



ALBERTA LAWYERS  
INSURANCE ASSOCIATION

# Alberta Lawyers Insurance Association

## 2012 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 2012 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 Executive Leadership Team of the Law Society of Alberta (“the Law Society”).

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 2011 meeting. The 2012 budget reflects a levy of \$3,124 that was approved by the Benchers at the April 2011 meeting.

## Corporate background

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 \$300,000 group deductible per claim. This means that CLIA contributes only to claims exceeding \$300,000.

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 ALIA/CLIA 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 is an insurance program rather than an insurer. 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, while not owing a duty of good faith to the public, 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 5,800) 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, 2010), the market value of these funds was approximately \$85 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 Finance Committee.

The following budget is based on a fiscal year ending June 30, 2012. We refer to:

- **Budget 2012**, which means the fiscal year beginning July 1, 2011 and ending June 30, 2012;
- **Budget 2011**, which means the fiscal year that began July 1, 2010 and ending June 30, 2011; and
- **Forecast 2011**, 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, 2010 and ending June 30, 2011.

## Budget Assumptions

- For purposes of estimating revenue from the insurance levy, we have assumed a 1.8% growth in insured lawyers based on historical trends. Budgeted revenue from the annual levy is based on a levy for the July 1, 2011 to June 30, 2012 policy year of \$3,124 per insured lawyer. This levy was approved by the Benchers at the April 2011 meeting.
- The budget for investment income is based on advice from our investment manager and reflects an estimated 3.3% income yield on ALIA’s portfolio of cash, bonds and equities. The current market value of the investment portfolio of approximately \$92 million was used to arrive at this estimate. 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 nature non-cash items.
- The premium paid to CLIA for excess insurance coverage is based on the number of insured members as at July 1<sup>st</sup> 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 4% increase in wage costs.
- The budget for the provision for claims and related costs is based on estimates provided by our actuary in their Actuarial Valuation Report as of December 31, 2010. 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.

## 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 model insurance program that furthers 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 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.
- Continue with the Learning, Excellence, Assessment and Development System (LEADS) claims examiner file audit process to fortify performance management process and drive LEADS into other areas (including defence counsel and the Assurance Fund)
- 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.
- Continue to promote a culture committed to a positive workplace environment
- Continue to promote collaborative working relationships pan organizationally

### 2011 – 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 Trust Safety project.
- Continuation and enhancement of in-house training seminars and training program.
- Continual improvement of claims management.
- Continued evaluation of business needs and promotion of enhanced business enablement tools
- Expand and develop LEADS program to Defence Counsel, Assurance Fund
- Work pan organizationally to identify and articulate services needs of ALIA by promoting collaboration and communication
- Continue to use enhanced performance program to drive excellence in an effort to achieve the Law Society's strategic plan initiatives

# Budget

## The Alberta Lawyers Insurance Association 2011/2012 Budget Statement of Revenue and Expenses

For the Year: July 1, 2011 - June 30, 2012

|  | <u>Budget</u><br><u>June 30, 2012</u> | <u>Forecast</u><br><u>June 30, 2011</u> | <u>Budget</u><br><u>June 30, 2011</u> | <u>Actual</u><br><u>June 30, 2010</u> |
|--|---------------------------------------|---|---------------------------------------|---------------------------------------|
| <b>Revenue</b>   |                                       |   |                                       |                                       |
| Annual levy  | \$ 19,108,200                         | \$ 17,543,100                           | \$ 17,521,200                         | \$ 15,398,169                         |
| Investment income  | 4,520,000                             | 5,652,000                               | 4,285,000                             | 8,461,735                             |
|  | <u>23,628,200</u>                     | <u>23,195,100</u>                       | <u>21,806,200</u>                     | <u>23,859,904</u>                     |
| <b>Expenses</b>  |                                       |   |                                       |                                       |
| Provision for claims and related costs                                   | 17,300,000                            | 18,000,000                              | 16,080,000                            | 20,174,408                            |
| Premium paid to CLIA   | 4,436,000                             | 4,206,388                               | 4,211,400                             | 3,799,299                             |
| Salaries and benefits  | 1,973,500                             | 1,867,600                               | 1,884,000                             | 1,833,275                             |
| Management fee   | 1,326,000                             | 1,258,588                               | 1,215,860                             | 1,122,436                             |
| Administration   | 134,270                               | 112,445                                 | 137,540                               | 121,282                               |
| Investment fees  | 250,000                               | 258,000                                 | 228,000                               | 233,236                               |
| Professional fees  | 80,000                                | 88,000                                  | 85,000                                | 77,869                                |
| Amortization   | 27,000                                | 20,000                                  | 18,840                                | 24,583                                |
| Loss Prevention  | 17,500                                | 25,000                                  | 100,000                               | 10,200                                |
| Bad Debt recovery  |                                       |   |                                       | (3,675)                               |
|  | <u>25,544,270</u>                     | <u>25,836,021</u>                       | <u>23,960,640</u>                     | <u>27,392,912</u>                     |
| <b>Excess (deficiency) of revenue over expenses before the following</b> | <u>(1,916,070)</u>                    | <u>(2,640,921)</u>                      | <u>(2,154,440)</u>                    | <u>(3,533,008)</u>                    |
| Unrealized gain (losses) on Investments                                  | -                                     | 4,000,000                               | -                                     | (2,336,469)                           |
| <b>Excess (deficiency) of revenue over expenses for the year</b>         | <u>(1,916,070)</u>                    | <u>1,359,079</u>                        | <u>(2,154,440)</u>                    | <u>(5,869,477)</u>                    |

## Capital Budget

**The Alberta Lawyers Insurance Association  
2011/2012 Annual Budget  
Capital Budget**

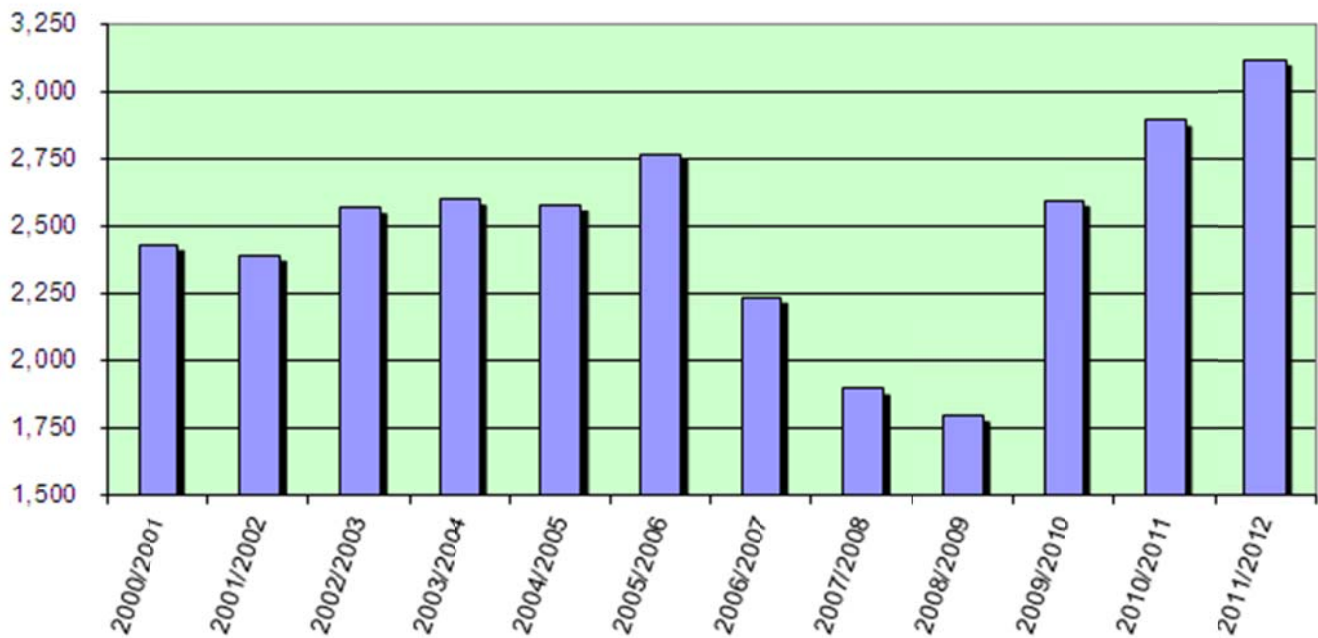
|                                | <u>Budget</u><br><u>2012</u> | <u>Budget</u><br><u>2011</u> | <u>Forecast</u><br><u>2011</u> |
|--------------------------------|------------------------------|------------------------------|--------------------------------|
| <b>Furniture and equipment</b> |                              |                              |                                |
| Rolling Shelves                | -                            | 6,450                        | 13,530                         |
| <b>Computer equipment</b>      |                              |                              |                                |
| Software:                      |                              |                              |                                |
| Software Upgrades              | 15,000                       | -                            | -                              |
| Workstations:                  |                              |                              |                                |
| PC Workstations and monitors   | 10,000                       | -                            | -                              |
| Laptop Upgrades                | 25,000                       | -                            | -                              |
|                                | <u>35,000</u>                | <u>-</u>                     | <u>-</u>                       |
| <br>Total capital additions    | <br><u>\$ 50,000</u>         | <br><u>\$ 6,450</u>          | <br><u>\$ 13,530</u>           |



# Appendix 1 – Historical Levy Comparison

## ANNUAL LEVIES HISTORY

| <u>Year</u> | <u>Net Levy \$</u> | <u>Increase</u> | <u>% Increase</u> |
|-------------|--------------------|-----------------|-------------------|
| 2000/2001   | 2,436              |                 |                   |
| 2001/2002   | 2,397              | (39)            | -1.6%             |
| 2002/2003   | 2,574              | 177             | 7.4%              |
| 2003/2004   | 2,605              | 31              | 1.2%              |
| 2004/2005   | 2,583              | (22)            | -0.8%             |
| 2005/2006   | 2,770              | 187             | 7.2%              |
| 2006/2007   | 2,241              | (529)           | -19.1%            |
| 2007/2008   | 1,900              | (341)           | -15.2%            |
| 2008/2009   | 1,800              | (100)           | -5.3%             |
| 2009/2010   | 2,600              | 800             | 44.4%             |
| 2010/2011   | 2,900              | 300             | 11.5%             |
| 2011/2012   | 3,124              | 224             | 7.7%              |





## Appendix 2 – Fund Balance Analysis

### Alberta Lawyers Insurance Association Accumulated Surplus Analysis

|  |                      |
|--|----------------------|
| <b>Actual balance at June 30, 2010</b>   | \$ 31,338,475        |
| Forecast net income fiscal 2011          | <u>1,359,079</u>     |
| <b>Forecast balance at June 30, 2011</b> | 32,697,554           |
| Budgeted net loss fiscal 2012            | <u>(1,916,070)</u>   |
| <b>Budgeted balance at June 30, 2012</b> | <u>\$ 30,781,484</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, Normandin Actuaries Inc., the recommended surplus target is \$27.5 million.*

## Appendix 3 - Claims reserve Summary

### Alberta Lawyers Insurance Association Reserve Summary June 30

|                                      | 2010                 | 2009                 | 2008                 | 2007                 |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|
| Net Reserve - Beginning of Year      | \$ 46,027,000        | \$ 45,147,000        | \$ 43,212,867        | \$ 43,510,000        |
| Less: Claims Paid and accrued        | (6,947,420)          | (16,244,064)         | (13,248,234)         | (9,540,418)          |
| Less: Related costs paid and accrued | (5,230,662)          | (5,464,262)          | (4,229,016)          | (3,664,807)          |
| Add: Recoveries                      | 1,010,674            | 7,404,240            | 6,120,308            | 3,230,960            |
| Add: Current Provision               | 20,174,408           | 15,184,086           | 13,291,075           | 9,677,132            |
| Net Reserve - End of Year            | <u>\$ 55,034,000</u> | <u>\$ 46,027,000</u> | <u>\$ 45,147,000</u> | <u>\$ 43,212,867</u> |