



ALBERTA LAWYERS
INSURANCE ASSOCIATION

Alberta Lawyers Insurance Association

2013 Business Plan and Budget

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Introduction

The 2013 Alberta Lawyers Insurance Association (ALIA) business plan and budget for the period January 1, 2013 to December 31, 2013 is presented below. This is the first budget reflecting the change of fiscal year end from June to December which was approved by the Benchers in June 2012. 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 Benchers for their consideration to recommend to the ALIA Board of Directors for their approval. The 2013 budget reflects a 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 the ALIA 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 \$107 million at the end of September 2012. 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 Finance Committee. 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 \$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. ALIA is an insurance program rather than an insurer; however, 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, 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 5,900) 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, 2012), the market value of these funds was approximately \$100 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 period ending December 31, 2013. We refer to:

- **Budget 2013**, which means the fiscal period beginning January 1, 2013 and ending December 31, 2013;
- **Budget 2012**, which means the six months beginning July 1, 2012 and ending December 31, 2012; and
- **Forecast 2012**, 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 six months that began July 1, 2012 and ending December 31, 2012.

Budget Assumptions

- For purposes of estimating revenue from the insurance levy, we have assumed a 1.3% growth in insured lawyers based on historical trends. Budgeted revenue from the annual levy is based on a levy for the July 1, 2013 to June 30, 2014 policy year of \$3,550 per insured lawyer. This levy was recommended by our actuary in his report of October 3rd, 2012.
- The budget for investment income is based on advice from our investment manager and reflects an estimated 2.8% income yield on ALIA's portfolio of cash, bonds and equities. The current market value of the investment portfolio of approximately \$106.5 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 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.
- 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, 2012. 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.
- Work pan organizationally to support and participate in the achievement of the LSA Employee Performance Management Program organization goals.

2013 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.

- Continued improvements to the LEADS program and further expansion of the LEADS program to Defence Counsel, Assurance Fund 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.
- Participate pan organizationally in a culture of Project Planning and Project Management.
- Continued focus on the ALIA Customer Service goals and targets.
- Participate and contribute pan organizationally in the MemberPro Upgrade and the MemberPro Enhancements Project.
- Champion the “Line of Sight” organizational goal that all ALIA employees have true understanding of their individual role and how that role contributes to the ALIA and the Law Society vision and mission.

Budget

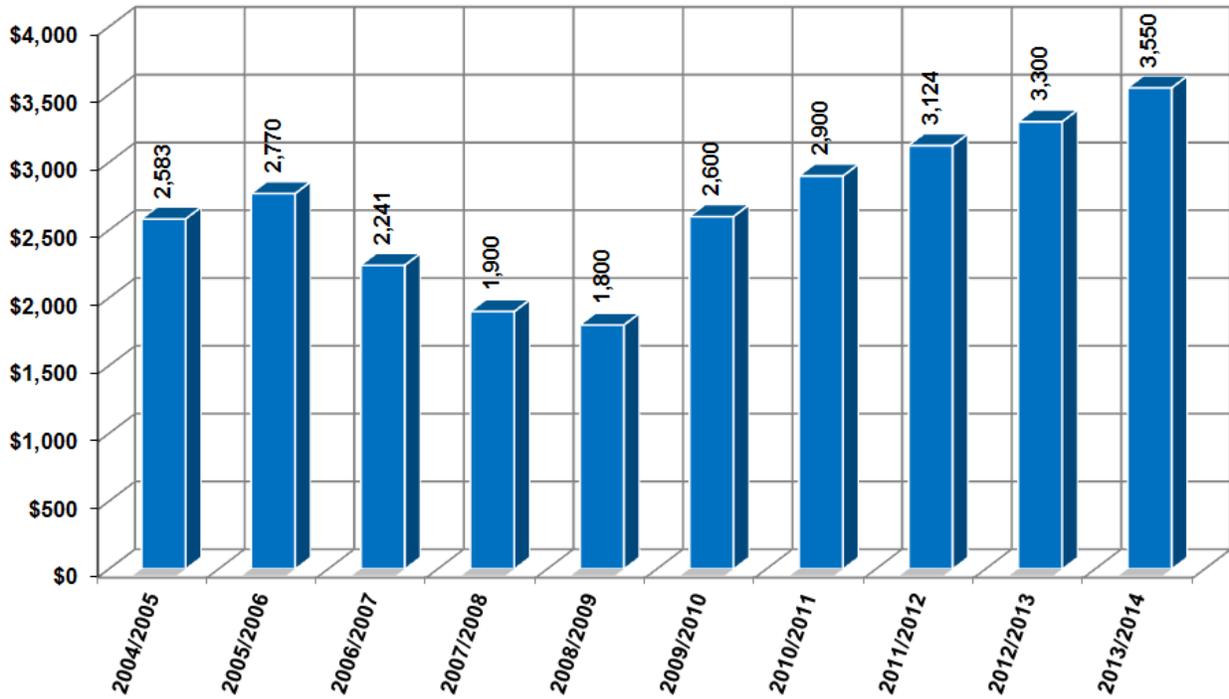
Alberta Lawyers Insurance Association
Budget
For the Twelve Months Ending December 31, 2013
(000s)

	2013 Budget (12 months)	June 2012 Budget (12 months)	Variance 2013 Budget vs June 2012 Budget	2012 Stub Budget (6 months)	2012 Forecast (6 months)
Revenue					
Annual levy	\$ 20,820	\$ 19,108	\$ 1,712	\$ 10,225	\$ 10,122
Investment income	4,460	4,520	(60)	2,525	3,660
	<u>25,280</u>	<u>23,628</u>	<u>1,652</u>	<u>12,750</u>	<u>13,782</u>
Expenses					
Provision for claims and related costs	18,000	17,300	(700)	8,500	9,500
Premium paid to CLIA	5,021	4,436	(585)	2,423	2,423
Salaries and contract costs	1,965	1,974	9	970	836
Management fee	1,656	1,326	(330)	678	678
Professional fees	92	80	(12)	60	60
Investment counsel fees	264	250	(14)	125	132
Administration	137	134	(3)	80	91
Amortization	15	27	12	7	7
Loss prevention	20	18	(2)	8	8
	<u>27,169</u>	<u>25,544</u>	<u>(1,624)</u>	<u>12,851</u>	<u>13,735</u>
Net income (loss) for the period	<u>\$ (1,889)</u>	<u>\$ (1,916)</u>	<u>\$ 27</u>	<u>\$ (101)</u>	<u>\$ 47</u>

Appendix 1 – Historical Levy Comparison

The Alberta Lawyers Insurance Association
Budget
For the Year January 1, 2013 - December 31, 2013

LEVY HISTORY



Appendix 2 – Fund Balance Analysis

Alberta Lawyers Insurance Association Accumulated Surplus Analysis (000s)

Actual balance at June 30, 2012	\$ 32,473
Forecast net income to December 31, 2012	<u>\$ 47</u>
Forecast balance at December 31, 2012	\$ 32,520
Budgeted net loss to December 31, 2013	<u>\$ (1,889)</u>
Budgeted balance at December 31, 2013	<u>\$ 30,631</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 \$28.5 million.

Appendix 3 - Claims reserve Summary

**Alberta Lawyers Insurance Association
Reserve Summary
June 30
(000s)**

	2012	2011	2010	2009	2008
Net Reserve - Beginning of Year	\$ 55,354	\$ 55,034	\$ 46,027	\$ 45,147	\$ 43,213
Less: Claims Paid and accrued	(10,374)	(15,588)	(6,947)	(16,244)	(13,248)
Less: Related costs paid and accrued	(5,285)	(5,391)	(5,231)	(5,464)	(4,229)
Add: Recoveries	2,943	5,131	1,011	7,404	6,120
Add: Current Provision	19,982	16,168	20,174	15,184	13,291
Net Reserve - End of Year	<u>\$ 62,620</u>	<u>\$ 55,354</u>	<u>\$ 55,034</u>	<u>\$ 46,027</u>	<u>\$ 45,147</u>

