



ALBERTA LAWYERS
INSURANCE ASSOCIATION

Alberta Lawyers Insurance Association

2011 Business Plan and Budget

Table of Contents

INTRODUCTION..... 3

CORPORATE BACKGROUNDER 3

BUDGET ASSUMPTIONS..... 4

BUSINESS PLAN 5

BUDGET 6

CAPITAL BUDGET 7

APPENDIX 1 – HISTORICAL LEVY COMPARISON 8

APPENDIX 2 – FUND BALANCE ANALYSIS 9

APPENDIX 3 - CLAIMS RESERVE SUMMARY 10

Introduction

The 2011 Alberta Lawyers Insurance Association (ALIA) business plan and budget is presented below. The budget was driven by a business plan developed by the Director of Insurance and reviewed by the Management Committee of the Law Society of Alberta (LSA).

This business plan and budget is presented to the Insurance Committee for its consideration to recommend to the Benchers for their approval at the June 2010 meeting. The 2011 budget reflects a levy of \$2,900 that was approved by the Benchers at the April 2010 meeting.

Corporate backgrounder

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

As a member of a reciprocal insurance exchange called the Canadian Lawyers Insurance Association (CLIA), ALIA handles all claims against insured Alberta lawyers. Under the CLIA policy we have a \$300,000 group deductible per claim. This means that CLIA contributes only to claims exceeding \$300,000.

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

The insurance policy establishes a contract between ALIA/CLIA and the insured lawyer. Sound principles of insurance require the insurer to conduct itself with the utmost good faith in its relationship with its insureds. ALIA is an insurance program rather than an insurer. However, ALIA conducts itself and its operations with the highest standards and treats its insureds with utmost good faith. It is the policy of ALIA to provide a defense to our insureds of the highest quality in a cost-effective manner given that we are a self-insured group. When a claim is inevitable, our objective is a quick and fair settlement. Where liability is likely and damages are an issue, we look for practical and efficient means to reach resolution.

As noted, ALIA and the insured lawyer 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, while not owing a duty of good faith to the public, ALIA recognizes its role within the LSA and the LSA's 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. We ensure that the self-represented party is aware that we are not providing them 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 5,600) 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. Excess coverage is voluntary.

2. *Investment income* – ALIA has a significant amount of funds under professional management. At the last fiscal year end (June 30, 2009), the market value of these funds was approximately \$93 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 of the LSA. The performance of the Investment Manager and their compliance with the SIP&G is actively monitored by the LSA’s Finance Committee.

The following budget is based on a fiscal year ending June 30, 2011. We refer to:

- **Budget 2011**, which means the fiscal year beginning July 1, 2010 and ending June 30, 2011;
- **Budget 2010**, which means the fiscal year that began July 1, 2009 and ending June 30, 2010; and
- **Forecast 2010**, 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 year) for the fiscal year that began July 1, 2009 and ending June 30, 2010.

Budget Assumptions

- For purposes of estimating revenue from the insurance levy, we have assumed a 2% growth in insured lawyers based on historical trends. Budgeted revenue from the annual levy is based on a levy for the July 1, 2010 to June 30, 2011 policy year of \$2,900 per insured lawyer. This levy was approved by the Benchers at the April 2010 meeting.
- The budget for investment income is based on advice from our investment manager and is based on an estimated 3.50% income yield on our portfolio of cash, bonds and equities. We have used the current market value of our investment portfolio of approximately \$90 million to arrive at this estimate. The budget for investment income does not reflect any potential realized gains or losses 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 for as these amounts are virtually impossible to predict and are by 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.
- Excluding staff additions and merit wage increases, we have assumed a 3% increase in wage costs.
- 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 December 31, 2009. 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. As the Base scenario was used to set the level, we have used this scenario to establish the budget for claims and related costs.

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 late in this document.

ALIA's overall goal is to operate a model insurance program in a manner that supports the LSA's vision of being recognized as a model regulator. To that end, we strive to manage claims in a fair, reasonable and timely manner so that Alberta 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 model insurance program that furthers the LSA Mission and 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 of a lawyer are fairly compensated.
- Ensure that programs are managed in an effective, efficient and financially accountable manner.
- Provide a high level of service.
- Continue to enhance risk assessment management internally as well as in cooperation with the larger corporate initiative regarding risk assessment.
- Continue to evolve business practices/policies/documentation to exceed expectations of operating a model insurance program.
- Enhance the quality review program.
- 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 Enhanced Performance Management program.

2010 – 2012 Initiatives:

- Continued development of loss prevention initiatives and its role within the organization.
- Continued support of Law Society initiatives including Pro Bono and the Safety of Trust Property project.
- Continuation and enhancement of in-house training seminars and training program.
- Continual improvement of claims management.

Budget

Alberta Lawyers Insurance Association Budget For the Year Ending June 30, 2011

	2010 Budget	2010 Forecast	2011 Budget	Variance 2010 Forecast vs 2010 Budget	Variance 2011 Budget vs 2010 Budget
Revenue					
Annual levy	\$14,991,200	\$15,139,900	\$17,521,200	(\$148,700)	\$2,530,000
Investment income	3,800,000	8,500,000	4,285,000	(4,700,000)	485,000
	<u>18,791,200</u>	<u>23,639,900</u>	<u>21,806,200</u>	<u>(4,848,700)</u>	<u>3,015,000</u>
Expenses					
Provision for claims and related costs	14,309,000	16,000,000	16,080,000	1,691,000	1,771,000
Premium paid to CLIA	3,781,000	3,799,299	4,211,400	18,299	430,400
Salaries and contract costs	1,621,300	1,840,000	1,884,000	218,700	262,700
Management fee	1,033,100	1,122,400	1,215,860	89,300	182,760
Professional fees	82,500	90,000	85,000	7,500	2,500
Investment counsel fees	217,000	235,000	228,000	18,000	11,000
Administration	175,700	117,460	137,540	(58,240)	(38,160)
Amortization	28,100	24,530	18,840	(3,570)	(9,260)
Loss prevention	55,000	18,500	100,000	(36,500)	45,000
	<u>21,302,700</u>	<u>23,247,189</u>	<u>23,960,640</u>	<u>1,944,489</u>	<u>2,657,940</u>
Net Income (loss) before the following	(2,511,500)	392,711	(2,154,440)	(2,904,211)	357,060
Unrealized gain (loss) on FMV of investments		(700,000)		700,000	
Net income (loss) for the period	<u>(\$2,511,500)</u>	<u>(\$307,289)</u>	<u>(\$2,154,440)</u>	<u>(\$2,204,211)</u>	<u>\$357,060</u>



Capital Budget

The Alberta Lawyers Insurance Association 2010/2011 Annual Budget Capital Budget

	<u>Budget 2011</u>	<u>Budget 2010</u>	<u>Forecast 2010</u>
Furniture and equipment			
Rolling Shelves	6,450	12,000	5,547
Furniture - Desk			4,554
	<u>6,450</u>	<u>12,000</u>	<u>10,101</u>
Computer equipment			
Software:			
Software Upgrades	-	10,000	-
	<u>-</u>	<u>10,000</u>	<u>-</u>
Workstations:			
PC Workstations and monitors	-	18,000	14,716
Laptop Upgrades	-	3,500	4,525
Printers	-	-	11,136
	<u>-</u>	<u>21,500</u>	<u>30,377</u>
Total capital additions	<u>\$ 6,450</u>	<u>\$ 43,500</u>	<u>\$ 40,478</u>



Appendix 1 – Historical Levy Comparison

	<u>ANNUAL LEVIES</u>					
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Insurance levy (ALIA)	\$ 2,900	\$ 2,600	\$ 1,800	\$ 1,900	\$ 2,241	\$ 2,770
Annual Increase (Decrease)	\$ 300	\$ 800	\$ (100)	\$ (341)	\$ (529)	

Appendix 2 – Fund Balance Analysis

Alberta Lawyers Insurance Association Accumulated Surplus Analysis

Actual balance at June 30, 2009	\$ 37,207,953
Forecast net income (loss) fiscal 2010	<u>(307,289)</u>
Forecast balance at June 30, 2010	36,900,664
Budgeted net income (loss) fiscal 2011	<u>(2,154,440)</u>
Budgeted balance at June 30, 2011	<u><u>\$ 34,746,224</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, NCA Partenaires, the recommended surplus target is \$27.5 million.

Appendix 3 - Claims reserve Summary

Alberta Lawyers Insurance Association Reserve Summary June 30

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net Reserve - Beginning of Year	\$ 45,147,000	\$ 43,212,867	\$ 43,510,000	\$ 45,243,000
Less: Claims Paid and accrued	(16,244,064)	(13,248,234)	(9,540,418)	(11,643,394)
Less: Related costs paid and accrued	(5,464,262)	(4,229,016)	(3,664,807)	(3,682,280)
Add: Recoveries	7,404,240	6,120,308	3,230,960	3,492,600
Add: Current Provision	15,184,086	13,291,075	9,677,132	10,100,074
Net Reserve - End of Year	<u>\$ 46,027,000</u>	<u>\$ 45,147,000</u>	<u>\$ 43,212,867</u>	<u>\$ 43,510,000</u>