

People, Relationships, Community

are at the **heart** of

LAWYERS MUTUAL



LAWYERS MUTUAL Annual Report 2014

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## President's Message

Dear Loyal Policyholders:

I am pleased to once again be able to report a very successful year for Lawyers Mutual. Amid very challenging economic and insurance market conditions, we were able to again deliver very strong financial results and again exceeded our financial targets. As a result, we are pleased to once again share that success with you. During 2015, you will receive a dividend check equal to 10% of the final premium paid on your 2014 policy. This is the fourth consecutive year in which we've declared and paid a dividend, and with this nearly \$1.75 million dividend, will represent nearly \$5 million to policyholders during that time.

I'm a numbers person and could easily continue on about our financial results and capital strength, filling several pages with numbers, ratios, comparisons and analyses. However, in the remainder of this letter I want to focus on Lawyers Mutual's employees.

If I were to describe our employees in a single word, it would be passionate. Each and every one of us at Lawyers Mutual is passionate about providing the best possible service to our policyholders, however we can, whether it involves underwriting, claims, risk management, client services or accounting. We do more than any of our competitors, and we do it better because we have but one focus, and that's you, our policyholders.

Quite simply, we are all passionate about what we do for you, our policyholders, and are focused on making a positive difference in your practice. If you've spoken to someone at Lawyers Mutual, you'll know exactly what I'm talking about.



DAN ZUREICH | PRESIDENT & CEO

*Quite simply, we are all passionate about what we do for you, our policyholders, and are focused on making a positive difference in your practice.*



WILL GRAEBE | VICE-PRESIDENT, CLAIMS

*Early reporting of potential cases by insureds enables us to engage in claims repair sooner, directly reducing the time our policyholders must spend on such matters and contributing to our bottom line success.*

## Year in Review - Claims

Several factors work together to produce the success of the Lawyers Mutual claims department: early notice and cooperation from policyholders, knowledgeable staff, our claim repair program and working together with our insureds to resolve disputes.

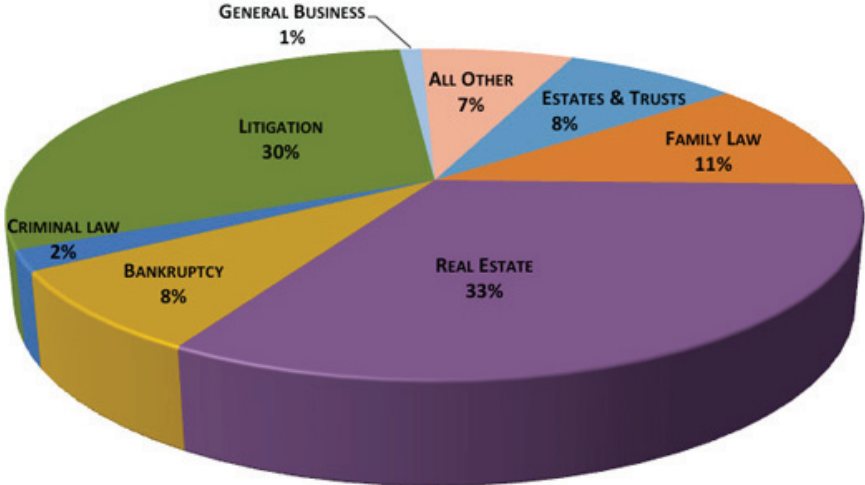
- For more than 30 years, our claim repair program has helped hundreds of attorneys who reported perceived problems early in litigation, real estate, commercial transactions, family law, tax, bankruptcy and estate planning matters.
- Early reporting of potential cases by insureds enables us to engage in claims repair sooner, directly reducing the time our policyholders must spend on such matters and contributing to our bottom line success.
- Years of experience among our in-house attorneys provides benefits to our policyholders in many areas of practice where claims usually arise. If a claim is made from outside our areas of expertise, we solicit specific help or advice from practicing experts to reach the best results for our insureds.

When potential cases are reported early and given time to work through claim repair activities, our claims department is routinely successful in obtaining favorable resolutions. In order to maintain this level of success, policyholders need to be aware of situations that repeatedly result in malpractice claims, such as:

- Clients who have unreasonable expectations.
- Clients who want fee reductions via the unbundling of services (such as reduced services provided by attorneys who may allow clients to handle certain activities themselves).
- The acceptance of out-of-state cases that may have shorter statutes of limitation or where attorneys cannot obtain proper service or jurisdiction.
- Failing to honor liens by medical providers and others on settlement funds from personal injury claims.
- Venturing into unfamiliar areas of practice before seeking the advice of attorneys who have specific experience in that area.

# Claims Chart

2014 CLAIMS BY AREA OF PRACTICE





CAMILLE STELL | VICE-PRESIDENT,  
CLIENT SERVICES

*Serving our Community of Insureds: \$1.7 million dividend returned to policyholders, equal to 10% of premium paid on 2014 policies.*

## Year in Review - Client Services

People, relationships and community are at the heart of Lawyers Mutual.

Take a look at some of our 2014 initiatives.

### **Serving our Community of Insureds**

- \$1.7 million dividend returned to policyholders, equal to 10% of premium paid on 2014 policies
- Timely and practical free CLE programs
- Toolkits, forms, checklists, sample letters, risk management articles
- Monthly e-newsletter, weekly blog posts, timely news alerts
- Toll free risk management hotline
- New Succession Planning CLE program

### **Serving our Legal Community through volunteer efforts**

- ABA Standing Committee on Lawyers Professional Liability
- International Association of Defense Counsel
- NC Bar Association Law Practice Management Council
- NC Bar Association Technology Committee
- NC Bar Association Transitioning Lawyer Commission
- NC State Bar Ethics Committee
- Wake County Bar Association Education Committee
- Wake Women Attorneys Board of Directors

### **Serving our Community at Large**

- EarthShare
- Friends of the Guardian ad Litem Backpack Program
- Haven House Services
- Inter-Faith Food Shuttle
- Little Pink Houses of Hope
- Raleigh Rescue Mission
- Red Cross
- Ronald McDonald House of Durham
- St. Baldrick's Foundation
- North Carolina Food Bank
- St. Jude Children's Research Hospital
- The Salvation Army of Wake County
- Triangle Literacy Council
- United Way
- Wounded Warrior Project

We'd love to spend time getting to know you. Attend one of our free CLE programs and introduce yourself to us or invite us to speak to your law firm or local bar association.

*Camille Stell*

## Year in Review - Underwriting

The Underwriting Department closely reviews new and re-issue applications submitted by law firms, and assesses risk and premium for each firm's upcoming policy year. And, throughout the year, the Underwriting Department continues to service these policies: answering questions about premium or coverage, finding a policy document, changing limits of liability, adding or removing a lawyer from the policy, and so on. The underwriters work with new attorneys to provide the coverage they need, and work with existing policyholders as their needs change. We currently underwrite coverage for more than 7,800 attorneys, but we are never too busy to take a telephone call or respond to an email.

With commercial carriers moving in and out of the lawyers market in North Carolina during the last few years, we are pleased to see that our base of loyal policyholders continues to increase, and we are receiving new applications every day, from new lawyers and from former lawyers who want to return to Lawyers Mutual because of the exemplary service we provide. We are also excited to announce again that all policyholders of record as of December 31, 2014, will receive a 10% dividend in 2015. Returning to this level of profitability is in large part due to the Underwriting Department's continuing efforts to improve risk assessment and pricing. Premiums are now largely based on our historical experience in each practice area as well as careful, individualized firm assessment.

Lawyers Mutual will always be here to provide fair, reasonable, and reliable insurance for lawyers in North Carolina. Insuring NC lawyers is all that we do, and we do it right. We know that your professional liability insurance is the most important investment you will ever make in your law practice. Our mission is to remain financially strong so that Lawyers Mutual will be here for you when you need us, today and in the future. And when we have a good year, as we did in 2014, we are able to return capital to you, our valued policyholders.



RENEE RIGGSBEE | VICE-PRESIDENT,  
UNDERWRITING

*Lawyers Mutual will  
always be here to provide  
fair, reasonable, and  
reliable insurance  
for lawyers in North  
Carolina.*

## Financials - Policyholders' Information

### FINANCIAL SUMMARY

The following information summarizes the financial position and operations of Lawyers Mutual Liability Insurance Company of North Carolina for the two years ending December 31, 2014. This information is based on statutory accounting principles codified by the National Association of Insurance Commissioners and subject to any deviations prescribed or permitted by the North Carolina Department of Insurance. A copy of the Company's 2014 Annual Statement is available upon request.

### National and North Carolina Business Environment

The economic measures of the general U.S. economy and the state of N.C. in particular exhibited both improvements and declines over the past five years. Unusually high liquidity from the Fed's Quantitative Easing programs has caused certain assets such as equity stocks to grow, whereas wage growth has been stagnant at best. The reported national unemployment rate has steadily declined but on the other hand the percentage of the total population actively at work is at a low level that hasn't been seen since March 1978. With the Fed's Near-Zero Interest Rate Policy in place, the Company and its insureds are faced with a slowly improving business environment but average investment income yields that are below long term yields and mixed inflationary effects. The ability to financially navigate these times with such disparate signals is critical to Lawyers Mutual's ability to continue providing practicing attorneys of North Carolina with the professional liability coverage they need. The Company approaches the challenges mentioned above with conservative diversification of its investments and prudent underwriting. When sufficient positive results yield underwriting and surplus gains, the Company shares the results with insureds through dividends.

### Lawyers Mutual's Business Environment

Lawyers Mutual has experienced a significant decline in the number of claims reported and activated over the past two year. However, with business activity tentatively increasing, the likelihood of a greater number of future reported claims follows. The declining number of claims reported to the Company during 2013 and 2014 has enabled Lawyers Mutual to record underwriting gains that, in turn, have enabled the payment of policyholder



ROBERT NEAL | VICE-PRESIDENT, FINANCE,  
TREASURE & CFO

*The Company continues to approach the current business environment with conservatism while striving to provide its insureds with coverage at good value and policyholder dividends when justified by underwriting results and surplus position.*



dividends in both years. The Company continues to approach the current business environment with conservatism while striving to provide its insureds with coverage at good value and policyholder dividends when justified by underwriting results and surplus position.

### **Summary of Financial Results**

Lawyers Mutual recorded a \$6.6 million underwriting gain and \$9.3 million net income in 2014, approximately the same underwriting gain as in 2013 and a \$3 million increase in net income due largely to realized gains on sales of investments. The Company's unassigned surplus, as of year-end, was approximately \$66.1 million representing a \$7.3 million increase over the prior year-end. This strong level of surplus has allowed the Company to endure declining bond investment yields. Lawyers Mutual reported total revenues (comprised of premiums, investment gains and other income) of \$20.1 million during 2014. Revenues were approximately \$2.8 million higher than the prior year due to investments diversification and resulting capital gains partially offset by a small decline in premiums charged. Claims incurred in 2014 increased 2.9% over the prior year. Lawyers Mutual experienced a 51.8 percent loss ratio and a 73.1 percent combined ratio (loss ratio + expense ratio excluding dividends) during the calendar year ended December 31, 2014. Lawyers Mutual's investment income, from all sources, increased approximately \$507,000 during 2014. Excluding affiliated investment income, Lawyers Mutual's investment income improved due to re-allocations of investments from value style equities to yield focused investments such as quality preferred stocks, dividend focused common stocks and tax advantaged municipal bonds. The Company's investments are weighted heavily toward investment grade bonds with relatively short effective maturities. The bond allocations are designed to accommodate claims payout patterns and protect the portfolio against large potential future increases in interest rates that would cause bond market values to decline.

### **Policyholder Dividends**

Based on the positive underwriting results and improvements in surplus position described above, the Company declared dividends of 7.5% for 2013 and 10% for 2014, payable upon the expiration of year-end in-force claims-made policies. The 10% or \$1.7 million policyholder dividend declared at the end of 2014 represented a 33% dividend rate increase over the prior year. This is the fourth consecutive year of policyholder dividends and is part of the \$5.7 million of policyholder dividends declared over the past ten years.



## Financials

### *Statutory Statements of Income*

Years Ended December 31st	2014	2013
<i>Underwriting income:</i>		
<i>Premiums earned</i>	\$ 14,079,302	\$ 14,313,160
<i>Deductions:</i>		
<i>Losses incurred</i>	1,494,821	333,566
<i>Loss adjustment expenses incurred</i>	2,724,901	3,765,208
<i>Other underwriting expenses incurred</i>	3,282,722	3,562,778
	<u>7,502,444</u>	<u>7,661,552</u>
<i>Net underwriting gain / (loss)</i>	<u>6,576,858</u>	<u>6,651,608</u>
<i>Investment income:</i>		
<i>Net investment income earned</i>	2,427,509	1,920,278
<i>Realized capital gains / (losses) - net of tax ( 2014: \$1,753,000; 2013: \$424,000 )</i>	3,402,616	822,414
<i>Net investment gain</i>	<u>5,830,125</u>	<u>2,742,692</u>
<i>Other income / (expense):</i>		
<i>Loss from balances charged off</i>	(14,790)	(6,216)
<i>Finance and service charges not included in premiums</i>	220,465	221,261
<i>Other income</i>	10,904	15,968
<i>Net other income</i>	<u>216,579</u>	<u>231,013</u>
<i>Income before dividends to policyholders and federal income taxes</i>	12,623,562	9,625,313
<i>Dividends to policyholders</i>	1,716,459	1,278,009
<i>Income before federal income taxes incurred</i>	<u>10,907,103</u>	<u>8,347,304</u>
<i>Federal income taxes incurred</i>	1,635,709	2,081,805
<i>Net income</i>	<u>\$ 9,271,394</u>	<u>\$ 6,265,499</u>

## Financials

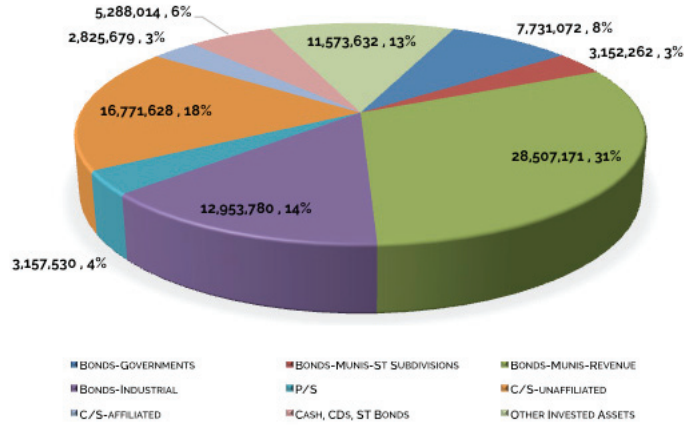
### *Statutory Statements of Admitted Assets, Liabilities and Policyholders' Surplus*

Admitted Assets	December 31,	
	2014	2013
<b>Cash and investments:</b>		
<i>Bonds, at amortized cost</i> ( market 2014: \$52,344,292; 2013: \$50,932,358 )	\$ 50,122,899	\$ 49,666,128
<i>Bonds, at market</i> ( amortized cost 2014: \$0; 2013: \$1,453,085 )	-	1,407,612
<i>Preferred stocks, at amortized cost</i> ( market 2014: \$1,926,272; 2013: \$2,487,822 )	1,836,364	2,223,429
<i>Preferred stocks, at market</i> (amortized cost 2014: \$1,203,290; 2013: \$1,350,758 )	1,231,259	1,252,802
<i>Common stocks</i> ( cost 2014: \$14,638,779; 2013: \$11,392,053 )	19,597,306	18,661,074
<i>Cash and short-term investments</i>	5,288,014	5,220,247
<i>Other invested assets</i>	11,337,833	7,001,198
<i>Receivable for securities</i>	7,806	240,785
<b>Cash and investments</b>	<b>89,421,481</b>	<b>85,673,275</b>
<i>Interest and dividend income due and accrued</i>	608,005	598,264
<i>Premiums in course of collection</i>	2,141,698	2,076,835
<i>Reinsurance recoverables on claim payments</i>	25,557	17,271
<i>Other amounts receivable under reinsurance contracts</i>	902,746	525,234
<i>Current Net Federal income tax recoverable</i>	1,879,285	1,141,801
<i>Deferred Net Federal income tax asset</i>	-	-
<i>Receivable from subsidiary</i>	153,052	160,051
<i>Other</i>	58,497	138,662
<b>Total assets</b>	<b>\$ 95,190,321</b>	<b>\$ 90,331,393</b>

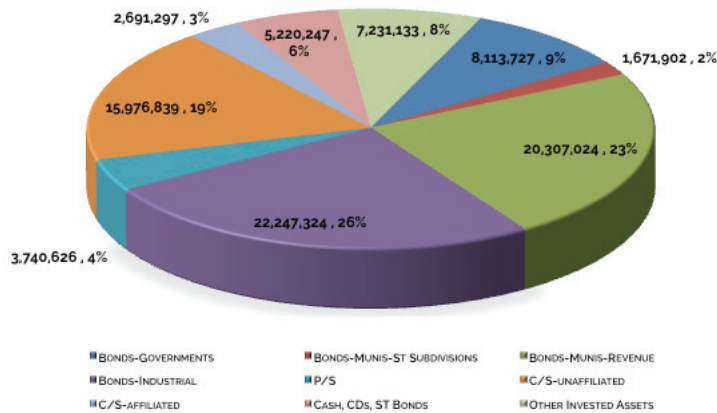
Liabilities and Policyholders' Surplus	December 31,	
	2014	2013
<b>Liabilities:</b>		
<i>Unpaid losses</i>	\$ 8,439,262	\$ 9,786,925
<i>Unpaid loss adjustment expenses</i>	8,330,299	10,238,950
<i>Taxes, licenses, fees and other expenses payable</i>	980,128	1,030,600
<i>Net Deferred Tax Liability</i>	626,899	641,373
<i>Unearned premiums</i>	6,491,492	6,481,502
<i>Advance premiums</i>	782,592	748,858
<i>Dividends declared and unpaid</i>	1,789,687	1,335,635
<i>Ceded reinsurance premiums payable, net of ceding commissions</i>	622,972	534,145
<i>Funds held by company under reinsurance treaties</i>	899,153	318,722
<i>Amounts withheld by company for account of others</i>	7,696	7,696
<i>Provision for reinsurance</i>	-	468
<i>Payable to parent, subsidiaries and affiliates</i>	-	139,700
<i>Payable for securities</i>	27,900	178,033
<i>Other</i>	89,612	105,073
<b>Total liabilities</b>	<b>29,087,692</b>	<b>31,547,680</b>

# Financials

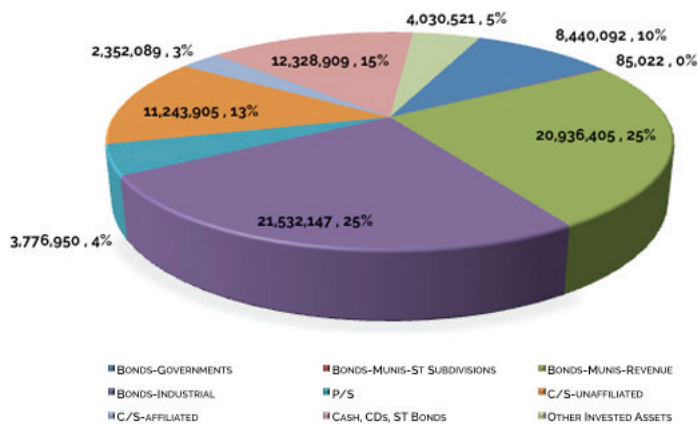
**CASH & INVESTED ASSETS - FAIR VALUE 12-31-2014**



**CASH & INVESTED ASSETS - FAIR VALUE 12-31-2013**



**CASH & INVESTED ASSETS - FAIR VALUE 12-31-2012**



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## Lawyers Insurance

With a nod to the late, great Paul Harvey, Lawyers Insurance is to Lawyers Mutual, the rest of the story.

Lawyers Mutual's financial strength and expertise helps lawyers avoid, fix or recover from career-threatening mistakes.

At Lawyers Insurance, we help North Carolina lawyers and law firms protect against a range of other risks to lawyers, their staff and business.

We offer a unique health plan, as administrator of the NC Bar Association Health Benefit Trust, to protect against injury and illness, along with other group benefits such as life and disability.

We protect a lawyer's or law firm's income through top-of-the-line disability protection.

We safeguard against the impact of a cyber breach with cyber liability insurance.

We assist lawyers and their clients with innovative settlement and trust solutions.

We help the transition to retirement with annuity planning, long term care protection and medicare supplement solutions.

We seek the right solution for each need. We listen, collaborate, and individualize.



WILLIAM STROUD | SENIOR VICE PRESIDENT

*At Lawyers Insurance,  
we help North Carolina  
lawyers and law firms  
protect against a range  
of other risks to lawyers,  
their staff and business.*



 **LAWYERS  
MUTUAL** | LIABILITY INSURANCE  
COMPANY OF  
NORTH CAROLINA