



ALBERTA LAWYERS
INSURANCE ASSOCIATION

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2011 ANNUAL REPORT

CORPORATE BACKGROUND

The Alberta Lawyers Insurance Association (ALIA) manages the insurance program for Alberta lawyers. Similar to malpractice insurance, the program provides professional liability insurance to Alberta lawyers.

Professional liability insurance ensures lawyers are protected if they are liable for negligence and ensures that clients receive the compensation they are entitled to.

Established in 1988, ALIA is a wholly owned subsidiary corporation of the Law Society of Alberta. The *Legal Profession Act*, Section 99(1), requires the Law Society of Alberta to establish and maintain an insurance program for lawyers.

ALIA is a member of the Canadian Lawyers Insurance Association (CLIA), a reciprocal insurance exchange that provides professional liability insurance for all practising lawyers in seven provinces and three territories.

Through its affiliation with CLIA, ALIA is able to provide lawyers with:

- A reliable and permanent source of insurance
- Stable premiums for mandatory insurance
- Reasonably priced and effective excess insurance. CLIA offers excess limits of \$1 million to \$9 million.

Every Alberta lawyer in private practice must purchase the mandatory insurance coverage. Excess coverage is voluntary.

LAW SOCIETY OF ALBERTA

Vision

The Law Society of Alberta will be recognized as a model for protecting the public interest and preserving the fundamental principles of justice through a self-regulated, independent and trusted legal profession.

Mission

To serve the public interest by promoting a high standard of legal services and professional conduct through the governance and regulation of an independent legal profession.



EXECUTIVE DIRECTOR'S MESSAGE:

Law Society and ALIA Work Together to Provide Reliable, Safe Premiums

By Don Thompson, QC, Executive Director, Law Society of Alberta

In the late 1960's, the Law Society of Alberta was the first in Canada to implement mandatory professional liability insurance for lawyers. The impetus behind mandatory insurance was to ensure no member of the public would suffer a financial loss due to a negligent lawyer. It also meant lawyers did not face personal financial exposure in the event of an error.

Until the late 1980's the Law Society purchased insurance for lawyers in the commercial marketplace. The insurance crisis of the mid 80's had a significant impact on law societies' ability to find insurers willing to underwrite the risk of lawyers' professional liability even at exorbitant rates.

Working together, law societies across Canada endeavoured to find a solution which would mean lawyers in Canada were no longer subject to the vagaries of the commercial insurance marketplace. The solution came in the form of a reciprocal insurance exchange called the Canadian Lawyers Insurance Association (CLIA). Forged in an insurance crisis over 22 years ago, CLIA has provided reliable, stable premiums on a not-for-profit basis. The Alberta Lawyers Insurance Association was formed for the purpose of participating in CLIA. Today, the Law Society of Alberta is the largest participant in CLIA which includes seven provinces and three territories.

The graph on page six of this report titled "Insured Lawyers vs. Levy Amount" provides a snapshot of

historical insurance levies in Alberta and shows that we have seen insurance levies rise by 25 per cent in the past three years following the global economic crisis of 2008. While we strive to maintain stable insurance levies, the economic meltdown impacted ALIA in two significant ways: (1) a loss on investments, and (2) a deterioration in claims experience.

The global recession has impacted lawyers' professional insurance around the world. As we have seen in Alberta, property values dropped and there was a spike in claims linked to mortgage fraud activity leading to a poor claims experience. While we are optimistic we are nearing the end of the impact, we are mindful of what is happening overseas. The website Legalweek.com reported on November 11, 2011 that solicitors' professional indemnity insurance had risen by 20 per cent. The impact is even more profound as many firms in the UK will be forced to close their doors due to loss of insurance coverage.

In the wake of this, the Law Society of Alberta and ALIA continue to work together to strengthen CLIA to ensure the vision to provide reliable, stable premiums continues into the foreseeable future and beyond. Affordable and available insurance remains a key component of the Law Society's regulation of the profession in the public interest.

ALBERTA LAWYERS INSURANCE ASSOCIATION

GOAL

To operate a model insurance program that furthers the Law Society of Alberta's 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.

BUSINESS OBJECTIVES

1. Ensure programs are managed in an effective, efficient and financially accountable manner
2. Assist in the development and delivery of loss prevention strategies
3. Enhance the quality of the claims review program

SERVICE OBJECTIVES

To embrace our core values as we strive for excellence.

Service: provide superior service by responding to claims in a fair, effective and timely manner

Knowledge: ensure all ALIA employees are informed and knowledgeable

Respect: promote a culture of mutual respect and open communication between ALIA and insured lawyers



Director's Message: New Tool Enables ALIA to Develop Best Practices

By Lisa Sabo, Director, Alberta Lawyers Insurance Association

In 2010/2011, the Alberta Lawyers Insurance Association (ALIA) continued to feel the effect of the 2008 economic crisis. An above-average number of claims were handled by staff again last year while the organization strived to fulfill its goal of becoming a model insurance program in alignment with the Law Society of Alberta's vision of becoming a model regulator.

ALIA had forecast an impact in claims and claim costs following the economic crisis, and last year assisted lawyers and claimants with 797 claims from June 2010 to June 2011. This is a significant drop from the peak number of 950 claims in 2009, but still well above the normal rolling count of 730 claims per year.

The most noticeable increase in claims occurred in the real estate area, where the claims volume doubled. In 2010, those numbers started to come back down, but the reduction in real estate claims was offset by increased claims in matrimonial and family law, as well as estate planning and administration. The average claim cost rose from \$33,250 in 2009 to \$36,000 in 2011.

ALIA's investments were also impacted by the economic downturn, resulting in less available

money to subsidize the insurance levy. The combined outcome of the increased claim cost and loss in investments was an increase in the insurance levy paid by all Alberta lawyers in private practice.

Through all of this, ALIA's commitment to customer service and quality review has persisted. One of the initiatives ALIA developed as part of this commitment is the Learning Excellence Assessment Development System (LEADS).

This is a management tool that improves claims management and helps develop best practices for ALIA. The tool provides objective feedback to claims staff, allowing for individual improvement as well as organizational advancement. Assessments are completed quarterly to provide ongoing feedback and guidance on claims management. It has also been adapted for use in the administration area and may be extended to external service providers in the future.

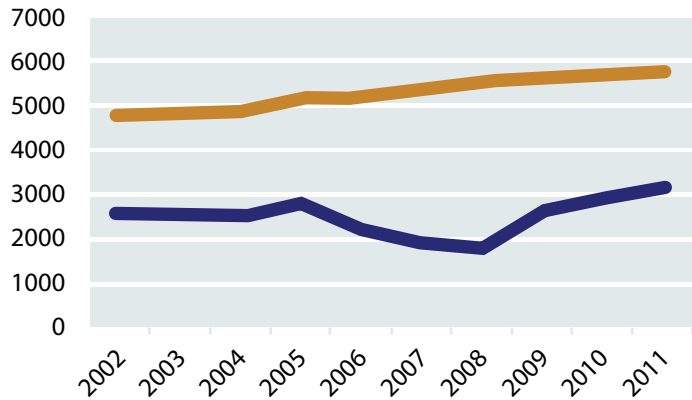
Going forward, ALIA continues to look for ways to advance services offered to Alberta lawyers and claimants, including loss prevention and risk management strategies, while ensuring the program is managed in an effective, efficient and financially accountable manner.

The following graphs and charts provide a snapshot of ALIA's performance in several areas.

INSURED LAWYERS VS. LEVY AMOUNT

This graph shows a steady increase in the number of insured lawyers along with a moderate, but steady, increase in the levy. Years where the levy shows a marked decrease are years when ALIA's surplus was large and surplus was substantially reduced by subsidizing the levy.

— Number of Insured Lawyers
— ALIA Levy



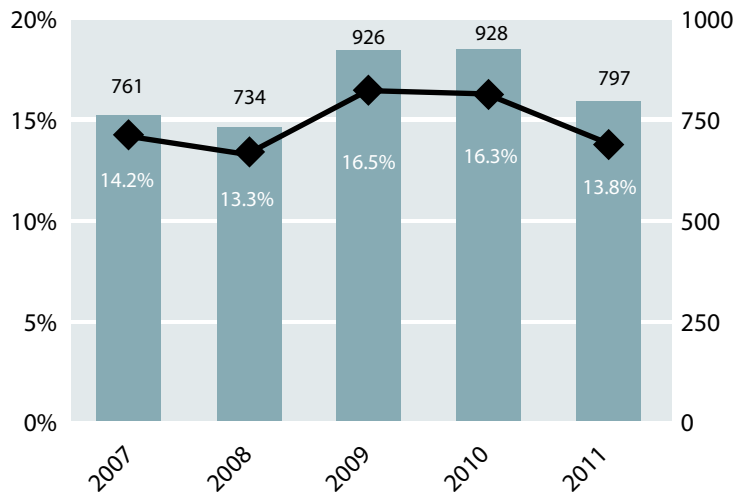
NUMBER AND FREQUENCY OF CLAIMS REPORTS

This graph shows the number and frequency of claims reports over the past five years. The percentage shown in the bars represents insured lawyers that report claims.

Numbers are consistent with the expectation of increased claims activity following a recession. The data shows an increase in claims for 2008 and 2009 as a result of the recession; however the numbers start to come down in 2010.

Please note: Frequency is calculated by dividing the number of reports by the number of insured lawyers. Report numbers include both claims and potential claims.

■ Number of Claims Reported
 ◆ Frequency of Reports



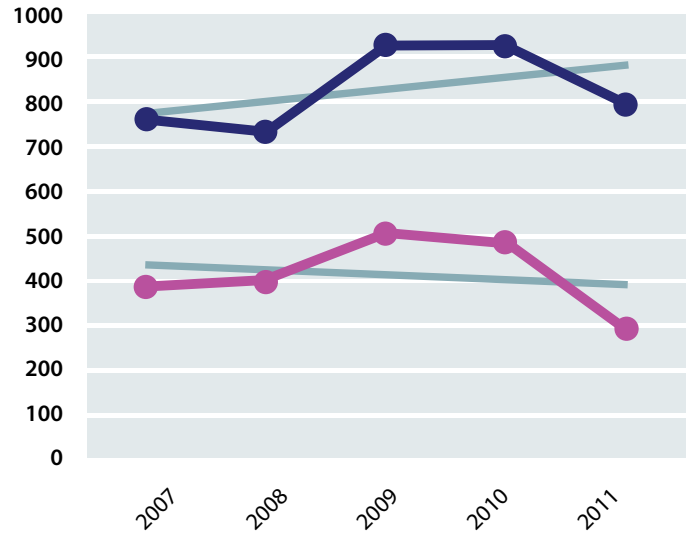
CLAIMS REPORTED VS. LOSS CLAIMS

This graph shows the number of claims reported compared to the number of loss claims over the past five years.

Lawyers are required to report even potential claims to ALIA, however unmeritorious, which results in more reported claims than claims paid out.

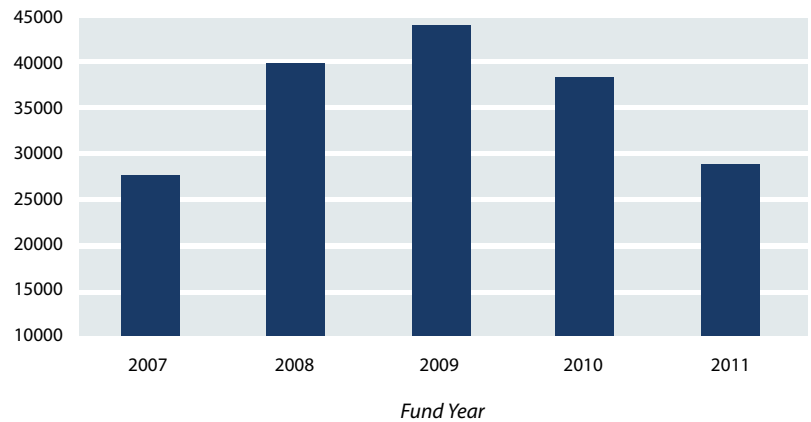
In the last five years the average number of new reported claims was 829 and the average number of loss claims was 412.

■ *New Reported Claims*
■ *Loss Claims*



AVERAGE CLAIM COST (INDEMNITY)

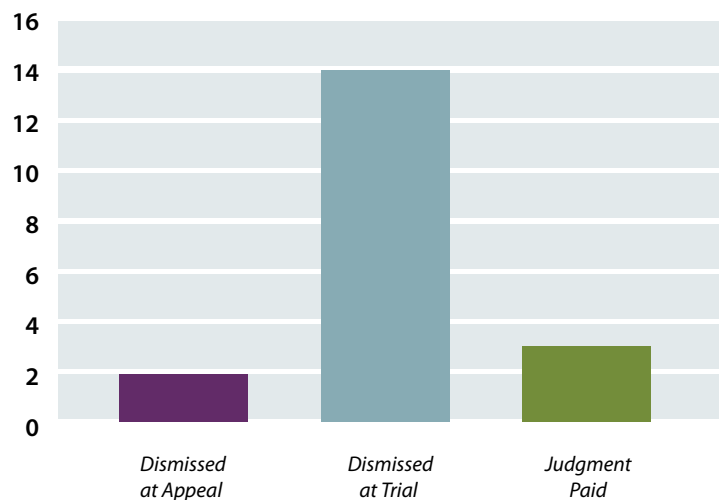
This graph shows the average cost per loss claim as at June 30, 2011.



TRIAL STATISTICS

This graph shows the number of claims in the past five years closed as:

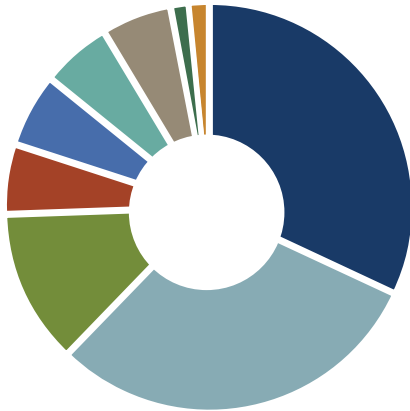
- Dismissed at Appeal
- Dismissed at Trial
- Judgment Paid



AVERAGE FREQUENCY BY CAUSE OF LOSS

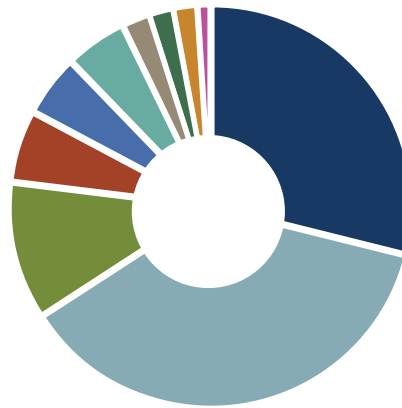
Good practice habits including clear communications are the best defense against loss prevention. Examples are: retainer letters outlining what the lawyer will and will not do; non-engagement and disengagement letters; written confirmations of advice and instructions.

Frequency by Cause of Loss in the past 5 years



- Systems/Procedures/Administrative (34%)
- Communication (32%)
- Law (13%)
- Conflict (6%)
- Delegation/Supervisor (6%)
- Mortgage Fraud (6%)
- Fraud By Client/Other Party (1%)
- Fee Dispute (1%)
- Investment Schemes (1%)
- Misappropriation (0%)

Frequency by Cause of Loss in the past year

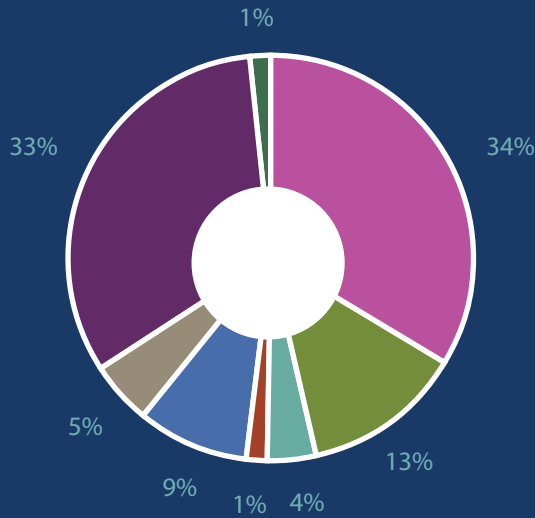


- Systems/Procedures/Administrative (29%)
- Communication (37%)
- Law (11%)
- Conflict (6%)
- Delegation/Supervisor (5%)
- Mortgage Fraud (5%)
- Fraud By Client/Other Party (2%)
- Fee Dispute (2%)
- Investment Schemes (2%)
- Misappropriation (1%)

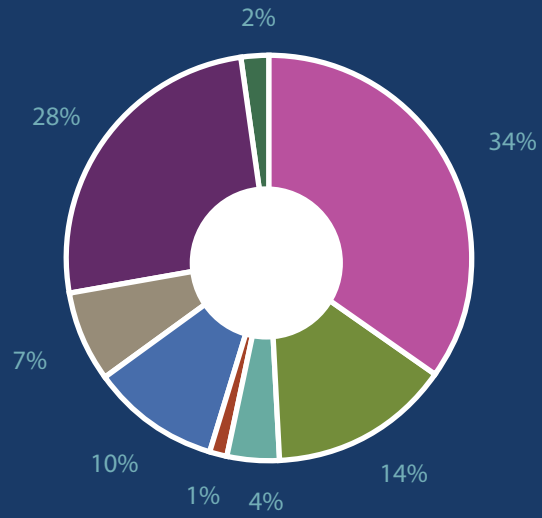
AVERAGE FREQUENCY BY AREA OF LAW

Civil litigation and real estate law generated the highest number of claims over the past five years. There was a slight shift towards real estate following the 2008 recession.

Average Frequency by Area of Law in the past 5 years



Average Frequency by Area of Law in the past year



- Civil Litigation
- Intellectual Property
- Real Estate
- Commercial & Corporate
- Matrimonial & Family
- Tax
- Estate Planning & Administration
- Other

AVERAGE SEVERITY BY AREA OF LAW

The most claims dollars are spent in the areas of commercial and corporate law and tax law.



- Civil Litigation (12%)
- Commercial & Corporate (20%)
- Estate Planning & Administration (9%)
- Intellectual Property (6%)
- Matrimonial & Family (4%)
- Other (21%)
- Real Estate (7%)
- Tax (21%)

Summarized Non-Consolidated Financial Statements

June 30, 2011

Independent Auditors' Report



January 26, 2012
To the Directors of
The Alberta Lawyers Insurance Association

The accompanying summarized non-consolidated balance sheet and non-consolidated statement of revenue, expenses and net assets are derived from the complete non-consolidated financial statements of **The Alberta Lawyers Insurance Association** as at June 30, 2011 and for the year then ended on which we expressed an opinion without reservation in our report dated December 19, 2011. The fair summarization of the complete non-consolidated financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized non-consolidated financial statements.

In our opinion, the accompanying non-consolidated financial statements fairly summarize, in all material respects, the related complete non-consolidated financial statements in accordance with the criteria described in the Guideline referred to above.

These summarized non-consolidated financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on the Association's financial position, results of operations and cash flows, reference should be made to the related complete non-consolidated financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Alberta limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Summarized Non-Consolidated Balance Sheet

As at June 30, 2011

	2011 (\$000s)	2010 (\$000s)
Assets		
Current assets	25,100	18,299
Investments	84,893	85,051
Capital assets	40	46
	110,033	103,396
Liabilities		
Current liabilities	18,814	17,023
Reserve for claims and related costs	55,354	55,034
	74,168	72,057
Net Assets		
Unrestricted net assets	35,865	31,339
	110,033	103,396

Summarized Non-Consolidated Statement of Revenue, Expenses and Net Assets

For the year ended June 30, 2011

	2011 (\$000s)	2010 (\$000s)
Revenue		
Annual levy	17,471	15,398
Investment income	5,717	8,462
	23,188	23,860
Expenses		
Provision for claims and related costs	16,168	20,174
Premium paid to Canadian Lawyers Insurance Association	4,206	3,799
Operating expenses	3,495	3,420
	23,869	27,393
Deficiency of revenue over expenses for the year before the following		
	(681)	(3,533)
Unrealized gain (loss) on fair market value of investments		
	5,207	(2,336)
Excess (deficiency) of revenue over expenses for the year		
	4,526	(5,869)
Unrestricted net assets - beginning of year		
	31,339	37,208
Unrestricted net assets - end of year		
	35,865	31,339

ALBERTA LAWYERS INSURANCE ASSOCIATION MANAGEMENT TEAM

Lisa Sabo, Director, Alberta Lawyers Insurance Association

Paula Haney, Operations Manager

Brian Snyder, Claims Supervisor

Gina Maskell, Administration Supervisor

HOW TO REPORT A CLAIM

If you wish to report a new claim, instructions are available on the Law Society of Alberta's website at www.lawsociety.ab.ca under Services for Lawyers & Students then ALIA & Insurance Claims.



ALBERTA LAWYERS
INSURANCE ASSOCIATION



SERVING
the PUBLIC
INTEREST

ALBERTA LAWYERS INSURANCE ASSOCIATION

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