



ALBERTA LAWYERS
INSURANCE ASSOCIATION

Alberta Lawyers Insurance Association

2014 Business Plan and Budget

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Introduction

The 2014 Alberta Lawyers Insurance Association (ALIA) business plan and budget for the period January 1, 2014 to December 31, 2014 is presented below. It was driven by a business plan developed by the Director of Insurance and reviewed by the Executive Leadership Team of the Law Society.

This business plan and budget is presented to the Budget and Financial Affairs Committee (BFAC) for their consideration to recommend to the Benchers and the ALIA Board of Directors for their approval. The 2014 budget reflects a levy of \$3,680; an increase of \$130 (or 3.7%) from the 2013 levy of \$3,550.

When considering the ALIA budget, it is important to note that there are two major elements to the budget that are difficult to predict and, to a large extent, beyond the direct control of ALIA's management:

1. The provision for claims and related costs

ALIA's actuary provides an estimate of the liability for future potential claims as of the end of each fiscal year. We book an entry in ALIA's accounting records to reflect the estimated liability as determined by the actuary. The amount of this entry depends on the change in the level of the reserve (or liability) from one fiscal period to the next after taking into account claims and costs paid and recoveries during the period (please see Appendix 3 for details of the reserve). The other side of this entry results in an expense on ALIA's income statement. We refer to this expense item as the "provision for claims and related costs". The amount of this expense is directly related to our actuary's assessment of the present value of future claims at year end. This assessment can vary significantly from year to year depending on external factors related to the claims experience of insured lawyers and general economic conditions. We budget for claims expense based on previous years' experience, but this experience can change significantly as the actual fiscal period unfolds.

2. Unrealized gain (loss) on investments

The market value of ALIA's investment portfolio was just over \$110 million at the end of June 2013. The portfolio is professionally managed by an external investment manager (currently Mawer Investment Management Ltd.) in accordance with a Statement of Investment Policies and Goals (SIP&G) as approved by the Benchers of the Law Society. The performance of our investments and compliance with the SIP&G is regularly monitored by Law Society management and the BFAC. As required under current Canadian accounting standards, we record changes in the market value of the portfolio through the fiscal year in our accounting records. The change in value is reflected on ALIA's income statement as "unrealized gain (loss) on investments". We do not budget for this item due to the inherent unpredictability of investment markets.

Corporate backgrounder

ALIA was established in 1988 to manage the professional liability insurance program for the Law Society. As a wholly-owned subsidiary of the Law Society, ALIA operates as a separate financial entity. ALIA meets the qualifications for a non-profit organization as defined by the Income Tax Act and, as such, is exempt from corporate income taxes.

As a member of the Canadian Lawyers Insurance Association (CLIA), a reciprocal insurance exchange, ALIA handles all claims against insured Alberta lawyers. Under the CLIA policy ALIA has a \$500,000 group deductible per claim. This means that CLIA contributes only to claims exceeding \$500,000. As of July 1, 2014 we anticipated that ALIA will withdraw from the CLIA program and operate its own reciprocal insurance exchange called the Alberta Lawyers Insurance Exchange (ALIEX). ALIA will continue to handle all claims against Alberta lawyers. The \$500,000 group deductible will be paid by ALIA and amounts in excess of \$500,000 will be paid by ALIEX.

ALIA recognizes its role within the Law Society and the continual tension between the Law Society's duty to act in the public interest and ALIA's duty to act in the best interest of insured lawyers.

The insurance policy establishes a contract between the insurer and insured lawyers. Sound principles of insurance require the insurer to conduct itself with the utmost good faith in its relationship with insured lawyers. ALIA adheres to this principle. In defending insured lawyers, it is the policy of ALIA to provide a defense to insured lawyers of the highest quality in a cost-effective manner given that we are a self-insured group. When a claim is inevitable, ALIA's objective is a quick and fair settlement. Where liability is likely and damages are an issue, ALIA looks for practical and efficient means to reach resolution.

As noted, ALIA and insured lawyers are bound in contract. ALIA is not bound to members of the public nor does it owe a duty of good faith to the public. However, ALIA recognizes its role within the Law Society and its duty to the public by striving to treat the public with good faith, respect and dignity. In handling claims made by self-represented parties, ALIA endeavors to communicate in a fair and timely manner. ALIA ensures that self-represented parties are aware that ALIA does not provide legal advice and that we are the insurer for the lawyer. After a careful review of the matter, we endeavor to resolve the claim as quickly, transparently and fairly as possible whether it be by way of payment of the claim or denial, if appropriate.

ALIA's revenue comes from two distinct sources:

1. *Insurance levies (premiums)* - Alberta lawyers in private practice (approximately 6,000) are required to be insured by the ALIA program. The limits of insurance coverage per lawyer are \$1 million per occurrence, with a \$2 million annual limit.
2. *Investment income* – ALIA has a significant amount of funds under professional management. At the last fiscal year end (December 31, 2012), the market value of these funds was approximately \$107 million. The funds have accumulated over time and are held in reserve to address any current or future claims. Investment of the funds is governed by a Statement of Investment Policies and Goals (SIP&G) as approved by the

Benchers. The performance of the investment manager and their compliance with the SIP&G is actively monitored by the Law Society's management and reviewed on a regular basis by the BFAC.

Business Plan

This year's budget preparation began with the development of a business plan. This business plan forms the foundation of the budget presented later in this document.

ALIA's overall goal is to operate a model insurance program in a manner that supports the Law Society's vision of being recognized as a model regulator. To that end, ALIA strives to manage claims in a fair, reasonable and timely manner so that insured lawyers are protected if they are liable for negligence and that clients who have suffered a loss due to lawyer negligence are fairly compensated.

Goals:

- To operate a restructured insurance vehicle to support the Law Society's vision of being recognized as a model regulator by managing claims in a fair, reasonable and timely manner so that claimants who have suffered a loss due to the negligence or theft of a lawyer are fairly compensated.
- Provide a high level of service.
- Contribute to and share in the Law Society's risk management initiatives for the benefit of the legal profession.
- Promote a culture committed to a positive workplace environment.
- Maintain collaborative and positive working relationships pan organizationally.
- Effectively support and participate in the achievement of the Law Society's Enhanced Performance Management Program organization goals and encourage staff to continue to strive toward their goals pursuant to the program.

2014 Initiatives:

- Incorporate the new insurance program for lawyer theft claims within the insurance program.
- Restructure ALIA in light of the new ALIEX insurance vehicle to enable ALIA to better manage claims now and into the future.
- Ensure that programs are managed in an effective, efficient and financially accountable manner.
- Continue to enhance risk assessment management initiatives.
- Continue to evolve business practices, policies and documentation to exceed the expectations of operating a model insurance program.
- Continue with the Learning, Excellence, Assessment and Development System (LEADS) claims examiner file audit process to fortify performance management processes and drive LEADS into other areas of claims management.
- Enhance the LEADS audit process to include defalcation claims to drive excellence in claims handling.
- Continue to develop and recognize the strengths and skills of staff in order to meet our goals and objectives.

- Encourage staff to continue striving toward their goals pursuant to the Law Society's Enhanced Performance Management Program.
- Continue to promote a culture committed to a positive workplace environment.
- Continue to promote collaborative working relationships pan organizationally.

Budget

The following budget is based on a fiscal period ending December 31, 2014. We refer to:

- **Budget 2014**, which means the fiscal period beginning January 1, 2014 and ending December 31, 2014;
- **Budget 2013**, which means the fiscal period beginning January 1, 2013 and ending December 31, 2013; and
- **Forecast 2013**, which is our forecast (a combination of actual financial results and our best estimate of revenue and expenses to the end of the current fiscal period) for the year that began January 1, 2013 and ending December 31, 2013.

Budget Assumptions

- For purposes of estimating revenue from the insurance levy, we have assumed a 1.4% growth in insured lawyers based on historical trends. Budgeted revenue from the annual levy is based on a levy for the July 1, 2014 to June 30, 2015 policy year of \$3,680 per insured lawyer. This levy was recommended by our actuary in his report of September 23rd, 2013.
- The budget for investment income is based on advice from our investment manager and reflects an estimated 2.4% income yield on ALIA's portfolio of cash, bonds and equities. The budget for investment income also reflects a conservative estimate for potential realized gains that may occur as a result of security sales in the portfolio during the budget year.
- Unrealized gains or losses on changes in the market value of investments have not been budgeted as these amounts are virtually impossible to predict and are, by their nature, non-cash items.
- The premium paid to CLIA for excess insurance coverage is based on the number of insured members as at July 1st of each year and the premium rate as provided by CLIA at their April meeting. ALIA will pay the CLIA premium for the first six months of 2014. For the balance of fiscal 2014, the premium for excess insurance will be paid to ALIEX.
- The budget for the provision for claims and related costs is based on estimates provided by our actuary in his Actuarial Valuation Report as of June 30, 2013. The actuary provides a range of scenarios (from "Base" to "High Cost") that are considered by the Insurance Committee to arrive at a recommended insurance levy. We have used an average of these estimates to establish the budget for claims and related costs.

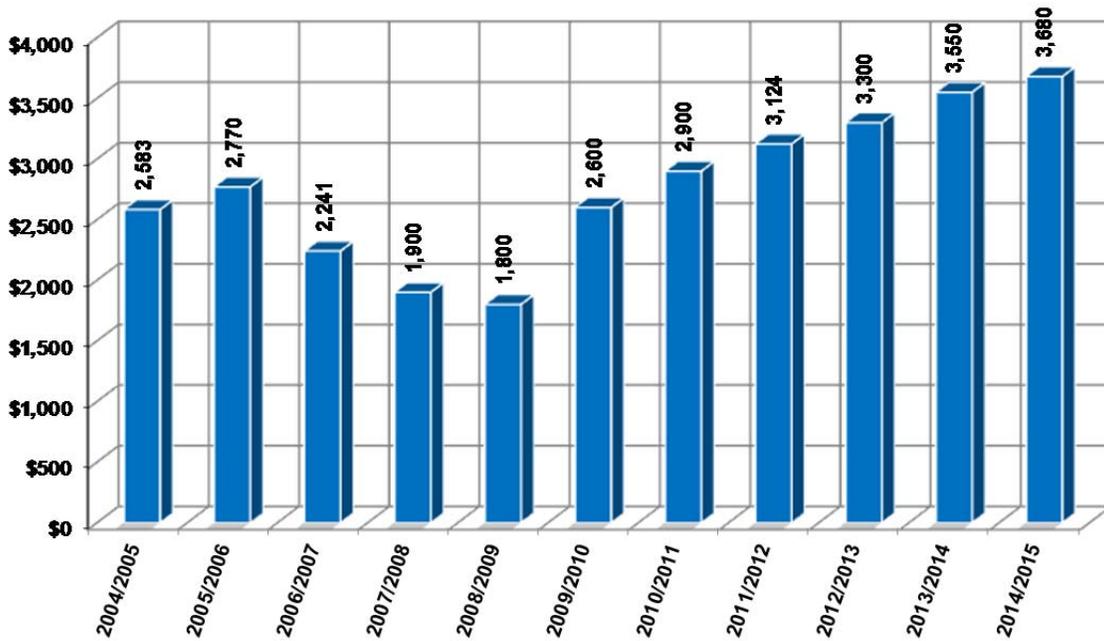
**Alberta Lawyers Insurance Association
Budget
For the Year Ending December 31, 2014
(000's)**

	2014 Budget	2013 Forecast	2013 Budget	Variance 2014 Budget to 2013 Budget	Variance 2013 Forecast to 2013 Budget
Revenue					
Annual levy	\$ 22,634	\$ 21,174	\$ 20,820	\$ 1,814	\$ 354
Investment income	4,300	5,160	4,460	(160)	700
	<u>26,934</u>	<u>26,334</u>	<u>25,280</u>	<u>1,654</u>	<u>1,054</u>
Expenses					
Provision for claims and related costs	18,825	18,000	18,000	825	
Salaries and contract costs	2,085	1,819	1,965	120	(146)
CLIA Premium	1,874	4,267	5,021	(3,147)	(754)
Management fee	1,860	1,692	1,656	204	36
Insurance reciprocal	1,750			1,750	
Investment counsel fees	264	264	264		
Administration	195	183	137	58	46
Professional fees	93	93	92	1	1
Bad debt expense		2			2
Amortization	10	15	15	(5)	
Loss prevention	28	25	20	8	6
	<u>26,982</u>	<u>26,360</u>	<u>27,169</u>	<u>(186)</u>	<u>(808)</u>
Net income (loss) before other items	(48)	(27)	(1,889)	1,840	1,862
Unrealized gain (loss) on investments		1,800			1,800
Net income (loss)	\$ (48)	\$ 1,773	\$ (1,889)	\$ 1,840	\$ 3,662

Appendix 1 – Historical Levy Comparison

The Alberta Lawyers Insurance Association Budget For the Year Ending December 31, 2014

LEVY HISTORY



Appendix 2 – Fund Balance Analysis

Alberta Lawyers Insurance Association Estimated Accumulated Surplus (000s)

Actual balance at December 31, 2012	\$ 34,012
Forecast net income to December 31, 2013	<u>\$ 1,773</u>
Forecast balance at December 31, 2013	\$ 35,785
Budgeted net loss to December 31, 2014	<u>\$ (48)</u>
Budgeted balance at December 31, 2014	<u><u>\$ 35,737</u></u>

Note:

Accumulated Surplus, also known as Net Assets or Retained Earnings, is the difference between Assets and Liabilities and represents the residual equity in ALIA available to pay future claims.

Based on the advice and analysis of ALIA's actuary, the recommended minimum accumulated surplus is \$40 million.

Appendix 3 - Claims Reserve Summary

Alberta Lawyers Insurance Association Reserve Summary (000s)

	Dec 31 2012	Jun 30 2012	Jun 30 2011	Jun 30 2010	Jun 30 2009
Net Reserve - Beginning of Year	\$ 62,620	\$ 55,354	\$ 55,034	\$ 46,027	\$ 45,147
Less: Claims Paid and accrued	(4,094)	(10,374)	(15,588)	(6,947)	(16,244)
Less: Related costs paid and accrued	(2,834)	(5,285)	(5,391)	(5,231)	(5,464)
Add: Recoveries	528	2,943	5,131	1,011	7,404
Add: Current Provision	8,118	19,982	16,168	20,174	15,184
Net Reserve - End of Year	<u>\$ 64,338</u>	<u>\$ 62,620</u>	<u>\$ 55,354</u>	<u>\$ 55,034</u>	<u>\$ 46,027</u>