



ALBERTA LAWYERS
INSURANCE ASSOCIATION

Alberta Lawyers Insurance Association
2012/2013 ANNUAL REPORT

ALBERTA LAWYERS INSURANCE ASSOCIATION 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.



EXECUTIVE DIRECTOR'S MESSAGE

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

It is important that we look beyond the borders of Alberta when it comes to both regulating and insuring lawyers. In 2011, I reported on the experience in the UK. Closer to home, we can see that lawyers insurance programs across Canada, particularly when we look to Ontario, have encountered similar challenges in 2012 and 2013 as they deal with increased claim costs in particular areas of law. We have reported to you a number of times with respect to the impact on our own insurance program following the fallout from the economic crisis of 2008. The Alberta Lawyer's Insurance Association (ALIA) is continuing to work through case files resulting from the downturn, particularly in the area of real estate. Large claims sustained in this particular sector in the last few years have proven costly, and in turn, resulted in an increase to the annual insurance levy for Alberta lawyers each year.

After reaching an all-time high in claims reported in 2010 due to primarily to the mortgage crisis, another spike was experienced in 2012. With claim numbers and related costs rising, we are looking to each individual lawyer to help control claims by preventing them. It is strongly recommended that practitioners be wary of scams, uphold good practice management, properly supervise staff and make use of diary systems.

It is everyone's responsibility to be aware and be informed in order to prevent a claim. There are many resources available to lawyers such as the Law Society of Alberta's eBulletins, LawPro's PracticePro, and CLIA's Loss Prevention Bulletin, not to mention some important tips which can be found on page 15 of this report.

ALIA has a responsibility to Alberta lawyers to provide an insurance option that is responsive to their needs, provides flexibility in managing risk and is efficient and cost effective. With this in mind, the coming year will see tremendous change for ALIA as we take a hard look at how we operate.



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.

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

MANAGEMENT TEAM

Lisa Sabo, Director

Paula Haney, Operations Manager

Brian Snyder, Claims Supervisor

Gina Maskell, Administration Supervisor

DIRECTOR'S MESSAGE

By Lisa Sabo, Director, Alberta Lawyers Insurance Association

Through the course of 2012 and 2013, the Alberta Lawyers Insurance Association (ALIA) began to see relief in the amount of claims received after the 2008 economic crisis in Alberta. Years after the event, ALIA staff continued to work through the influx of real estate claims resulting from inflated property values. Although these numbers are beginning to return to normal in 2012, the program continued to sustain large claims in this area. The average claim cost ALIA \$38,791 in 2012 and \$22,444 in 2013 compared to \$42,623 in 2011.

Continuing our passion for customer service, we added a scoring component to our evaluation survey distributed to our primary customer (the insured lawyer) following the close of their claim. Overall, 94% of these Alberta lawyers indicated they were either satisfied or received excellent service.

To minimize the duplication of effort at a governance and staff level, ALIA's financial reporting period is now aligned with that of the Law Society of Alberta's. ALIA and the Law Society now share a year-end of December 31. On pages 16 and 18 of this report, you will see two sets of financial information, one for the year ended June 30, 2012 (ALIA's earlier year-end) and another (a one-time stub audit) for December 31, 2012.

All the initiatives and programs underway are bringing the Alberta Lawyers Insurance Association closer to fulfilling its goal of becoming a model insurance program. We work every day to improve service for Alberta lawyers and the clients they serve. ALIA will constantly evolve going forward and will remain innovative, keep flexible and continue to examine our risk management strategies in order to remain effective, efficient and financially accountable.



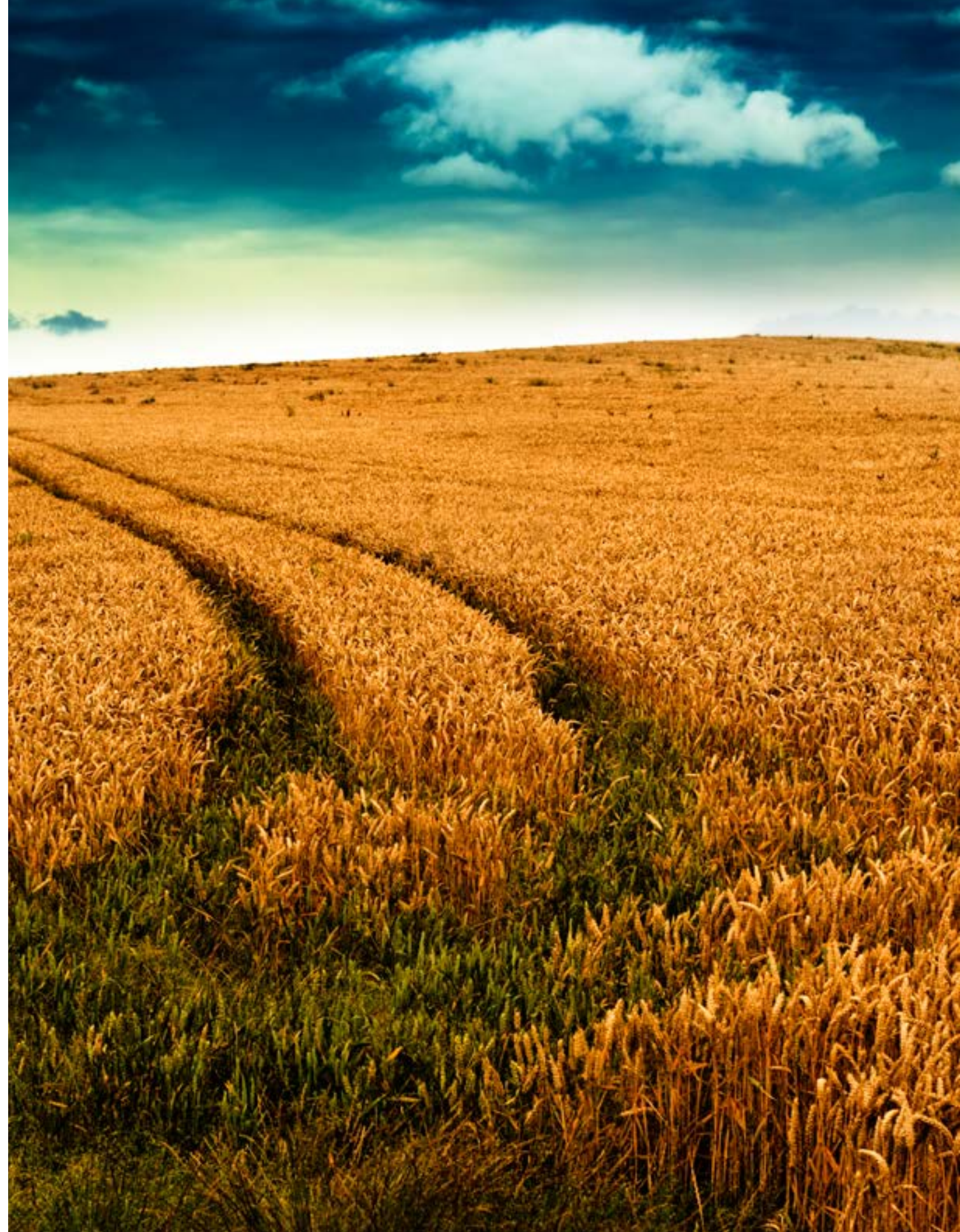
CHAIR'S MESSAGE

By Anne Kirker, QC, Chair, Insurance Committee

While the economic climate continues to affect the Alberta Lawyer's Insurance Association (ALIA), the Benchers of the Law Society of Alberta strive to make the best choices possible for Alberta lawyers and the public they serve. Decisions such as setting the annual insurance levy at an acceptable rate and streamlining financial year ends between ALIA and the Law Society all bring ALIA closer to fulfilling its goal of becoming a model insurance program, and support the Benchers' vision of the Law Society being a model regulator.

The Benchers approved a marginal increase in the annual insurance levy paid by all Alberta lawyers in private practice. The levy represents an actuarial calculation of funds necessary to cover claims costs for the coming year and includes the premium paid to the Canadian Lawyers Insurance Association. Although minor improvement was shown in our return on investments, the results were not enough to offer substantial subsidization to the levy. The combined increase of claim costs and loss in investments resulted in a levy of \$3,300 in 2012. A complete breakdown of yearly levy rates can be found on page 10.

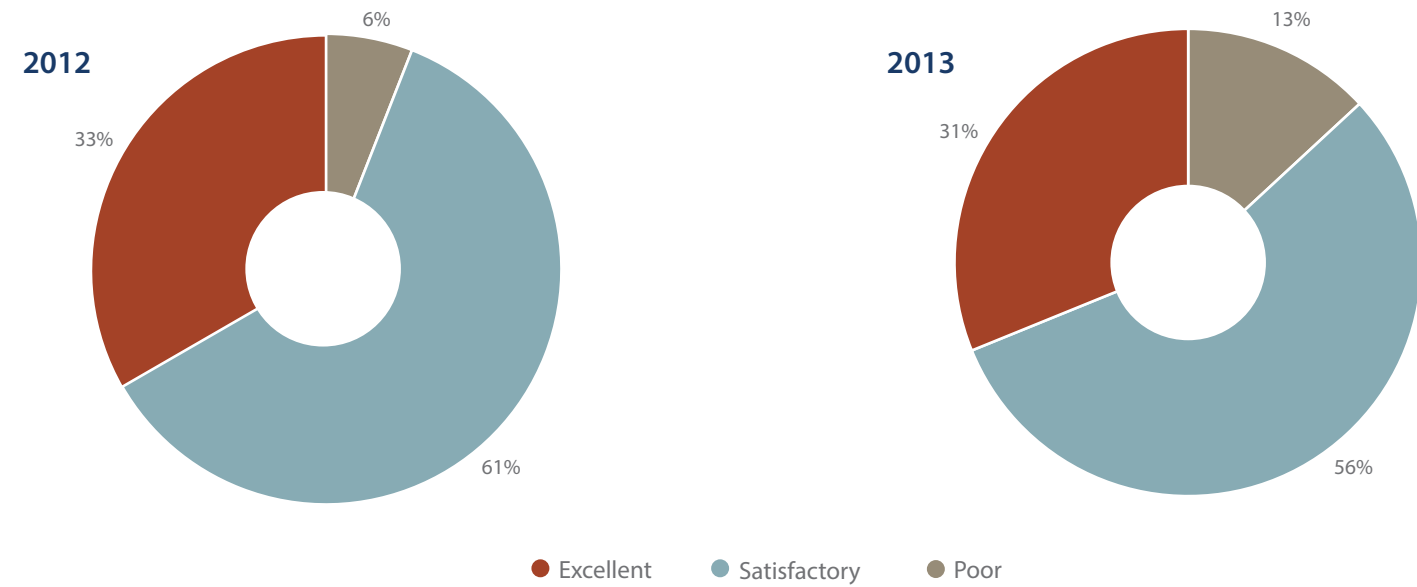
As Don Thompson and Lisa Sabo have both touched on in their updates, we must continue to encourage every lawyer to work to prevent insurance claims, as that is the most effective way to control costs. Missed limitation claims continue to be an issue. Frequently there is a failure to enter the limitation date into a diary system or a mistake in entering the date is made. It is critically important for all individuals involved in a file to ensure important dates have been entered correctly. Additionally, proper file management is vital to ensure lawyers avoid the 'drop dead' rule (Rule 4.33). It is everyone's responsibility to prevent a claim.



SNAPSHOTS OF ALIA'S PERFORMANCE

Claim Survey Letter Response Scoring

ALIA added a scoring component to its evaluation survey distributed to its primary customer (the insured lawyer) following the close of their claim. Overall, 94% of these Alberta lawyers indicated they were either satisfied or received excellent service.



	Q1	Q2	Q3	Q4
Poor	3	2	0	0
Satisfactory	19	7	12	13
Excellent	9	8	7	4

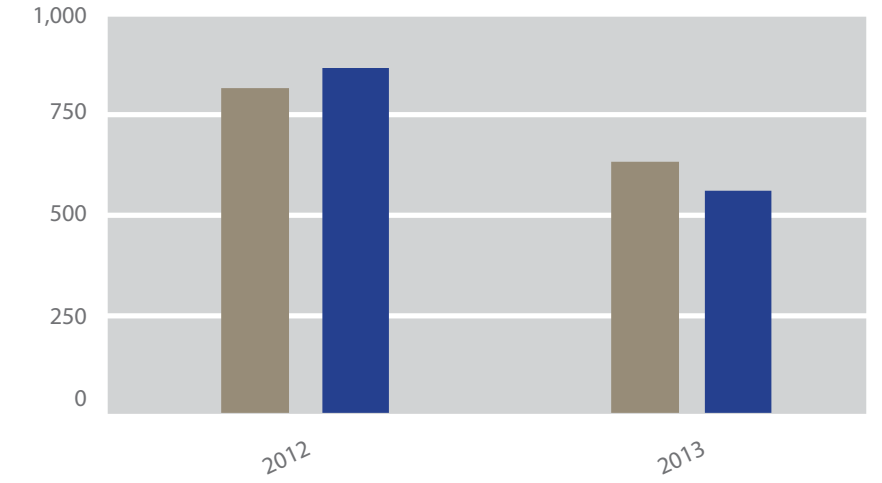
	Q1	Q2	Q3	Q4
Poor	3	2	3	0
Satisfactory	14	4	11	5
Excellent	6	2	11	0

Open vs. Closed Claims

This graph shows the number of claims opened in 2012 versus the number of claims closed in the same timeframe.

In 2012, 807 claims were reported and 857 closed, while in 2013, 624 were opened and 552 closed.

Claims Reported
Closed Claims

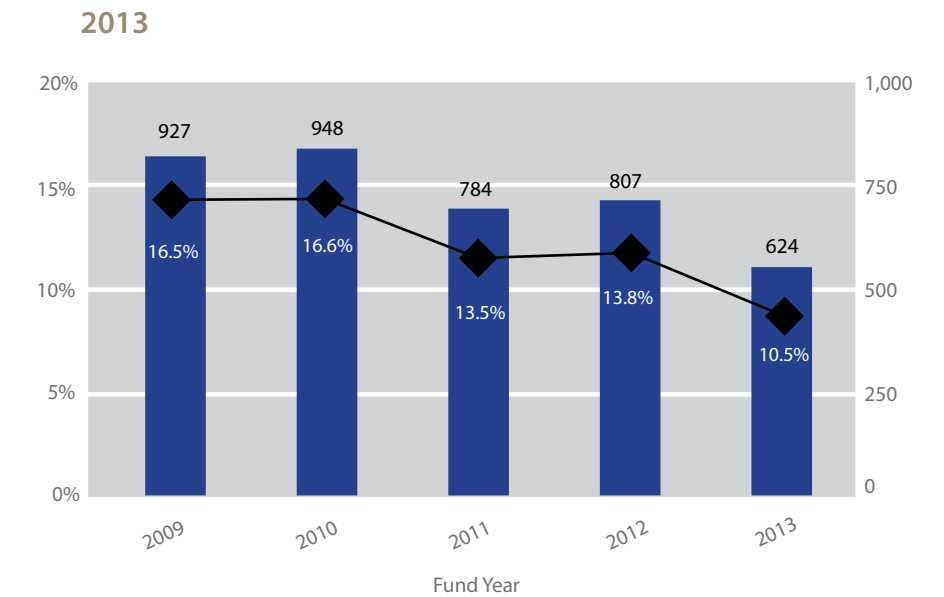
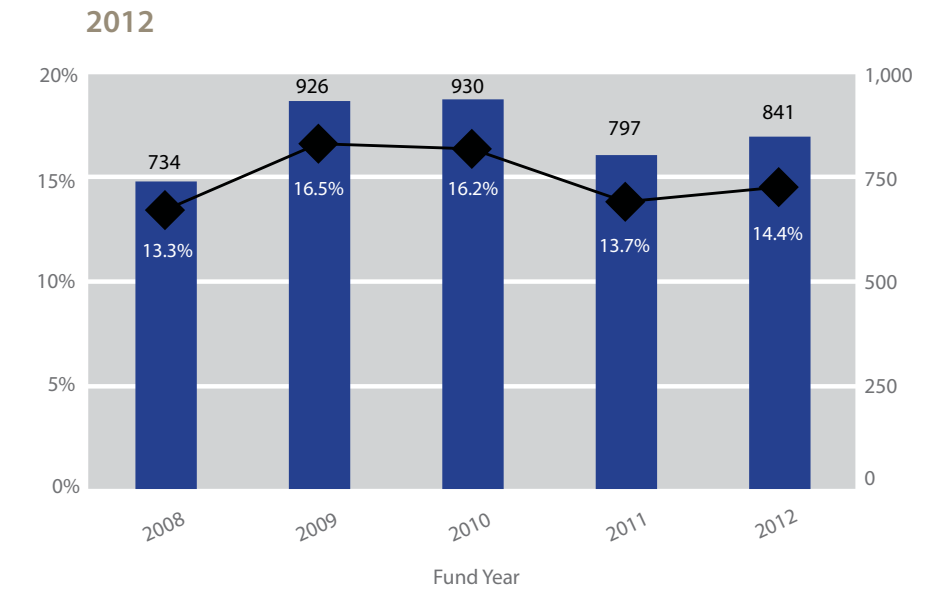


Number and Frequency of Claims Remain Consistent

These graphs show the number and frequency of claims reports over the past five years for both 2012 and 2013. 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 2009 and 2010 as a result of the recession; however the numbers start to come down in 2011, with another spike in 2012.

Number of Claims Reported
Frequency of Reports

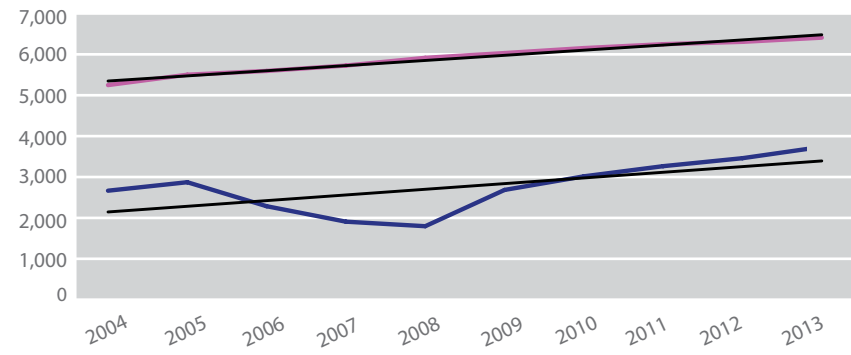


Steady Increase in Lawyers Yields Minor Increase in Levy

This graph shows a steady increase in the number of insured lawyers along with a moderate, but steady, increase in the levy. In 2012/2013, the insurance levy was set at \$3,300.

Years where the levy shows a marked decrease are years when ALIA's surplus was large and substantially reduced by subsidizing the levy.

- ALIA Levy
- # of Insured Lawyers
- Linear ALIA Levy



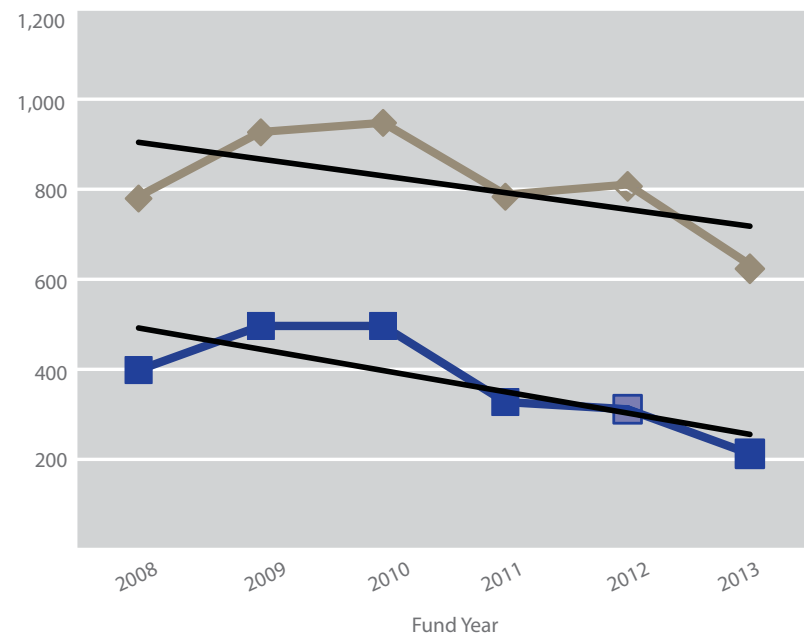
Claims Reported vs. Loss Claims

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.

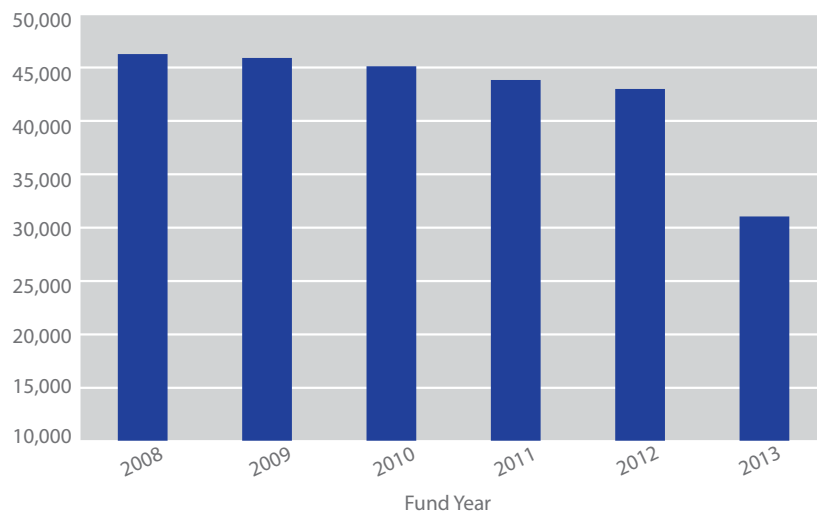
In the last five years the average number of new reported claims was 752 and the average number of loss claims was 344.

- New Reported Claims
- Loss Claims



Average Claim in 2012 Cost \$38,791 (Indemnity)

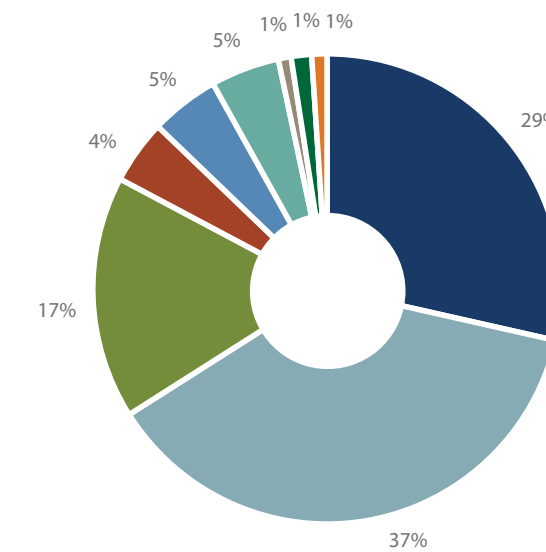
This graph shows the average cost per Loss Claim as at June 30, 2012.



Miscommunication is Leading Cause of Loss

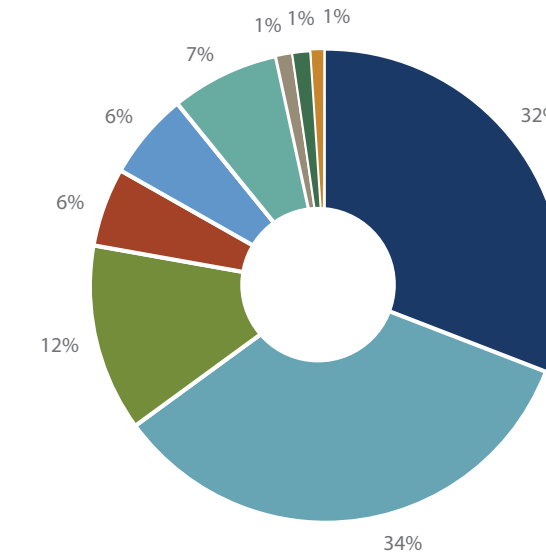
37% of claims in the 2012 policy year originated out of miscommunication. Clear discussion between lawyers and their clients is key to avoiding a potential claim. Systems, procedures and administrative practises also cause a majority of claims to ALIA, therefore making use of proper administrative processes such as those on page 15, is vital.

Causes of Loss in 2012 (Policy Year)



- Systems/Procedures/Administrative
- Communication
- Law
- Conflict
- Delegation/Supervisor
- Mortgage Fraud
- Fraud By Client/Other Party
- Fee Dispute
- Investment Schemes

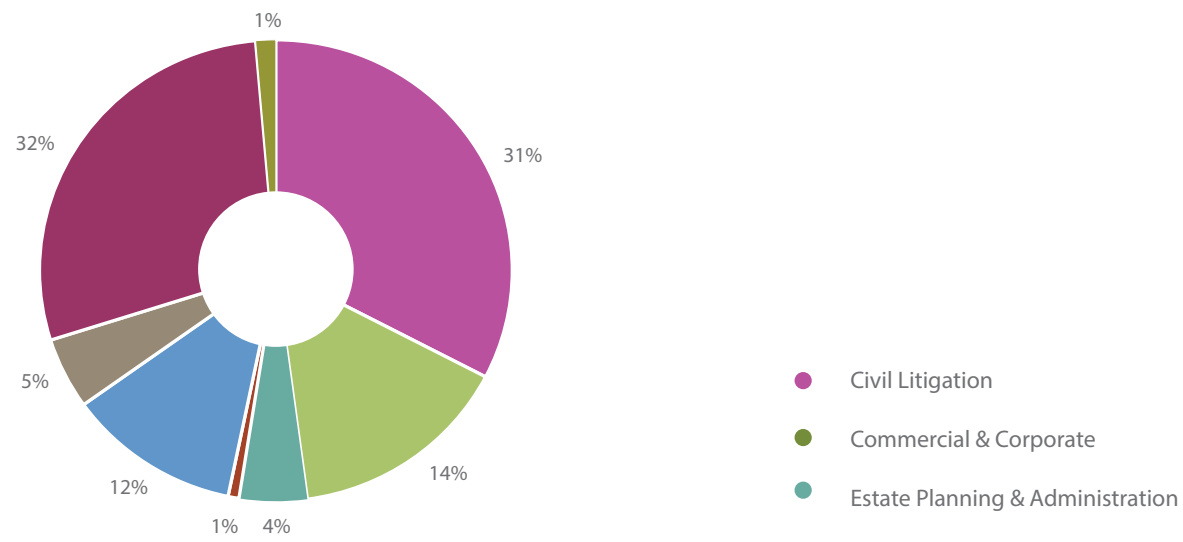
Causes of Loss Claims in Past Five Years (2008 - 2012 Policy Years)



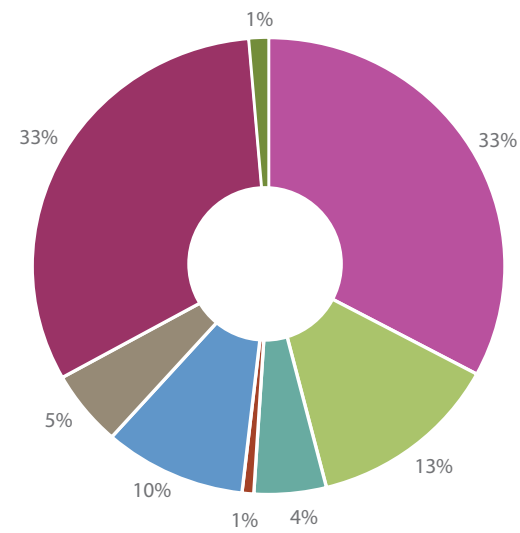
Civil Litigation Continues to Yield Greatest Number of Claims

In the 2012 policy year (July 1, 2011 to June 30, 2013), civil litigation (31%) and real estate law (32%) have generated the majority of claims submitted to ALIA. Statistics from the previous five years show little fluctuation by area of law.

Claims by Area of Law in 2012 (Policy Year)

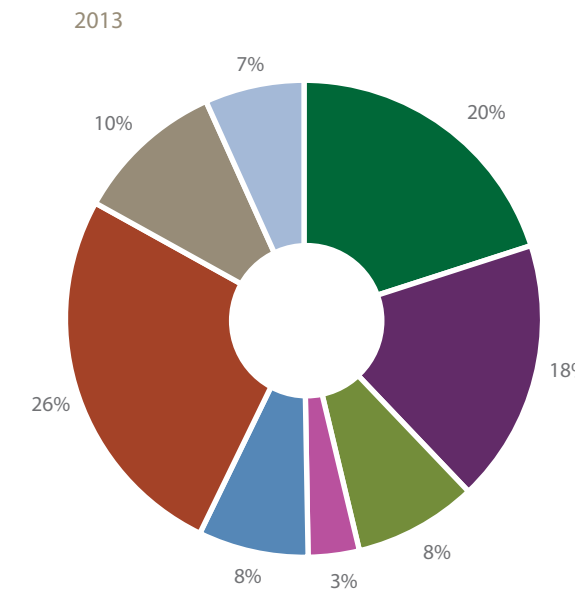
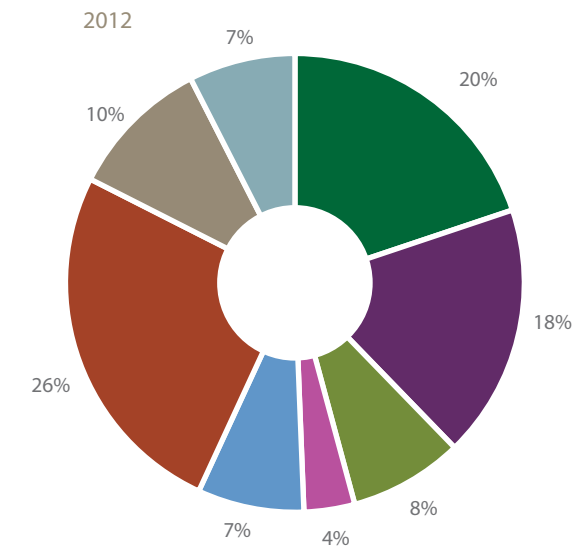


Claims by Area of Law in Past Five Years (2008 - 2012 Policy Years)



Severity by Area of Practice

These charts capture data only for 2012 and 2013 policy years. Claims open in earlier policy years continue to develop as they evolve and are moved towards resolution.



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



LOSS PREVENTION

KEYS TO AVOID A CLAIM

There are steps every lawyer can take to avoid a potential claim. Here are some tips on how to ensure you are protected:

Take Your Time

- Sit with your client and review the risks (the pros and cons). Don't be pressured into making hasty decisions.

Retainer Letter

- Detail the scope of what you are hired to do or not do.

Keep it Simple

- Ensure your client understands and try to avoid legalese when explaining matters.

Communicate & Document

- Maintain regular contact with your client even when little is going on. Whether by email or letter, make sure to keep detailed notes. Create a paper trail, and prepare detailed invoices.

Limitation Diary System

- Tailor your limitation system to your needs then use that system effectively.

Continuing Professional Development

- Keep current with the law by planning professional development activities to improve the quality of legal services you provide..

Get feedback

- Ask your client for their understanding of what you told them.

Wrap Up

- Have you done everything you said you would? Has your client done what they agreed to do?

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'.

SUMMARIZED NON-CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

Independent Auditors' Report

September 6, 2013

To the Directors of the Alberta Lawyers Insurance Association

The accompanying summarized non-consolidated financial statements, which comprise the summarized non-consolidated balance sheet as at June 30, 2012, and summarized non-consolidated statements of revenue, expenses and net assets for the year then ended and related notes are derived from the audited non-consolidated financial statements of The Alberta Lawyers Insurance Association for the year ended June 30, 2012. We expressed an unmodified audit opinion on those non-consolidated financial statements in our report dated November 29, 2012. Those non-consolidated financial statements, and the summarized non-consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those non-consolidated financial statements.

The summarized financial statements do not contain all the statements and disclosures required by Canadian generally accepted accounting principles. Reading the summary financial statements, therefore, is not a substitute for reading the audited non-consolidated financial statements of The Alberta Lawyers Insurance Association.

Management's Responsibility for the Summarized Financial Statements

Management is responsible for the preparation of a summary of the audited non-consolidated financial statements in accordance with the note to the summarized non-consolidated financial statements.


Auditor's Responsibility

Our responsibility is to express an opinion on the summarized non-consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summarized non-consolidated financial statements derived from the audited non-consolidated financial statements of The Alberta Lawyers Insurance Association for the year ended June 30, 2012 are consistent, in all material respects, with those non-consolidated financial statements, on the basis described in the note to the summarized non-consolidated financial statements.



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Summarized Non-Consolidated Balance Sheet

As at June 30, 2012

	2012 (\$000s)	2011 (\$000s)
Assets		
Current assets	29,597	25,100
Investments	85,789	84,893
Capital assets	35	40
	<u>115,421</u>	<u>110,033</u>
Liabilities		
Current liabilities	20,328	18,814
Reserve for claims and related costs	62,620	55,354
	<u>82,948</u>	<u>74,168</u>
Net Assets		
Unrestricted net assets	32,473	35,865
	<u>115,421</u>	<u>110,033</u>

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

For the year ended June 30, 2012

	2012 (\$000s)	2011 (\$000s)
Revenue		
Annual levy	18,888	17,471
Investment income	5,488	5,717
	<u>24,376</u>	<u>23,188</u>
Expenses		
Provision for claims and related costs	19,982	16,168
Premium paid to Canadian Lawyers Insurance Association	4,418	4,206
Operating expenses	3,687	3,495
	<u>28,087</u>	<u>23,869</u>
Deficiency of revenue over expenses for the year before the following		
	(3,711)	(681)
Unrealized gain (loss) on fair market value of investments	319	5,207
Excess (deficiency) of revenue over expenses for the year		
	(3,392)	4,526
Unrestricted net assets - beginning of year		
	35,865	31,339
Unrestricted net assets - end of year		
	<u>32,473</u>	<u>35,865</u>

Note to Summarized Non-Consolidated Financial Statements

For the year ended June 30, 2012

Basis of presentation

The summarized non-consolidated balance sheet and non-consolidated statement of revenue, expenses and net assets have been derived from the complete audited non-consolidated financial statements of the Alberta lawyers insurance Association and have been prepared using the following criteria:

Current assets are comprised of cash and cash equivalents, accounts receivable, accrued interest, prepaid expenses and due from 1452597 Alberta Ltd.

Current liabilities are comprised of accounts payable and accrued liabilities, due to the law Society of Alberta, and deferred revenue.

Operating costs are comprised of the following expenses: salaries and employee benefits, management fee, investment counsel fee, administration, professional fees, loss prevention, amortization, and bad debt recovery.

All other items on the summarized non-consolidated balance sheet and non-consolidated statement of revenue, expenses and net assets are as presented on the complete audited non-consolidated financial statements of the Alberta lawyers insurance Association.

The complete audited non-consolidated financial statements of the Alberta lawyers insurance Association can be found on the website for the Law Society of Alberta: www.lawsociety.ab.ca.

SUMMARIZED NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

Independent Auditors' Report

September 6, 2013

To the Directors of the Alberta Lawyers Insurance Association

The accompanying summarized non-consolidated financial statements, which comprise the summarized non-consolidated balance sheet as at December 31, 2012, and summarized non-consolidated statements of revenue, expenses and unrestricted net assets for the six month period ended December 31, 2012 and related notes are derived from the audited non-consolidated financial statements of The Alberta Lawyers Insurance Association for the six month period ended December 31, 2012. We expressed an unmodified audit opinion on those non-consolidated financial statements in our report dated April 11, 2013. Those non-consolidated financial statements, and the summarized non-consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those non-consolidated financial statements.

The summarized financial statements do not contain all the statements and disclosures required by Canadian accounting standards for not-for-profit organizations. Reading the summary financial statements, therefore, is not a substitute for reading the audited non-consolidated financial statements of The Alberta Lawyers Insurance Association.

Management's Responsibility for the Summarized Financial Statements

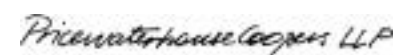
Management is responsible for the preparation of a summary of the audited non-consolidated financial statements in accordance with the note to the summarized non-consolidated financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on the summarized non-consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summarized non-consolidated financial statements derived from the audited non-consolidated financial statements of The Alberta Lawyers Insurance Association for the six month period ended December 31, 2012 are consistent, in all material respects, with those non-consolidated financial statements, on the basis described in the note to the summarized non-consolidated financial statements.



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Summarized Non-Consolidated Balance Sheet

As at December 31, 2012

	Dec 31, 2012 (\$000s)	Jun 30, 2012* (\$000s)	Jul 1, 2011* (\$000s)
Assets			
Current assets	18,530	29,597	25,100
Investments	91,633	85,789	84,893
Capital assets	28	35	40
	110,191	115,421	110,033
Liabilities			
Current liabilities	11,840	20,328	18,814
Reserve for claims and related costs	64,338	62,620	55,354
	76,178	82,948	74,168
Net Assets			
Unrestricted net assets	34,013	32,473	35,865
	110,191	115,421	110,033

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

For the six months ended December 31, 2012

	For the six months ended Dec 31, 2012 (\$000s)	For year ended Jun 30, 2012* (\$000s)
Revenue		
Annual levy	10,159	18,888
Investment income	5,355	5,488
	15,514	24,376
Expenses		
Provision for claims and related costs	9,775	19,982
Premium paid to Canadian Lawyers Insurance Association	2,423	4,418
Operating expenses	1,837	3,687
	14,035	28,087
Deficiency of revenue over expenses for the year before the following	1,479	(3,711)
Unrealized gain (loss) on fair market value of investments	61	319
Excess (deficiency) of revenue over expenses for the year	1,540	(3,392)
Unrestricted net assets - beginning of year	32,473	35,865
Unrestricted net assets - end of year	34,013	32,473

Note to Summarized Non-Consolidated Financial Statements

For the six months ended December 31, 2012

Basis of presentation

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Current assets are comprised of cash and cash equivalents, accounts receivable, accrued interest, prepaid expenses, due from 1452597 Alberta Ltd and due from Law Society of Alberta. Current liabilities are comprised of accounts payable and accrued liabilities, due to the law Society of Alberta, levy deficiency and deferred revenue.

Operating costs are comprised of the following expenses: salaries and employee benefits, management fee, investment counsel fee, administration, professional fees, loss prevention, amortization, and bad debt recovery.

All other items on the summarized non-consolidated balance sheet and non-consolidated statement of revenue, expenses and net assets are as presented on the complete audited non-consolidated financial statements of the Alberta lawyers insurance Association.

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ALBERTA LAWYERS
INSURANCE ASSOCIATION



SERVING
the PUBLIC
INTEREST

ALBERTA LAWYERS INSURANCE ASSOCIATION

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