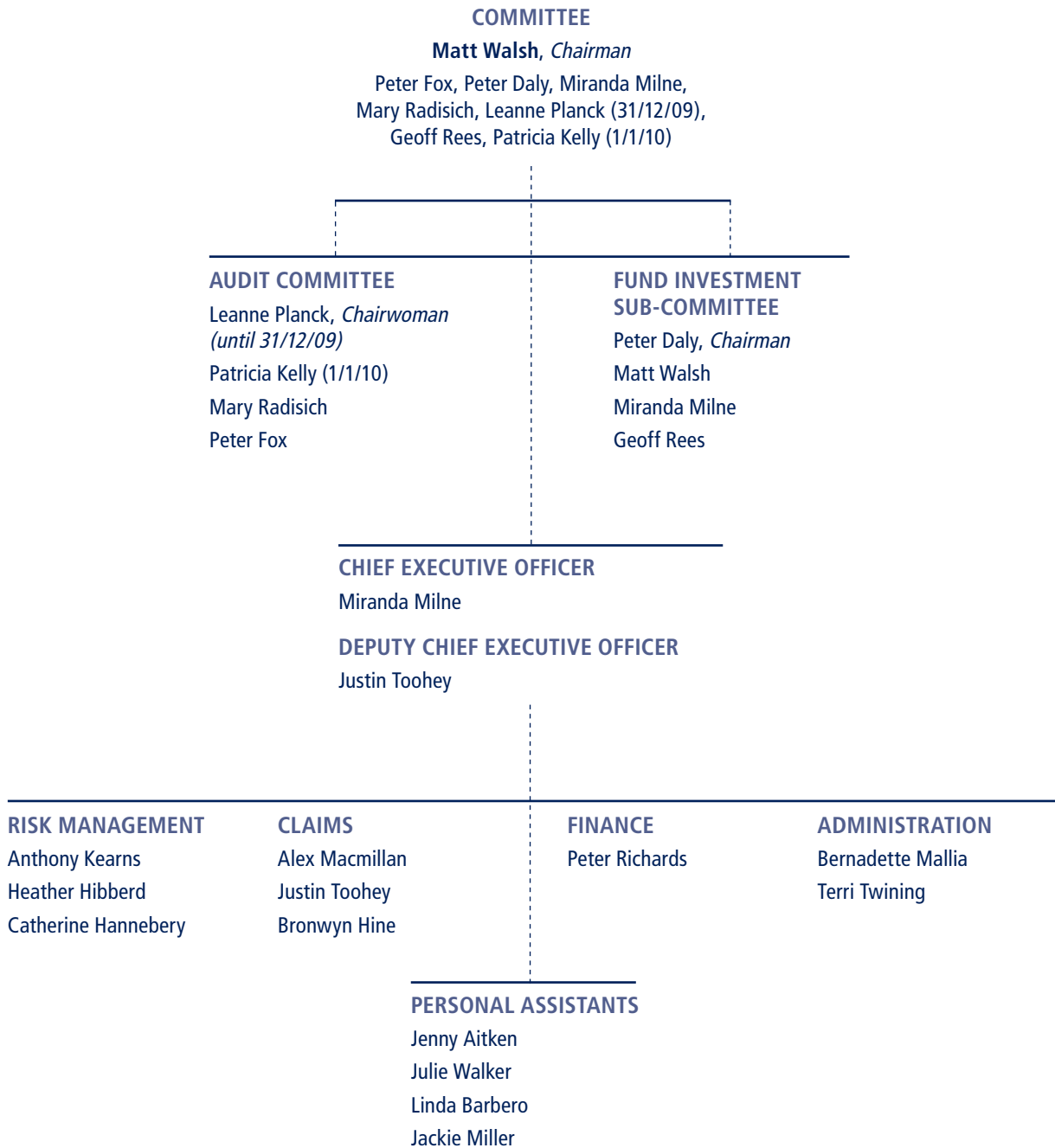
Bernadette Mallia

Office Manager

After working in solicitors firms both as a personal assistant and a conveyancing clerk, Bernadette joined the Committee in 1988.

The Committee also employs three personal assistants and a data manager. The Committee outsources its information technology and actuarial services.

Organisational chart



Supplementary information

Legislation administered by the Committee

The Legal Practice Act 1996

- 1 July 2005 to 11 December 2005

The Legal Profession Act 2004

- 12 December 2005 to 30 June 2010

Financial management regulations

The information specified in the Financial Management Regulations has been prepared and is available on request to the Attorney General, Members of Parliament and the public.

Whistleblowers policy statement

Policy

The LPLC is committed to the objectives of the *Whistleblowers Protection Act 2001* (the WP Act). The LPLC recognizes the value of transparency and accountability and will support the making of any disclosures pursuant to the guidelines set out in the WP Act, but subject to section 246 of the *Legal Practice Act 1996* and section 6.6.13 of the *Legal Profession Act 2004*.

Building Act 1993

The LPLC does not own any buildings.

Categories of documents held by the LPLC

- applications by legal practitioners for insurance
- assessment notices
- notifications by legal practitioners of claims or circumstances likely to give rise to claims
- board papers minutes for LPLC and LPLC sub committees
- management records
- administration records
- accounting records
- library material

Freedom of Information

The LPLC has received no requests pursuant to the *Freedom of Information Act 1982* for the reporting period.

Publications

The LPLC continues to publish relevant information on its website

www.lplc.com.au

Workforce Data

The Committee undertakes an annual performance appraisal and salary review of the Chief Executive Officer. The Chief Executive Officer conducts an annual performance review of all other staff members.

Staff members are able to raise issues privately with the CEO and Office Manager at any time. Alternatively, matters can be raised with the Committee.

2008-09

Position	Male	Female	Total
Chief Executive Officer		1	1
Chief Financial Officer	1		1
Claims Manager	1	2	3
Risk Manager	1	2	3
Office Manager		1	1
Data Manager		1	1
Receptionist/PA/Accounts Officer		4	4
TOTAL	3	11	14

2009-10

Position	Male	Female	Total
Chief Executive Officer		1	1
Chief Financial Officer	1		1
Claims Manager	1	2	3
Risk Manager	1	2	3
Office Manager		1	1
Data Manager		1	1
Receptionist/PA/Accounts Officer		4	4
TOTAL	3	11	14

Occupational health & safety

The Committee has continued its commitment to OH&S compliance during the reporting period.

A staff member has been trained as a first aid officer.

All issues relating to safe work place practices are considered and reported at staff meetings.

Environmental issues

The Committee's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Competition policy

Until 11 December 2005 Section 227A of the *Legal Practice Act* provided:

"For the purposes of the *Trade Practices Act 1974* of the Commonwealth and Competition Code, the entering into and performance of a contract of professional indemnity insurance by a person or firm and the Liability Committee under section 224, 225, 226 or 227 is authorised by this Act".

From 12 December 2005 section 3.5.5 of the *Legal Profession Act 2004* provides:

"For the purposes of the *Trade Practices Act 1974* of the Commonwealth and Competition Code, the entering into and performance of a contract of professional indemnity insurance by a law practice and the Liability Committee under this Part is authorised by this Act".

Consultants

The Committee engages a number of external consultants each year to provide specialist advice to assist the Committee with decision making and risk management programs. During 2009/2010 total consultancy expenditure (as defined by the *Financial Management Act 1994*) was approximately \$149,320.

JANA Investment Advisors – \$120,000

Jana is the Committee's Fund Administrator. The project fee approved for the reporting period was \$120,000. The expenditure for the reporting period was \$120,000. Jana has been retained as the Fund Administrator for the 10/11 reporting period.

Contact details

Legal Practitioners' Liability Committee

Level 31

570 Bourke Street
MELBOURNE VIC 3000

ABN: 45 838 419 536

Telephone: (03) 9672 3800

Fax (03) 9670 5538

DX 431 Melbourne.

Website: www.lplc.com.au

strong stable vigilant

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010
LEGAL PRACTITIONERS' LIABILITY FUND

ABN 45 838 419 536

Statement of Comprehensive Income

for the Financial Year ending 30 June 2010

	Note	2010 \$	2009 \$
UNDERWRITING			
Premium revenue	25	28,773,362	21,781,923
Outwards reinsurance expense		(1,147,258)	(1,083,000)
Net earned premiums		27,626,104	20,698,923
Claims expense		(30,055,021)	(18,559,188)
Net claims incurred	26	(30,055,021)	(18,559,188)
Movement in unexpired risk liability	27	(5,698,723)	10,927,445
UNDERWRITING RESULT			
Investment income	3	9,615,882	(17,177,548)
Profit/(Loss) on Sale of Property, Plant & Equipment		-	4,137
Other income		141,323	94,123
Other expenses	7	(3,865,099)	(3,760,467)
Profit / (Loss) attributable to the Legal Practitioners Liability Fund		(2,235,534)	(7,772,575)
Other Comprehensive Income			
		Nil	Nil
Total Comprehensive Income			
		(2,235,534)	(7,772,575)

Notes to and forming part of these financial statements are set out on pages 24 to 40

Balance Sheet

as at 30 June 2010

	Note	2010 \$	2009 \$
Current Assets			
Cash and cash equivalents		23,781,321	27,000,523
Receivables	4	1,460,505	1,134,983
Other financial assets	5	61,471,809	120,282,850
Prepayments		164,014	105,539
Total Current Assets		86,877,649	148,523,895
Non-Current Assets			
Other financial assets	5	95,628,073	31,046,336
Property, plant & equipment	6a	121,978	124,938
Intangibles	6b	39,833	73,967
Total Non-Current Assets		95,789,884	31,245,241
TOTAL ASSETS		182,667,533	179,769,136
Current Liabilities			
Outstanding claims liability	28	29,134,000	28,491,000
Payables	8a	848,944	1,308,533
Unearned premium liability	8b	35,617,000	33,128,000
Provisions	9	253,912	206,122
Total Current Liabilities		65,853,856	63,133,655
Non-Current Liabilities			
Outstanding claims liability	28	51,812,000	49,402,000
Provisions	9	24,488	20,758
Total Non-Current Liabilities		51,836,488	49,422,758
TOTAL LIABILITIES		117,690,344	112,556,413
NET ASSETS		64,977,189	67,212,723
EQUITY			
Accumulated funds	10	64,977,189	67,212,723
TOTAL EQUITY		64,977,189	67,212,723

Notes to and forming part of these financial statements are set out on pages 24 to 40

Cash Flow Statement

for the financial year ending 30 June 2010

	Note	2010 \$ Inflows/(Outflows)	2009 \$ Inflows/(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium revenue received		28,147,550	31,073,893
Other Income		82,566	126,606
Dividend Received		1,151,240	1,279,525
Interest Received		2,328,572	4,040,223
Other Income from Investments		2,852,121	1,399,670
Claims paid		(27,403,652)	(20,383,166)
Outwards reinsurance premium paid		(1,147,258)	(1,083,000)
Payments to suppliers and employees		(5,637,465)	(5,550,171)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2(b)	373,674	10,903,580
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant & equipment		455	5,104
Purchase of property, plant & equipment		(41,129)	(155,293)
Proceeds from sale of investments		42,371,600	156,860
Purchase of investments		(56,653,610)	(2,875,730)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		(14,322,684)	(2,869,059)
NET INCREASE IN CASH HELD		(13,949,010)	8,034,521
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		99,202,140	91,167,619
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2(a)	85,253,130	99,202,140

Notes to and forming part of these financial statements are set out on pages 24 to 40

Statement of Changes In Equity

for the financial year ended 30 June 2010

	Note	Accumulated Funds \$	Total \$
At 30 June 2008		74,985,298	74,985,298
Comprehensive result for the year		(7,772,575)	(7,772,575)
At 30 June 2009		67,212,723	67,212,723
Comprehensive result for the year		(2,235,534)	(2,235,534)
At 30 June 2010		64,977,189	64,977,189

Notes to and forming part of these financial statements are set out on pages 24 to 40

Notes to the Financial Statements

for the year ended 30 June 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Australian Accounting Standards and the Financial Management Act (1994).

The financial report is prepared in accordance with the fair value basis of accounting with certain exceptions as described in the accounting policies below.

The financial report is presented in Australian dollars.

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

A number of Australian Accounting Standards with different application dates, which have been issued or amended and are not yet effective have not been adopted for the annual reporting period end 30 June 2010. They are not expected to have a significant impact, if any at all, on the Fund's financial statements.

(c) Premium

Premium revenue comprises amounts charged to solicitors and barristers, excluding amounts collected on behalf of third parties, principally stamp duties and goods and services tax.

Premium revenue is recognised in the Income Statement when it has been earned. Premium revenue is recognised in the Income Statement from the attachment date over the period of the contract.

The proportion of premium received or receivable not earned in the Income Statement at the reporting date is recognised in the Balance Sheet as an unearned premium liability.

(d) Outwards Reinsurance

Premium paid to reinsurers is recognised as an expense in accordance with the expected pattern of risk. Where applicable, a portion of outwards reinsurance premium is treated at the reporting date as a prepayment. Reinsurance recoveries are recognised as revenue for claims incurred.

The Legal Practitioners Liability Fund carries a stop loss insurance policy to cover the payment of total claims made during the year ended 30 June 2010 in excess of \$42.5m (2009:\$42.5m).

(e) Outstanding Claims Liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims made at the reporting date under general insurance contracts issued by the fund, with an additional risk margin to allow for the uncertainty in the central estimate.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees and other costs that can only be indirectly associated with individual claims, such as claims administration expense.

The expected future payments are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

(f) Unexpired Risk Liability

At each reporting date the fund assessed whether the unearned premium liability is sufficient to cover all the expected future cash flows relating to the future claims against current insurance contracts. This assessment is referred to as the liability adequacy test.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less any related intangible assets and deferred acquisition costs then the unearned premium liability is deemed to be deficient. The fund applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, see note 1(e).

The entire deficiency, gross and net of insurance, is recognised immediately in the income statement. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

Notes to the Financial Statements

for the year ended 30 June 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(g) Property, Plant and Equipment & Intangibles

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Intangibles -This is the cost of production of training films recorded onto DVDs for use in presentations to management of legal firms. Their anticipated useful life is three years.

Impairment

The carrying value of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If such an indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset .

Impairment losses are recognised in the income statement.

Depreciation and Amortisation

Furniture and equipment is depreciated on a straight line or diminishing value basis over their useful life to the Fund commencing from the time the assets are held ready for use Intangibles are amortised on a straight line or diminishing value basis over their useful life to the Fund commencing from the time the assets are held ready for use.

The depreciation rates used are:

Class of Asset	Prime Cost Depreciation Rate	Diminishing Value Depreciation Rate
Furniture and equipment	20-40%	15-33%
Leasehold Improvements	20%-25%	n/a
Intangibles	33%	n/a

(h) Employee Benefits

Provision is made for the Fund's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Contributions are made by the Fund to an employee superannuation fund and are charged as expenses when incurred.

(i) Cash and cash equivalents

For the purpose of the cash flow statement, cash includes cash on hand, bank bills, at call deposits with banks or financial institutions and investments in money market instruments maturing within less than eight months, net of bank overdrafts.

(j) Goods and Services Tax (GST)

Revenues and expenses are recognised net of the amount of GST, except where the amount of GST is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense. Receivables and payables in the Balance Sheet are shown inclusive of GST.

Notes to the Financial Statements

for the year ended 30 June 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(k) Other Financial Assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value.

When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit and loss, directly attributable transaction costs. The fund determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date the fund commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery within the period established generally by regulation or convention in the market place.

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit and loss'.

Gains or losses on investments held for trading are recognised in profit or loss. The fair value of investments that are traded in organised financial markets is determined by reference to redemption prices at the close of business on the balance sheet date.

(l) Asset backing general insurance liabilities

As part of its investment strategy the fund actively manages its investment portfolio to ensure that the investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

With the exception of property plant and equipment, the fund has determined that other financial assets are held to back general insurance liabilities and their accounting treatment is described in note 1(k). As these assets are managed under the fund's Risk Management Statement on a fair value basis and are reported to the Committee on this basis, they have been valued at fair value through profit or loss.

(m) Derecognition of financial assets and financial liabilities

(i) Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group or similar assets) is derecognised when:

- the right to receive cash flows from the asset have expired;
- the fund retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the fund has transferred its rights to receive cash from the asset and either (a) has transferred substantially all the risk and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

(n) Income Tax

The Fund is exempt income tax pursuant to item 5.2 of section 50-25 of the Income Tax assessment Act 1997.

Notes to the Financial Statements

for the year ended 30 June 2010

	2010 \$	2009 \$
2. RECONCILIATION OF CASH AND CASH EQUIVALENTS		
For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks, bank bills and investments in term deposits. Cash and cash equivalents at end of the financial year as shown in the cash flow statement is reconciled to items in the Balance Sheet as follows:		
2 (a) Cash and Cash Equivalents	23,781,321	27,000,524
Cash Trusts & Deposits	61,471,809	72,201,616
	85,253,130	99,202,140
2 (b) Reconciliation of Operating profit for the year to the net cash flows from operations.		
Operating profit	(2,235,534)	(7,772,575)
Depreciation	77,769	134,918
(Profit)/Loss on sale of property, plant & equipment	-	(4,137)
(Profit)/Loss on investments realised during year	(6,896,472)	14,989
Changes in net market value of investments	4,677,977	23,714,288
Net present value adjustment to outstanding claims	(761,000)	4,051,000
Insurance Recovery recognised	-	-
Unexpired Risk Liability	5,698,723	(10,927,445)
Change in assets and liabilities		
Increase/(Decrease) in provision for long service and annual leave	51,520	(26,477)
(Increase)/Decrease in receivables & prepayments	(383,997)	773,286
Increase/(Decrease) in creditors	(459,589)	95,288
Increase/(Decrease) in premiums received in advance	(3,209,723)	6,452,445
Increase/(Decrease) in claims outstanding	3,814,000	(5,602,000)
Net cash and cash equivalents provided by operating activities	373,674	10,903,580
2 (c) The fund has no credit standby arrangements or loan facilities (2009: Nil)		
3. INVESTMENT INCOME		
Net fair value gains on financial assets at fair value through profit or loss	2,218,492	(24,699,776)
Other Income	2,738,879	1,971,482
Dividend Income	1,151,240	1,435,591
Interest Income	3,507,271	4,115,155
	9,615,882	(17,177,548)
4. RECEIVABLES		
CURRENT		
Deductibles Receivable & Cost Recovery	88,001	624,741
Accrued Income	1,372,504	510,242
	1,460,505	1,134,983

Notes to the Financial Statements

for the year ended 30 June 2010

	2010 \$	2009 \$
5. OTHER FINANCIAL ASSETS		
CURRENT		
Cash Trusts, Bank bills & Term Deposits	61,471,809	72,201,616
Unquoted Unit Trusts		
- Overseas Equities	-	21,725,815
- Property Fund	-	-
- Australian Equities	-	26,355,419
	61,471,809	120,282,850
NON CURRENT		
Unquoted Unit Trusts		
- Overseas Equities	15,871,104	-
- Property Fund	31,064,394	31,046,336
- Australian Equities	48,692,575	-
	95,628,073	31,046,336
NON - FINANCIAL ASSETS		
6 (a) PROPERTY, PLANT AND EQUIPMENT		
Furniture & equipment:		
At Cost	274,958	264,612
Accumulated depreciation	(210,686)	(182,343)
	64,272	82,269
Leasehold Improvements:		
At Cost	75,849	47,749
Accumulated depreciation	(18,143)	(5,080)
	57,706	42,669
Total	121,978	124,938
6 (b) INTANGIBLES		
Training Materials:		
At Cost	102,412	102,412
Accumulated Depreciation	(62,579)	(28,445)
Total	39,833	73,967
DEPRECIATION		
Furniture & equipment	30,572	93,595
Leasehold improvements	13,063	12,878
Intangibles	34,134	28,445
	77,769	134,918

Notes to the Financial Statements

for the year ended 30 June 2010

Movements in Carrying Amounts:

Movement in the carrying amounts for each class of non-current assets between the beginning and end of the current financial year

2010	Furniture & Equipment \$	Leasehold Improvements \$	Intangibles \$	Total \$
Balance at the Beginning of the year	82,269	42,669	73,967	198,905
Additions	13,030	28,100	-	41,130
Disposals	(455)	-	-	(455)
Depreciation Expense	(30,572)	(13,063)	(34,134)	(77,769)
Carrying amount at the end of the year	64,272	57,706	39,833	161,811
2009	Furniture & Equipment \$	Leasehold Improvements \$	Intangibles \$	Total \$
Balance at the Beginning of the year	171,699	7,798	-	179,497
Additions	158,473	47,749	-	206,222
Disposals	(51,896)	-	-	(51,896)
Reclassification	(102,412)	-	102,412	-
Depreciation Expense	(93,595)	(12,878)	(28,445)	(134,918)
Carrying amount at the end of the year	82,269	42,669	73,967	198,905

	2010 \$	2009 \$
7. OTHER EXPENSES		
Included in other expenses are:		
Depreciation and amortisation	77,769	134,918
Employee benefits	1,817,030	1,776,655
Operating lease payments	337,607	266,444
8(a) PAYABLES		
Creditors	848,944	1,004,817
Deferred investment & other income	-	303,716
	848,944	1,308,533
8 (b) UNEARNED PREMIUM LIABILITY		
Unearned premium liability 1 July	33,128,000	37,603,000
Earning of premiums written in previous periods	(27,573,825)	(21,121,380)
Deferral of premium contracts written in period	24,364,102	27,573,825
Unexpired risk liability recognised for year ending 30 June (note 27 (a))	5,698,723	(10,927,445)
Unearned premium liability 30 June	35,617,000	33,128,000

Notes to the Financial Statements

for the year ended 30 June 2010

	2010 \$	2009 \$
9. PROVISIONS		
CURRENT		
Employee Benefits	253,912	206,122
NON-CURRENT		
Employee Benefits	24,488	20,758
Aggregate Employee Benefit Liability	278,400	226,880
Number of employees at year end	14	14
10. ACCUMULATED FUNDS		
Accumulated Funds at the beginning of the year	67,212,723	74,985,298
Operating Profit/(loss) for the year	(2,235,534)	(7,772,575)
Accumulated Funds at the end of the year	64,977,189	67,212,723
11. AUDITORS' REMUNERATION		
Remuneration of the auditor for:		
- auditing or reviewing the financial report	38,530	38,500
- other services	-	-
	38,530	38,500
Audit fees paid or payable to the Victorian Auditor-General's Office for audit of the Fund's financial report:		
Paid as at 30 June		11,000
Payable as at 30 June	38,530	27,500
	38,530	38,500

Notes to the Financial Statements

for the year ended 30 June 2010

	2010 \$	2009 \$
12.b COMMITTEE AND EXECUTIVE DISCLOSURE CONTINUED		
EXECUTIVE		
Income Band	No.	No.
\$		
100-110,000	1	1
120-130,000	1	1
140-150,000	1	-
150-160,000	1	2
180-190,000	1	-
190-200,000	-	1
200-210,000	1	-
220-230,000	-	1
280-290,000	-	1
300-310,000	1	-
Total Numbers	7	7
Total Amount	\$1,224,674	\$1,229,840
13. COMMITMENTS AND CONTINGENCIES	\$	\$
Operating Lease Commitments:		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable:		
- not later than 1 year	351,201	335,814
- later than 1 year but not later than 5 years	922,344	1,266,660
- later than 5 years	-	-
	1,273,545	1,602,474
The property lease is a non-cancellable lease. The lease is for a 5 year term. There are no options. Rental increases are fixed annually on the anniversary of the commencement date. The lease contains a "make good" clause effective at the end of the term of the lease.		
Other Commitments:		
The Fund has entered into an agreement with Jana Investment Advisers Pty Ltd. for the provision of investment advice.		
This agreement is for a 12 month period. The agreement expires on the 31st December 2010.		
Payable:		
- not later than 1 year	60,000	60,000

Notes to the Financial Statements

for the year ended 30 June 2010

14. CONTINGENT ASSETS

Currently the Fund has an interest in Real Estate as a result of the provision of funds relating to the settlement of a claim.

The Fund is entitled to a proportion of the net proceeds less certain expenses after the death of the proprietor. As the realisable value of the property cannot be known at this point in time the future economic benefit cannot be quantified.

This entitlement is secured by a mortgage over the property.

15. INDEMNIFYING OFFICERS AND AUDITOR

During or since the end of the financial year the Legal Practitioner's Liability Fund has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The fund has paid premiums to insure the Committee Members against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Committee Member of the Fund, other than conduct involving a wilful breach of duty in relation to the Fund. The total amount of the premium paid on an annualised basis was \$22,200.

Individual Committee members have entered into Deeds of Indemnity with all other members to indemnify them to the extent permitted by law against certain liabilities and legal costs incurred by them as members of the Committee.

16. SEGMENT REPORTING

The Fund operates in a single industry and geographical segment, being a professional indemnity insurer to legal practitioners in Australia.

17. FINANCIAL INSTRUMENTS

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument are disclosed in Note 1(k) to the financial statements.

(b) Fair Values

The net fair value of the financial assets is that amount disclosed in the accounts.

Notes to the Financial Statements

for the year ended 30 June 2010

17. FINANCIAL INSTRUMENTS CONTINUED

(c) Interest Rate Risk

The fund's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

30 June 2010		Fixed Interest maturing in:					Total
	Weighted Average Interest Rate	Floating Interest Rate	Within Year	1 to 5 Years	Over 5 Years	Non Interest Bearing	
Financial Assets:							
Cash	3.5%	23,781,321	-	-	-	-	23,781,321
Receivables	6.7%	55,000	-	-	-	1,405,505	1,460,505
Investments	n/a	-	-	-	-	95,628,073	95,628,073
Bank Bills	n/a	-	-	-	-	-	-
Term Deposits	5.6%	61,471,809	-	-	-	-	61,471,809
Total Financial Assets		85,308,130	-	-	-	97,033,578	182,341,708
Financial Liabilities:							
Creditors	n/a	-	-	-	-	848,944	848,944
Outstanding claims	n/a	-	-	-	-	80,946,000	80,946,000
Total Financial Liabilities		-	-	-	-	81,794,944	81,794,944
30 June 2009							
	Weighted Average Interest Rate	Floating Interest Rate	Within Year	1 to 5 Years	Over 5 Years	Non Interest Bearing	Total
Financial Assets:							
Cash and deposits	2.9%	27,000,523	-	-	-	-	27,000,523
Receivables	n/a	-	-	-	-	1,134,983	1,134,983
Investments	n/a	-	-	-	-	79,127,570	79,127,570
Bank Bills	3.0%	72,201,616	-	-	-	-	72,201,616
Total Financial Assets		99,202,139	-	-	-	80,262,553	179,464,692
Financial Liabilities:							
Creditors	n/a	-	-	-	-	1,308,533	1,308,533
Outstanding claims	n/a	-	-	-	-	77,893,000	77,893,000
Total Financial Liabilities		-	-	-	-	79,201,533	79,201,533

Notes to the Financial Statements

for the year ended 30 June 2010

17. FINANCIAL INSTRUMENTS CONTINUED

(c) Interest Rate Risk continued

The fund's exposure to the risk of change in market interest rates relate primarily to the fund's investments in cash and cash equivalents.

The fund's policy is to invest cash and cash equivalents with a recognised bank. Banks are selected on recommendation of our external advisors and their performance is monitored.

(d) Credit Risk

The maximum exposure to credit risk at Balance Date to recognised financial assets is the carrying amount of those assets as disclosed in the Balance Sheet and notes to the financial statements. It is the fund's policy to only deal with entities with high credit ratings. In addition the fund does not engage in high risk hedging for its financial assets.

(e) Liquidity Risk

To ensure adequate liquidity to meet cash outflows the fund maintains the necessary funds in cash and short term bank bills or term deposits. While the receipt of the annual premium provides sufficient cash to meet most if not all of the fund's requirements during the year, additional cash is held in reserve.

(f) Market Risk

The fund is exposed to the risk of market movements in the local and overseas equity markets through its investment in unquoted unit trusts in these asset classes.

Equity Market Risk

The fund's exposure to the risk of change in equity markets relate primarily to the fund's investments in local and overseas equities. The fund's policy is to use independent investment managers to manage our exposure to local and overseas equities. Managers are selected on recommendation of our external advisors and their performance is monitored.

Foreign Currency Risk

The fund's exposure to the risk of change in exchange rates relate primarily to the fund's investments in overseas equities. A combination of partially and fully hedged funds are used. Managers are selected on recommendation of our external advisors and their performance is monitored.

Sensitivity Disclosure Analysis

Taking into account past performance, future expectations and management's knowledge and experience of the financial markets, the fund believes the following movements are 'reasonably possible' over the next 12 months

- A shift of +.5% or -.5% in market interest rates from year end rates of 4.50%
- A shift of + 10% or - 10% in the average weighted market value of local equities, overseas equities and local property unquoted unit trusts.

Market Risk Exposure

2010 Financial Assets	Carrying Amount	Interest Rate Risk				Other Price Risk			
		-0.5%		+0.5%		-10%		+10%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	85,308,130	(426,541)	(426,541)	426,541	426,541				
Unquoted unit trusts	95,628,073					(9,562,807)	(9,562,807)	9,562,807	9,562,807

2009 Financial Assets	Carrying Amount	-0.5%		+1%		-10%		+15%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
		Cash and cash equivalents	92,202,139	(461,011)	(461,011)	922,021	922,021		
Unquoted unit trusts	79,127,570					(7,912,757)	(7,912,757)	11,869,136	11,869,136

Notes to the Financial Statements

for the year ended 30 June 2010

18. DESIGNATION OF FINANCIAL ASSETS

The financial assets are measured at fair value through the profit and loss.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The fund's principal financial instruments comprise of unquoted unit trusts and cash and cash equivalents.

The main purpose of these financial instruments is to ensure that there is sufficient ability to meet the obligations under the policies of insurance that have been issued. These instruments are managed by the Investment Committee who utilize the services of our external advisor - Jana Investments Pty Ltd. The main risk arising from the fund's financial instruments are interest rate risk, equity market risk, foreign currency risk and credit risk which are discussed in note 17 above.

There are no significant concentrations of credit risk within the fund.

20. RELATED PARTY TRANSACTIONS

The fund had no related party transactions other than those referred to in Note 12 - Committee and Executive Disclosure.

21. EVENTS AFTER THE BALANCE SHEET DATE

There were no material events after balance sheet date that require disclosure.

22. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The fund makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

It has been determined that no critical accounting judgements have been made in the year.

The ultimate liability arising from claims made under insurance contracts.

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance date. The estimated cost of claims include direct expenses to be incurred in settling claims. The fund takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions it is likely that the final outcome will prove to be different from the original liability established. For assumptions and methods used refer Note 23.

23. ACTUARIAL ASSUMPTIONS AND METHODS

Under 17.6.1c of AASB 1023, the following describes the method and main assumptions that have the greatest effect on the calculated insurance liabilities provisions.

The Legal Practitioners' Liability Fund has provided professional indemnity insurance to solicitors since 1/1/86, and to barristers since 30/06/05. Incurred development and payment patterns derived from the average experience for solicitors over the last 7 complete policy years were assumed to apply to solicitor and barrister claims outstanding at 30/6/10.

Development Year	Ultimate claims incurred as % of current estimate	Payments to end of year, as % of ultimate
0	76.6%	8.1%
1	91.6%	36.3%
2	96.8%	55.9%
3	98.9%	71.7%
4	98.1%	81.3%
5	100.5%	87.9%
6	101.0%	93.7%
7	100.0%	96.2%
8	100.0%	97.7%
9	100.0%	98.6%

Other main assumptions used in calculating insurance provisions and their sources are:

- A discount rate of 4.50% based on medium term Commonwealth bond yields
- Claims administration expense of 5.4% of net claim payments based on actual expenses of LPLC
- Wage inflation of 3.50% pa based on state government forecasts

Notes to the Financial Statements

for the year ended 30 June 2010

23. ACTUARIAL ASSUMPTIONS AND METHODS CONTINUED

Claims incurred estimates were made by applying the above claims incurred development ratios to current claim incurred data and applying wage inflation and payment patterns. Outstanding claims at 30 June 2010 were estimated by deducting payments to date.

Gross payments in 10-11 for solicitors are estimated by determining an average, inflation adjusted claim incurred estimate per principal equivalent from the last 7 complete policy years and applying to expected incurred principals in 10-11.

Gross payments in 10-11 for barristers are estimated by inflating 09-10 claims incurred estimated to allow for inflation and barrister growth.

Premium liabilities are then determined by applying wage inflation and payment patterns and allowing for reinsurance and overhead claim administration expense.

The calculations used to estimate outstanding claim and unexpired premium liabilities were repeated as at each prior balance date back to 31/12/87, and compared with the actual outcomes estimated at 30/6/10. Log normal distributions were fitted to the resulting percentages, and used to estimate the risk margins needed to provide varying probabilities of adequacy.

The outstanding claims were assumed to have a standard deviation of 13% and the premium liabilities a standard deviation of 36%.

Sensitivity analysis as at 30/6/10

Risk Variable	Assumed	Increased	Profit Change \$M
Discount Rate (%pa)	4.50%	5.50%	2.618
Claims administration expense as a % of payments	5.40%	6.40%	(1.137)
Wage inflation % pa	3.50%	4.50%	(0.909)
Claim Development*	Negative	Nil	(2.412)
10-11 claims per principal equivalent	4,757	5,233	(5.989)

* Nil claim development scenario was applied only to central estimate. Risk margins were not reduced.

Under AASB 1023 17.7.1(b)(i), the insurer has to disclose sensitivity to insurance risk. The above table gives the changes in total provisions (outstanding claims plus premium liabilities, including risk margins) from changes in the relevant risk variable.

24. INSURANCE CONTRACTS - RISK MANAGEMENT AND PROCEDURES

The financial condition and operation of the fund are affected by a number of key risks including insurance risk, interest rate risk and credit risk.

Notes on the fund's policies and procedures in respect of managing these risks are set out in this note.

(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The fund has an objective to control insurance risk thus reducing the volatility of operating profit. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profit from insurance business is affected by market factors, particularly the movement in asset values.

The Committee and senior management of the Fund have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS)

Key aspects of the processes established in the RMS to mitigate risk include:

- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time
- Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claim patterns. Past experience and statistical methods are used as part of the process.
- Reinsurance is used to limit the fund's exposure to catastrophes
- The mix of assets in which the fund invests is driven by the nature and term of its insurance liabilities

(b) Terms and conditions of insurance

- The terms and conditions attached to insurance contracts affect the level of insurance risk accepted by the fund. The majority of direct insurance contracts are entered into on a standard form basis.

Notes to the Financial Statements

for the year ended 30 June 2010

24. INSURANCE CONTRACTS - RISK MANAGEMENT AND PROCEDURES CONTINUED

(c) Concentration of risk insurance

- In the event of a catastrophe, the Legal Practitioners Liability Fund carries a stop loss insurance policy to cover the payment of total claims made during the year ended 30 June 2010 in excess of \$42.5m

(d) Development of claims

- There is a possibility that changes may occur in the estimate of our obligations at the end of a contract period. The table in note 28 shows the estimate of total claims outstanding for each underwriting year at successive year ends with the current year being an estimate provided by our external actuarial consultant.

(e) Interest rate risk

- None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the fund are directly exposed to interest rate risk.
- Insurance and reinsurance contracts are entered into annually. At the time of entering into the contract all terms and conditions are negotiable or, in the case of renewals, renegotiable.

(f) Credit risk

- Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the balance sheet at the amount that best represents the maximum credit risk exposure at balance date.

There are no significant concentrations of credit risk.

25. NET PREMIUM REVENUE

	2010 \$	2009 \$
Gross Written Premiums	25,563,638	28,234,368
Movement in Unearned Premium	3,209,724	(6,452,445)
Net Premium Revenue	28,773,362	21,781,923

26. NET CLAIMS INCURRED

	2010			2009		
	Current Year \$	Prior Years \$	Total \$	Current Year \$	Prior Years \$	Total \$
Gross claims expense	32,428,000	(1,611,979)	30,816,021	32,695,000	(18,186,812)	14,508,188
Discount movement	(2,671,000)	1,910,000	-761,000	(2,587,000)	6,638,000	4,051,000
	29,757,000	298,021	30,055,021	30,108,000	(11,548,812)	18,559,188
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue	-	-	-	-	-	-
- undiscounted	-	-	-	-	-	-
Discount movement	-	-	-	-	-	-
	-	-	-	-	-	-
Net claims incurred	29,757,000	298,021	30,055,021	30,108,000	-11,548,812	18,559,188

Current year amounts relate to risks borne in the current financial year. Prior periods amount relate to a reassessment of the risks borne in all previous financial years.

Notes to the Financial Statements

for the year ended 30 June 2010

27. UNEXPIRED RISK LIABILITY

When the premium is set each year it is 'subsidised' on the basis that the accumulated funds are sufficient to the extent that a proportion can be returned to policy holders by way of lower premium than otherwise would have been. As a result the unearned premium liability is deficient as at 30 June 2010.

(a) Unexpired risk liability

	2010 \$	2009 \$
Unexpired risk liability as at 1 July	5,554,175	16,481,620
Recognition of additional unexpired risk liability in the period	5,698,723	(10,927,445)
Unexpired risk liability as at 30 June	11,252,898	5,554,175

(b) Calculation of deficiency

Unearned premium liability relating to insurance contracts	24,364,102	27,573,825
Central estimate of present value of expected future cashflows arising from future claims	29,281,000	27,826,000
Risk Margin of 22%	6,336,000	5,302,000
	35,617,000	33,128,000
Net deficiency	11,252,898	5,554,175

The process of determining the overall risk margin is discussed in Note 23. As with outstanding claims the overall risk margin is intended to achieve a 75% probability of adequacy.

28. OUTSTANDING CLAIMS LIABILITY

(a) Outstanding Claims Liability

Central estimate of claims still to be paid	78,436,000	75,380,000
Discount to present value	(7,257,000)	(6,496,000)
	71,179,000	68,884,000
Present value of claims handling costs	3,845,000	3,720,000
Risk Margin	5,922,000	5,289,000
Gross Outstanding claims liability	80,946,000	77,893,000
Gross claims incurred - undiscounted	88,203,000	84,389,000
Current	29,134,000	28,491,000
Non-current	51,812,000	49,402,000
Total	80,946,000	77,893,000

(b) Risk margin applied	7.893%	7.285%
-------------------------	--------	--------

Notes to the Financial Statements

for the year ended 30 June 2010

	2010 \$	2009 \$
(c) Reconciliation of movement in discounted outstanding claims liability		
Brought forward	77,893,000	79,444,000
Increase in claims incurred/recoveries anticipated over the year	(1,611,979)	(18,186,812)
Incurred claims recognised in the income statement	32,428,000	32,695,000
Claims payments/recoveries during the year	(27,002,021)	(20,110,188)
Movement in net present value adjustment	-761,000	4,051,000
Carried forward	80,946,000	77,893,000

(d) Claims Development table (\$m)

Policy Year	2006	2007	2008	2009	2010	Total
Estimate of ultimate claim cost at end of policy year	31.091	24.693	33.457	29.393	29.122	
one year later	26.061	25.008	27.221	28.684		
two years later	26.417	22.364	25.575			
three years later	25.133	23.071				
four years later	26.920					
current estimate	26.920	23.071	25.575	28.684	29.122	133.372
cumulative payments	(21.421)	(17.256)	(11.706)	(9.279)	(2.362)	(62.024)
undiscounted central estimate	5.499	5.815	13.869	19.405	26.760	71.348
discount						(7.257)
present value of claims handling expenses						3.845
undiscounted central estimate prior years						7.088
risk margin						5.922
Total Outstanding Claims						80.946

29 NET PRESENT VALUE ADJUSTMENT TO OUTSTANDING CLAIMS

Opening Balance	6,496,000	10,547,000
Prior Year	(1,910,000)	(6,638,000)
Current Year	2,671,000	2,587,000
Closing Balance	7,257,000	6,496,000

Declaration by members of the Committee

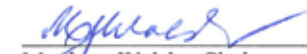
LEGAL PRACTITIONERS LIABILITY FUND

DECLARATION BY MEMBERS OF THE COMMITTEE

In the opinion of the Committee the financial report as set out on the attached pages:

- 1. Presents a true and fair view of the financial position of Legal Practitioners Liability Fund as at 30 June 2010 and its performance for the year ended on that date in accordance with Australian Accounting Standards, mandatory professional reporting requirements and other authoritative pronouncements of the Australian Accounting Standards Board.*
- 2. At the date of this statement, there are reasonable grounds to believe that Legal Practitioners Liability Fund will be able to pay its debts as and when they fall due.*

This declaration is made in accordance with a resolution of the Committee and is signed for and on behalf of the Committee by:



Matthew Walsh - Chairman



Miranda Milne - Chief Executive Officer

Dated this First day of September 2010

Auditor General's Report

VAGO

Victorian Auditor-General's Office

INDEPENDENT AUDITOR'S REPORT

To the Committee Members, Legal Practitioners' Liability Fund

The Financial Report

The accompanying financial report for the year ended 30 June 2010 of the Legal Practitioners' Liability Fund which comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes to and forming part of the financial report, and the declaration by members of the committee has been audited.

The Committee Members' Responsibility for the Financial Report

The Committee Members of Legal Practitioners' Liability Fund are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the financial reporting requirements of the *Financial Management Act 1994*. This responsibility includes:

- establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. These Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used, and the reasonableness of accounting estimates made by the Committee Members, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Level 24, 35 Collins Street, Melbourne Vic. 3000

Telephone 61 3 8601 7000 Facsimile 61 3 8601 7010 Email comments@audit.vic.gov.au Website www.audit.vic.gov.au

Auditing in the Public Interest

Auditor General's Report

VAGO

Victorian Auditor-General's Office

Independent Auditor's Report (continued)

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report published in both the annual report and on the website of the Legal Practitioners Liability Fund for the year ended 30 June 2010. The Committee Members of the Legal Practitioners' Liability Fund are responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The auditor's report refers only to the statements named above. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on the Legal Practitioners' Liability Fund web site.

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Auditor's Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Legal Practitioners' Liability Fund as at 30 June 2010 and its financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations), and the financial reporting requirements of the *Financial Management Act 1994*.

MELBOURNE
3 September 2010


D D R Pearson
Auditor-General

2

Level 24, 35 Collins Street, Melbourne Vic. 3000
Telephone 61 3 8601 7000 Facsimile 61 3 8601 7010 Email comments@audit.vic.gov.au Website www.audit.vic.gov.au

Auditing in the Public Interest





LEGAL
PRACTITIONERS'
LIABILITY
COMMITTEE

Level 31, 570 Bourke Street
Melbourne VIC 3000
Telephone 9672 3800
Fax 9670 5538
www.lplc.com.au