
Alberta Insurance Council

Annual Report

2014

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Alberta Insurance Council

Report of the Chairman – 2014

From a governance standpoint, the Board of Directors of the Alberta Insurance Council focuses on both shorter term and longer term issues facing the Council, insurance consumers and the insurance industry.

Over the shorter term, one of the Board's priorities is to ensure that Council fulfills its mandate and that the organization as a whole operates in an effective and efficient manner. Based on performance metrics available to the Board, we believe that the AIC has established itself as one of the leading insurance regulators in Canada and that overall it is well managed and that it is quite effective and efficient in its daily operations. Having said this, 2014 was not without its challenges. 2014 was the first year in which all Certificates of Authority expired on a common date, and the resulting rush of applications presented some significant service challenges for the organization. Management has put in place a plan and resources to address this issue in 2015. In 2014 the AIC also introduced new examinations for general insurance agents, a move that has generated some controversy. The new examinations raised issues relating to course content, the breath of examinations, the manner in which courses are provided, and acceptable pass rates. Over the course of the year the General Insurance Council devoted a substantial amount of time and energy to addressing these issues and hopefully there will be a successful resolution in 2015.

From a longer term perspective, there are two issues that the Board and management expect to devote a significant amount of time to over coming year. The first is a plan by the Province of Alberta to conduct a comprehensive review of financial sector regulation within Alberta. The insurance industry will be included within this review, and it is expected that the AIC will play an important role in providing input to the Province as it relates to the future direction of insurance regulation within the province. The second issue is even broader in scope, and it relates to the fundamental changes that the insurance industry has experienced over the past number of years, as well as to further changes that can be expected over the coming decade. In discussion with industry and government, the AIC has noted a number of developments that have important implications for the insurance industry and the manner in which it is regulated. These include: consolidation within the industry; the growth in both the number and complexity of insurance products; the changing roles and influence of brokers and direct writers; and, the introduction of e-commerce, telematics and other new technologies. Moving forward, it will be important that the AIC work closely with the insurance industry, government and other regulators to understand the impact that these development will have on the industry, and to determine what the implications will be for further regulation in this industry.

Respectfully submitted,



Ronald Gilbertson
Alberta Insurance Council Chairperson

Members of the Councils – 2014

Life Insurance Council

<u>Name</u>	<u>Position</u>	<u>Representing</u>
Kenneth Doll	Chair	Life Agents
Robert Evans	Vice Chair	Public
Robin Rankine	Secretary	Life Companies
Jim Brownlee	Member	Life Companies
Roy Jaques	Member	Life Agents
Elizabeth Hak	Member	Public
Phyllis Kobasiuk	Term Expired	Public

General Insurance Council

<u>Name</u>	<u>Position</u>	<u>Representing</u>
Amanda Sawatzky	Chair	Insurance Brokers
Lloyd Hickman	Vice Chair	Public
Judy Mercer	Secretary	Direct Writers
Frank Corrick	Member	Direct Writers
Louise Clare	Member	Insurance Brokers
Thom Young	Member	Insurance Brokers
Robert Bhatia	Member	Public
Jean Gauvreau	Term Expired	General Insurers

Insurance Adjusters' Council

<u>Name</u>	<u>Position</u>	<u>Representing</u>
Nancy Toso	Chair	Adjusters
Ronald Schaller	Vice Chair	Public
R.V. (Bob) Pearson	Secretary	Adjusters
David Hicks	Member	General Insurers
Robert Katzell	Term Expired	Adjusters
Delores Thorbourne	Term Expired	Adjusters

Alberta Insurance Council

The Alberta Insurance Council is composed of one member appointed by each of the above Councils and two appointed public members.

<u>Name</u>	<u>Position</u>	<u>Representing</u>
Ronald Gilbertson	Chair	Public
Kenneth Doll	Vice Chair	Life Insurance Council
Amanda Sawatzky	Secretary	General Insurance Council
David Hicks	Member	Insurance Adjusters' Council
David M. Dominy	Member	Public
Delores Thorbourne	Term Expired	Insurance Adjusters' Council
Doug MacRae	Term Expired	Public

Report of the Chief Executive Officer – 2014

Tom Hampton, Chief Operating Officer for the Alberta Insurance Council, retired December 31, 2014. Tom was with the AIC for 25 years. His accomplishments during that time are too numerous to list. Tom is well respected by stakeholders, board members, and staff and we thank him for his contributions over the years. We will miss him and take this opportunity to wish him all the best in the future.

Anthonet Maramieri has joined the AIC to take on the role of COO and we are looking forward to working together to meet the challenges that lie ahead while we continue to build on the solid foundation that the AIC has established over the 25 years since its inception.

2014 was the first year the all Certificates of Authority expired on a common date. Despite some early issues, 93% of eligible certificate holders had renewed their Certificates of Authority prior to the certificate expiry date. Online services were expanded in 2014 to include the commencement of the first stages of electronic issuing of Certificates of Authority for first time applicants.

In April 2014, the AIC introduced new examinations for general insurance agents. The results were not as successful as was expected or anticipated. The General Insurance Council (GIC) is working with the industry and with education course providers on a review of the Curriculum Design Document (CDD) that forms the basis for the examinations for all levels of licensing. This project is ongoing and is the top priority for the GIC in 2015.

The AIC continues to work as an active member of the Canadian Insurance Services Regulatory Organization (CISRO) on a harmonized Life License Qualification Program for new entrants into the life insurance industry. This program is targeted for implementation on a national basis on January 1, 2016.

Early in 2014, the AIC retained the services of Bannister Research & Consulting Inc. to conduct a Licensee Satisfaction survey. The final report, issued on July 9, 2014, indicated that 90% of licensees rated the overall performance of the AIC as excellent, very good, or good. This report is available on the AIC website at www.abcouncil.ab.ca.

The AIC appreciates comments and feedback from all of our stakeholders and I encourage you to contact me in Edmonton or Anthonet Maramieri in Calgary. We welcome any opportunity to speak with you on issues of interest.

I would like to thank the Superintendent of Insurance, Mark Prefontaine, and his staff for their assistance and support throughout the past year.

I would also like to extend my appreciation to all Council members past and present for their continued efforts and support. You provide extraordinary service to your industry.

In closing, I wish to thank the staff of the AIC for their commitment and dedication to excellence in all that they do.

A handwritten signature in black ink, appearing to read "Joanne Abram". The signature is fluid and cursive, with a large initial "J" and "A".

Joanne Abram
Chief Executive Officer
April 2015

Appendix A - Examination Statistics

Life Insurance Council

Full Life	Given	2576	
	Passed	1752	68%
	Failed	824	32%
A&S	Given	255	
	Passed	220	86%
	Failed	35	14%

Total Life Council Examinations: 2831

General Insurance Council

Level 1	Given	2016	
	Passed	683	34%
	Failed	1333	66%
Level 2	Given	472	
	Passed	99	21%
	Failed	373	79%
Level 3	Given	47	
	Passed	12	26%
	Failed	35	74%

Total General Council Examinations: 2535

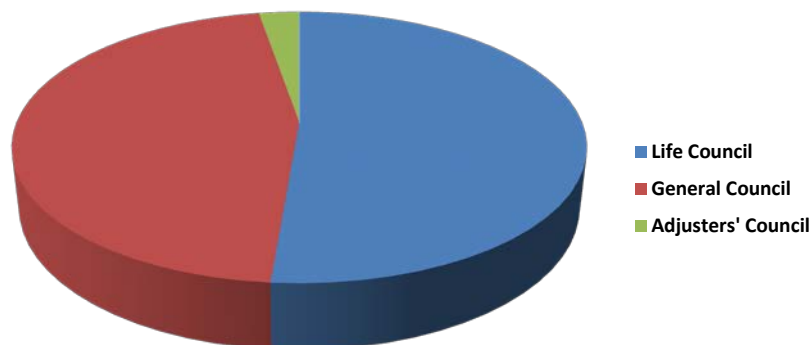
Insurance Adjusters' Council

Basic	Given	150	
	Passed	73	49%
	Failed	77	51%

Total Adjusters' Council Examinations: 150

January 1, 2014 – December 31, 2014 – Total Examinations: 5516

Examination Statistics



Appendix B - Certificates Active at December 31, 2014

Life Insurance Council

Life	D/R	1944
Life	Unrestricted	10543
Life	Corporate	1944
Accident & Sickness	D/R	1913
Accident & Sickness	Agent	10116
Accident & Sickness	Corporate	1913
Travel Agency	Agency	358
Funeral Services Business	Restricted	38
Automobile Dealership for Credit Related	Restricted	547
Deposit Taking Institution for Credit Related	Restricted	56
Deposit Taking Institution for Group Travel	Restricted	12
Sales Finance Company for Credit Related	Restricted	253
Personal Accident Type	Restricted	5
Equipment Dealer for Credit Related	Restricted	191

Total Life Insurance Council Certificates: 29833

General Insurance Council

General Insurance Agent	D/R	1037
General Insurance Agent	Probationary	44
General Insurance Agent	Level 1	3657
General Insurance Agent	Level 2	6696
General Insurance Agent	Corporate	1037
Automobile Dealership , Equipment Warranty	Restricted	607
Aircraft – Agent	Restricted	1
General Insurance Agent Restricted to Hail	Restricted	5
Equipment Dealers – Equipment Warranty	Restricted	183
Freight Forwarding Company	Restricted	1
Hail – Agent	Restricted	139
Hail – D/R	Restricted	19
Hail – Agency	Restricted	19
Livestock – Agent	Restricted	28
Livestock – D/R	Restricted	1
Livestock – Agency	Restricted	1

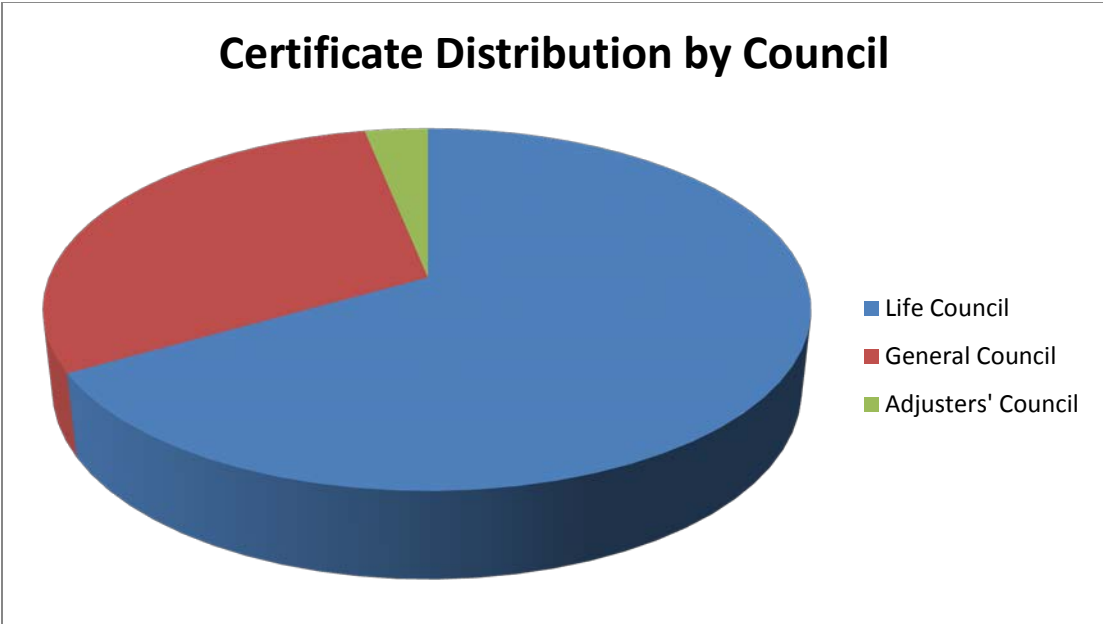
Total General Insurance Council Certificates 13475

Insurance Adjusters' Council

Adjusters – Level 3	D/R	75
Adjusters – Level 3	Independent	278
Adjusters – Level 2	Restricted	135
Adjusters – Level 1	Probationary	404
Adjusters – Corporate	Corporate	75
Restricted Hail Adjusters	D/R	4
Restricted Hail Adjusters	Corporate	4
Restricted Hail Adjusters	Adjuster	68
Restricted Equipment Warranty Adjuster	D/R	9
Restricted Equipment Warranty Adjuster	Corporate	9
Restricted Equipment Warranty Adjuster	Adjuster	32
Restricted Travel Adjuster	D/R	12
Restricted Travel Adjuster	Corporate	12
Restricted Travel Adjuster	Adjuster	290

Total Insurance Adjusters' Council Certificates: 1407

Total Certificates: 44715



Appendix C – Complaint Statistics for all Councils - 2014

TOTAL NUMBER OF COMPLAINTS OPENED IN 2014 – ALL COUNCILS	172
TOTAL NUMBER CARRIED FORWARD FROM 2013 TO 2014	82
TOTAL NUMBER OF COMPLAINTS DEALT WITH IN 2014	188
TOTAL NUMBER OUTSTANDING AT DECEMBER 31, 2014	66

New Complaints per Council

	ADJUSTERS	GENERAL	LIFE	COMPANY
TOTAL COMPLAINTS	19	75	73	5

Disciplinary Action Taken by Councils

ACTION	ADJUSTERS	GENERAL	LIFE
Refuse New Applications			8
Refuse Reinstatement			
Refused Advance Level	2		
Fines	1	19	12
Suspension			
Suspension and Fine		1	1
Revocation			1
Revocation and Fine			
TOTAL	3	20	22

A complete breakdown by individual Council providing type of complaint, status and method of disposition is attached.

During the preparation of the Annual Report there were 12 cases identified from previous years where a coding error at the time of closing the file caused the file to be included in both the count of files closed and those carried forward. The errors are reflected in the number of files carried forward from 2013 to 2014.

Appendix D - Life Insurance Council Complaints

REPLACEMENT NOT COMPLETED	2*	HOLDING OUT ISSUES	5*
Not Substantiated	2	Administrative Caution	5
CONDUCT/MISCONDUCT	35*	LICENSE OR OTHER OCCUPATION	21*
Not Substantiated	20	Not Substantiated	3
Fine by Council	3	Report to Council No Action	10
Administrative Caution	4	Refused New License Application	8
Reported to Other Authority	1	Carried Forward to 2015	2
Stop Code	2		
Warning Code	4	NON-DISCLOSURE ISSUES (OTHER THAN	7*
Suspension	1	REPLACEMENT)	
Carried Forward to 2015	19	Fine by Council	2
		Fine by Statement of Fact	3
COVERAGE DIFFERENCES	1*	Suspension	2
Not Substantiated	1	Carried Forward to 2015	1
PREMIUM OR DEPOSIT PROBLEMS	1*		
Reported to Other Authority	1		
UNLICENSED SOLICITATION	10*		
Not Substantiated	5		
Fine by Statement of Fact	2		
Administrative Caution	2		
Closed by Negotiation	1		
Carried Forward to 2015	4		

*Denotes number of files concluded, not number of files opened in 2014

Appendix E - General Insurance Council Complaints

CONDUCT/MISCONDUCT	35*	CLAIMS PROBLEMS	2*
Not Substantiated	16	Not Substantiated	1
Fine by Council	5	Closed by Negotiation	1
Complainant in Error	2	Carried Forward to 2015	1
Administrative Caution	8		
Closed by Negotiation	1	UNLICENSED SOLICITATION	18*
Reported to Other Authority	1	Not Substantiated	3
Stop Code	1	Fine by Council	8
Suspension	1	Fine by Statement of Fact	2
Carried Forward to 2015	19	Suspension and fine	1
		Administrative Caution	4
COVERAGE DIFFERENCES	9*	Carried Forward to 2015	4
Not Substantiated	6		
Administrative Caution	1	HOLDING OUT ISSUES	5*
Closed by Negotiation	1	Not Substantiated	1
Reported to Other Authority	1	Administrative Caution	3
		Suspension	1
MISQUOTES	1*		
Not Substantiated	1	LICENSE OR OTHER OCCUPATION	3*
		Report to Council No Action	3
PREMIUM OR DEPOSIT PROBLEMS	6*	Carried Forward to 2015	1
Not Substantiated	2		
Closed by Negotiation	4	NON-DISCLOSURE ISSUES (OTHER THAN REPLACEMENT)	2*
Carried Forward to 2015	3	Fine by Statement of Fact	2
		Carried Forward to 2015	3

*Denotes number of files concluded, not number of files opened in 2014

Appendix F - Insurance Adjusters' Council Complaints

CONDUCT/MISCONDUCT	4*
Not Substantiated	2
Closed by Negotiation	1
Reported to Other Authority	1
Carried Forward to 2015	2
CLAIMS PROBLEMS	7*
Not Substantiated	6
Reported to Other Authority	1
UNLICENSED SOLICITATION	5*
Not Substantiated	1
Fine by Statement of Fact	1
Administrative Caution	3
Carried Forward to 2015	6
LICENSE OR OTHER OCCUPATION	3*
Report to Council No Action	1
Refused New License Application	1
Refused Advanced Level	1

*Denotes number of files concluded, not number of files opened in 2014

Appendix G - Company Complaints

CONDUCT/MISCONDUCT

WARRANTY	2*
Report to Superintendent	2
Carried Forward to 2015	1
AUTOMOBILE GENERAL	1*
Report to Other Authority	1
CREDITOR ACCIDENT & SICKNESS	1*
Report to Superintendent	1

LICENSED/UNLICENSED

INCIDENTAL TYPES	2*
Complaint Resolved by Negotiation	2

*Denotes number of files concluded, not number of files opened in 2014

Appendix H - Appeals to the Appeal Board - 2014

During the 2014 year, six (6) appeals were before Appeal Board Panels. The disposition of those matters is as follows:

Number of Appeals	Decision
2	Dismissed
3	Altered
1	Allowed

The appeals that were heard by the Appeal Panel produced the following results:

Dismissed

In the first case, the Appeal Panel upheld the decision of the Council and awarded the appeal fee to the Council

In the second case, the Appeal Panel upheld the decision of the Council that the license(s) not be issued and returned the appeal fee to the appellant

Altered

In the first case, the Appeal Panel altered the decision of the Council for a suspension of three (3) months to a suspension of two (2) weeks and awarded the appeal fee to the Council

In the second case, the Appeal Panel altered the decision of the Council for a suspension of three (3) months to a suspension of two (2) weeks to be served concurrently with the first case and awarded the appeal fee to the Council

In the third case, the Appeal Panel settled with the appellant by way of an Agreed Statement of Fact and Joint Submission that upheld the \$1000.00 penalty but altered the suspension from three (3) months to two (2) months, the appeal fee was returned to the appellant

Allowed

In this case, the Appeal Panel ordered that the license(s) be issued based on the new evidence presented at the appeal and the appeal fee was split between the Council and the appellant

Four further matters were under appeal and pending as of December 31, 2014

Appendix I - Financial Statements - 2014

Financial Statements of

**ALBERTA INSURANCE
COUNCIL**

Year ended December 31, 2014



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Members of Alberta Insurance Council

We have audited the accompanying financial statements of Alberta Insurance Council, which comprise the statement of financial position as at December 31, 2014, the statements of operations, changes in net assets and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Insurance Council as at December 31, 2014, and its results of operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

April 16, 2015

Edmonton, Canada

ALBERTA INSURANCE COUNCIL

Statement of Financial Position

December 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 5,573,234	\$ 5,844,722
Accounts receivable	23,482	21,916
Prepaid expenses	85,525	56,807
	<u>5,682,241</u>	<u>5,923,445</u>
Capital assets (note 3)	1,043,765	1,121,314
	<u>\$ 6,726,006</u>	<u>\$ 7,044,759</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 446,975	\$ 425,059
Deferred license, assessment, and continuing education fee revenue (note 4)	2,355,184	2,251,316
	<u>2,802,159</u>	<u>2,676,375</u>
Asset retirement obligation (note 5)	64,239	63,630
Deferred rent and tenant inducements (note 6)	469,096	496,020
	<u>3,335,494</u>	<u>3,236,025</u>
Net assets:		
Invested in capital assets	640,758	664,281
Unrestricted	2,749,754	3,144,453
	<u>3,390,512</u>	<u>3,808,734</u>
	<u>\$ 6,726,006</u>	<u>\$ 7,044,759</u>

See accompanying notes to financial statements.

On behalf of the Board:



Robert Bhatia Director



Ronald Gilbertson Director

ALBERTA INSURANCE COUNCIL

Statement of Operations

Year ended December 31, 2014, with comparative information for 2013

	2014 Budget	2014	2013
Revenue:			
License, assessment, examination and continuing education fees	\$ 4,956,000	\$ 5,379,746	\$ 5,030,713
Interest and other	60,000	58,010	68,802
	5,016,000	5,437,756	5,099,515
Expenses:			
Manpower (note 7)	3,300,000	3,303,429	2,900,198
Occupancy and premises	754,000	768,776	687,483
Amortization of capital assets	340,000	333,384	374,669
Councils, boards and committees (note 8)	370,000	394,973	405,913
Software and computer	515,000	343,867	453,552
Office and administration	255,000	218,995	211,967
Professional fees	190,000	181,210	206,938
Communications	161,000	160,059	165,868
Travel	130,000	151,285	117,551
Gain on disposal of capital assets	-	-	(34)
	6,015,000	5,855,978	5,524,105
Deficiency of revenue over expenses	\$ (999,000)	\$ (418,222)	\$ (424,590)

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Changes in Net Assets

Year ended December 31, 2014, with comparative information for 2013

	Invested in capital assets	Unrestricted	2014	2013
Net assets, beginning of year	\$ 664,281	\$ 3,144,453	\$ 3,808,734	\$ 4,233,324
Deficiency of revenue over expenses	-	(418,222)	(418,222)	(424,590)
Amortization of capital assets	(333,384)	333,384	-	-
Amortization of deferred tenant inducements	54,635	(54,635)	-	-
Accretion of asset retirement obligation	(609)	609	-	-
Purchase of capital assets	256,053	(256,053)	-	-
Proceeds on sale of capital assets	(218)	218	-	-
Net assets, end of year	\$ 640,758	\$ 2,749,754	\$ 3,390,512	\$ 3,808,734

Invested in capital assets consists of the following:

	2014	2013
Capital assets	\$ 1,043,765	\$ 1,121,314
Asset retirement obligation	(64,239)	(63,630)
Deferred tenant inducements	(338,768)	(393,403)
Invested in capital assets	\$ 640,758	\$ 664,281

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (418,222)	\$ (424,590)
Items not involving cash:		
Accretion of asset retirement obligation	609	610
Amortization of deferred tenant inducements	(54,635)	(70,208)
Recognition of deferred rent	27,711	(2,130)
Amortization of capital assets	333,384	374,669
Gain on disposal of capital assets	-	(34)
(Increase) decrease in accounts receivable	(1,566)	20,768
(Increase) decrease in prepaid expenses	(28,718)	49,233
Increase in accounts payable and accrued liabilities	21,916	59,836
Increase in deferred license and assessment fee revenue	103,868	430,521
	(15,653)	438,675
Capital activities:		
Purchase of capital assets	(256,053)	(283,109)
Proceeds on sale of capital assets	218	905
	(255,835)	(282,204)
(Decrease) increase in cash and cash equivalents	(271,488)	156,471
Cash and cash equivalents, beginning of year	5,844,722	5,688,251
Cash and cash equivalents, end of year	\$ 5,573,234	\$ 5,844,722

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements

Year ended December 31, 2014

Authority and purpose:

The Alberta Insurance Council (the "Council") operates under the authority of the Insurance Act, Chapter 1-3, Revised Statutes of Alberta 2000, as amended. As a not-for-profit organization under the Income Tax Act, the Council is not subject to either federal or provincial income taxes.

The Council provides administration services to the Life Insurance, General Insurance and Insurance Adjusters Councils. These Councils are responsible for enforcing the provisions of the Insurance Act and Regulations for their segments of the insurance industry.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the 4200 standards which apply to government not-for-profit organizations. The Council's significant accounting policies are as follows:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposits, which are highly liquid with original maturities of less than three months from the date of acquisition. These financial assets are convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(b) Revenue recognition:

License and assessment fees are recognized as revenue on a straight-line basis over the term of the license and assessment. Examination fees are recognized at the time the related exam is held. Continuing Education (CE) course approval fees are recognized upon submission to the Continuing Education Accreditation Committee. CE provider fees are recognized on a calendar year basis. License and assessment fees received but not yet recognized as revenue are recorded as deferred licence and assessment fee revenue.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(c) Capital assets and amortization:

Capital assets consisting of furniture and office equipment, leasehold improvements, computer equipment and software are recorded at cost, less accumulated amortization. Amortization is provided using the straight-line method over their estimated useful lives as follows:

Asset	Rate
Furniture and office equipment	3 - 10 years
Computer equipment	3 - 7 years
Computer software	3 years
Leasehold improvements	Term of lease
Telephone equipment	3 - 5 years

(d) Examination development costs:

Costs of development of examination questions are expensed as incurred.

(e) Tenant inducements, deferred rent and asset retirement obligation:

Tenant inducements associated with leased premises are amortized on a straight-line basis over the term of the related lease and recognized as a reduction of rent recorded in occupancy and premises expenses.

Rent expense is recognized on a straight-line basis over the lease term. Deferred rent comprises the aggregate difference in the rental expense incurred on a straight-line basis over the lease term and the actual rent charged.

The asset retirement obligation associated with leased premises is recorded at its discounted value, and is amortized over the term of the related lease. The associated accretion expense is included with occupancy and premises expenses.

(f) Contributed services:

The work of the Council is dependent on the voluntary services of members. The value of donated services is not recognized in these financial statements.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. As the Council does not have any unrealized changes in fair value, a statement of remeasurement gains and losses has not been presented.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

(h) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts of capital assets and asset retirement obligations. Actual results could differ from those estimates.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

2. Cash and cash equivalents:

Included in cash and cash equivalents is an amount of \$4,055,378 (2013 - \$4,954,795) invested in the Consolidated Investment Trust Fund (the CCITF). The CCITF is managed by the Government of Alberta with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The average interest rate during the year ended December 31, 2014 was 1.19% (2013 - 1.21%).

3. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and office equipment	\$ 444,801	\$ 269,133	\$ 175,668	\$ 194,087
Computer equipment	572,616	383,482	189,133	185,251
Computer software	1,385,856	1,158,008	227,849	248,162
Leasehold improvements	1,063,221	616,371	446,850	492,338
Telephone equipment	5,233	968	4,265	1,476
	\$ 3,471,727	\$ 2,427,962	\$ 1,043,765	\$ 1,121,314

4. Deferred license, assessment, and continuing education fee revenue:

	2014	2013
License	\$ 2,241,243	\$ 2,136,067
Assessment	85,125	86,625
Continuing education	28,816	28,624
	\$ 2,355,184	\$ 2,251,316

A single annual renewal date of the terms of license was implemented effective July 1, 2014. The terms commence July 1 and remain in effect until June 30 of the following year.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

5. Asset retirement obligation:

The Council is required by the terms of its leases for premises in Edmonton and Calgary to remove improvements made to these premises upon termination of the leases. It is the opinion of management that it is highly probable that the Council will be required to remove improvements made to its Edmonton premises, and has recorded an asset retirement obligation and leasehold improvements for the discounted value of the estimated removal costs, using the discount rate of 0.94%. Amortization of \$6,031 is included in amortization of capital assets, and the accretion expense in the amount of \$609 has been included with occupancy costs. The undiscounted asset retirement obligation is \$68,000 as at December 31, 2014.

Management has estimated the cost to remove improvements to its Calgary premises would not be material and believes the probability of incurring these costs is low. Accordingly, management has not recorded either an asset retirement cost or asset retirement obligation for the Calgary location.

The estimated carrying value of the Edmonton leasehold improvement is \$364,679 at December 31, 2014 (2013 - \$424,007).

6. Deferred rent and tenant inducements:

Deferred rent and tenant inducements consist of the following:

	2014	2013
Deferred rent	\$ 130,328	\$ 102,617
Deferred tenant inducements	338,768	393,403
	<u>\$ 469,096</u>	<u>\$ 496,020</u>

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

7. Manpower:

	Full Time Employees	Salary ^(a)	Benefits and other ^(b)	2014 Total
Chief Executive Officer	1	\$ 263,915	\$ 50,410	314,325
Chief Operating Officer	1.4	309,260	154,858	395,068
Other staff	21.6	2,135,501	389,485	2,594,036
	24	\$ 2,708,676	\$ 594,753	3,303,429

	Full Time Employees	Salary ^(a)	Benefits and other ^(b)	2013 Total
Chief Executive Officer	1	\$ 268,299	\$ 46,503	314,802
Chief Operating Officer	1	221,799	46,759	268,558
Other staff	21.5	1,961,374	355,464	2,316,838
	23.5	\$ 2,451,472	\$ 448,726	2,900,198

(a) Salary includes regular base pay, bonuses and overtime.

(b) Benefits and other includes employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, group life insurance, long and short-term disability plans and vacation pay, and recruitment costs.

Employees of the Council are specifically excluded from enrolment in the Province of Alberta's Public Service Plan and the Province of Alberta's Management Employees Pension Plan. The Council employees are also not included in any of the Province of Alberta's employee benefits plans.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

8. Councils, Boards and Committees:

(a) The following amounts are included in Councils, Boards and Committees expenses:

	2014	2013
Councils and Council Committees	\$ 257,797	\$ 241,273
Appeal Boards	63,093	100,205
Continuing Education Accreditation Committee	74,083	64,435
	\$ 394,973	\$ 405,913

The Minister of Finance, responsible for the Insurance Act, has appointed the Continuing Education Accreditation Committee, provided for in Section 29 of the Insurance Agents and Adjusters Regulation. The Council funds the operations of and provides administrative services to the Continuing Education Accreditation Committee.

(b) Per diem payments of Council Members:

The following amounts are included in Councils, Boards and Committee expenses:

	Members #	2014 ^(c) \$	Members #	2013 ^(c) \$
Councils ^(a)				
Alberta Insurance Council - Chair ^(b)	1	22,000	1	21,675
Other - Chairs	14	63,269	14	105,363
Members	41	154,153	37	131,366
Total		239,422		258,404

(a) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council, the Audit Committee, the Appeal Boards and the Continuing Education Accreditation Committee.

(b) This includes per diem payments made for attendance at Alberta Insurance Council, Audit Committee, and the Council chair annual stipend.

(c) All per diem payments made to members of Councils, Committees and Boards are paid by the Council out of fees received from insurance licenses. This includes public members appointed by the Lieutenant Governor in Council, as well as Continuing Education Accreditation Committee members appointed by the Minister of Finance pursuant to the Government Organization Act.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

9. Commitments:

The Council is committed under existing lease agreements and contracted services for operating lease payments. The annual lease payments over the next five years and thereafter are as follows:

2015	\$	389,104
2016		412,188
2017		423,626
2018		432,152
2019		440,678
Thereafter		703,117

The Council is also committed to a purchase of computer equipment and a related servicing contract in the amount of \$130,200, to be incurred in January 2015.

10. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Council is exposed to credit risk with respect to its accounts receivable.

The Council assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Council at December 31, 2014 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2013.

(b) Liquidity risk:

Liquidity risk is the risk that the Council will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Council manages its liquidity risk by monitoring its operating requirements. The Council prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There have been no significant changes to the liquidity risk exposure from 2013.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2014

10. Financial risks and concentration of credit risk (continued):

(c) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Council to cash flow interest rate risk. The Council is exposed to this risk through its interest bearing deposit in the CCITF.

There have been no significant changes to the interest rate risk exposure from 2013.

11. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.