



# THINKING *FORWARD*

LAWYERS MUTUAL 2015 ANNUAL REPORT

## Table of Contents

---

President's Message	3
Year in Review	
Claims	4
Client Services	6
Underwriting	7
Financials	8
Board of Directors, Officers & Community Boards	13
Lawyers Insurance	15

## President's Message

Dear Loyal Policyholders:

Once again I am pleased to report a successful year for Lawyers Mutual and our policyholders. We met our targets for underwriting profit, investment income and surplus growth, which enabled us to declare a dividend for the fifth consecutive year. Including the nearly \$1 million dividend declared for 2015, we will have returned \$6 million to you since 2011. As your 2015 policies expire, you will receive a check equal to approximately 5.7% of the final premium paid on that policy.

The theme for our 2015 Annual Report is "Forward Thinking" and I believe it is appropriate for several reasons, one being that looking and thinking forward are an inherent part of the insurance business. In Underwriting, we use our historical data, tempered with our business judgment, to project losses and required premiums for future policies. Very early in the life of a claim, our claims attorneys must set aside capital to reflect the amounts we believe we will pay in the future for defending a claim and indemnifying a claimant. Client Services looks to identify changes and trends in claims, law practice management and the practice of law, and develop new ways to keep you informed about these changes and trends. One of Accounting's integral functions is to project future financial results, which is crucial to business planning and strategy. Last, but not least, is Information Technology.

There is no doubt that IT will continue to play a major role in shaping the future of the insurance industry. The same holds true at Lawyers Mutual. In 2016, IT will take center stage as we begin the process of replacing our aging enterprise system – a very exciting and challenging project in which many people will play important roles. After an extensive search, we have partnered with Insurance Systems Inc., to implement a more flexible, cost-effective system. A few of the primary objectives for the new system include improving analytics, functionality and policyholder interaction, creating efficiencies and allowing us to meet evolving policyholder needs.

While we believe this new enterprise system is an important step in positioning us for the future, we also appreciate that the practice of law and delivery of legal services have changed and will continue to change. The only real question is the pace of change. At Lawyers Mutual, we realize that in order to remain a relevant part of the legal community, we must continue to look ahead and try to understand how these changes will affect you so that we can provide meaningful solutions. After all, we want to be sure we are here tomorrow . . . and well into the future.



DAN ZUREICH | PRESIDENT & CEO

*At Lawyers Mutual, we realize that in order to remain a relevant part of the legal community, we must continue to look ahead and try to understand how these changes will affect you so that we can provide meaningful solutions.*



WILL GRAEBE | VICE-PRESIDENT, CLAIMS

*Our goal has always been to provide the highest level of service possible for our insureds.*

## Year in Review - Claims

In the Claims Department at Lawyers Mutual, we like to talk about how our deep roots and experience allow us to provide an unmatched level of service. We tout the fact that most of the significant legal malpractice appellate opinions in North Carolina were Lawyers Mutual cases argued by Lawyers Mutual defense counsel over the last 35 years. We often point to our longstanding involvement with and commitment to organizations like the Advocates for Justice, the North Carolina Association of Defense Attorneys, the North Carolina Bar Association and its various sections and so many other lawyer associations and organizations throughout the state. We can be proud of our past and the service we have provided to our insured lawyers. However, successes and accomplishments of the past mean nothing if a company fails to stay relevant and current for its customers. Just ask the shareholders and management of Blockbuster Video. At one time, Blockbuster was the king of video rental. When Blockbuster refused to adjust its business model to stay current with movie-by-mail service and later movie online service, the company failed. If we want to be here today and tomorrow, we can't make the same mistake.

So what are we doing in Claims to stay relevant and current for our insureds?

### **CLAIMS TRENDS AND STATUTORY AND CASE LAW DEVELOPMENTS.**

As the largest malpractice carrier in North Carolina, we have the unique ability to use our enterprise resource planning software system to capture legal malpractice claims data that shows us trends in malpractice claims. This allows us to give our insureds a heads-up when a certain area of practice becomes more vulnerable to claims. We also stay on top of statutory and case law developments that affect our insureds' practices. We make them aware of these changes and offer suggestions and solutions to avoid pitfalls and traps created by the changes. We have provided our insureds with alerts on issues ranging from changes to the medical malpractice pleading requirements to modifications in estate planning brought about by the new portability rules in the estate tax laws.

### **TECHNOLOGY.**

Those lawyers who were practicing when Lawyers Mutual was founded can remember the days of typewriters and carbon paper copies. Our greatest technology fear was running out of white-out. Today, lawyers must guard against much more substantial and invasive technological threats. Cyber criminals have made lawyers and law firms a primary target for money and confidential client information. We work hard to stay on top of those threats and notify our insureds as soon as possible through emergency alerts. We are

working with our Client Services Department to provide timely and informative seminars and resources to our insureds. We are also training our claims attorneys to understand how cyber crime works and what can be done to guard against attacks.

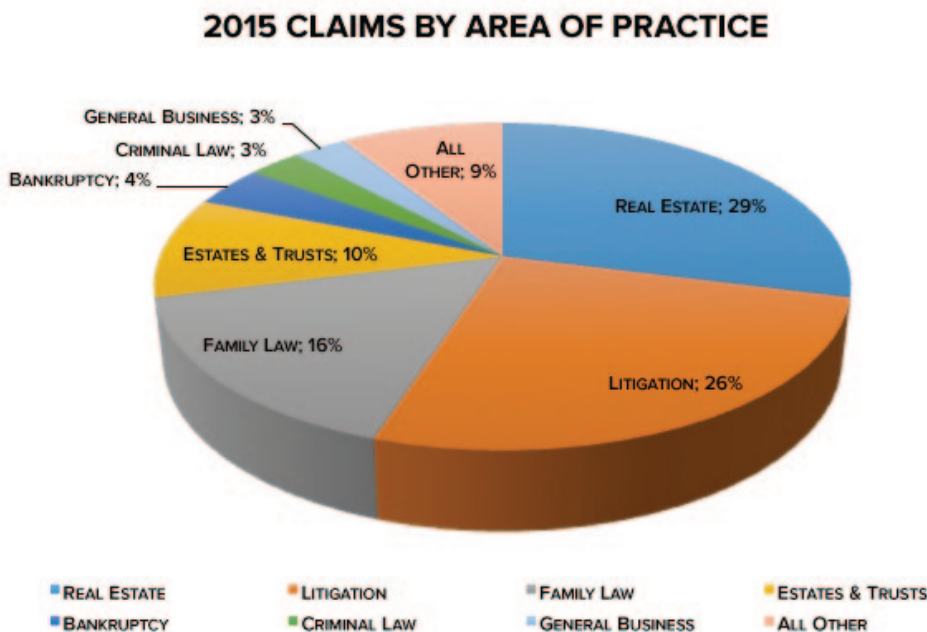
**HELP TEAM.**

North Carolina, like most states, has an aging lawyer population. When you combine increased life expectancy with the baby boomer phenomenon, you end up with a substantial increase in the number of senior lawyers practicing in our state. This presents a unique set of issues for these lawyers and the firms in which they work. Senior lawyers are at higher risk for disability and cognitive impairment. We decided that we needed to be prepared to respond to this situation, so our claims attorneys worked with Client Services and outside counsel to create the HELP Team to provide assistance to our insureds in emergency situations resulting from the death or disability of a lawyer or other event that prevents one of our insureds from continuing their practice. This is just one more way that we are assisting our insureds in response to the demographic changes that are occurring in the profession.

Our goal has always been to provide the highest level of service possible for our insureds. In 1978, that might have meant picking up a rotary dial phone to take an insured’s call and then promptly typing and sending out a letter. Today, it could mean sending out an e-mail alert to a targeted group of insureds or leveraging our database to provide helpful risk management advice to our insureds. And while we may use technology to our advantage, we will never stray from the personal, one-on-one service that we have always offered to our insureds.

---

## Claims Chart





CAMILLE STELL | VICE-PRESIDENT,  
CLIENT SERVICES

*Lawyers Mutual was forward thinking in the 1970's and we continue to be, reaching into the future to forecast the trends that will impact the company, our insureds and the profession.*

## Year in Review - Client Services

As an insurance company with a long history in North Carolina, we often tout our founding and our history with North Carolina lawyers. As an example of honoring our heritage, in 2015, we celebrated the 30th anniversary of John Hester's employment as a Lawyers Mutual claims attorney. One of the very earliest employees, John was around when there were two claims attorneys and they shared a desk and a rotary telephone. At that time, the concept of a company owned by lawyers for lawyers was new, some would even say visionary. John traveled across the country and helped other newly formed Bar-related insurance companies with guidance on starting a claims department.

Lawyers Mutual was forward thinking in the 1970's and we continue to be, reaching into the future to forecast the trends that will impact the company, our insureds and the profession.

As the practice of law is changing, we are responding — partnering with innovators in the profession to provide our insureds with valuable tools. We are asking, what will the practice of law look like in 5, 10, or 20 years? One area of interest — to Lawyers Mutual and the profession in general — is lawyer transitions. Slower hiring trends in law firms, coupled with new lawyers from an entrepreneurial generation, has given rise to a new law office model.

Baby boomers are thinking about their transition out of full-time careers. With succession planning, a strategic transition from established attorneys to the next generation occurs. Planned transitions allow the law practice to move forward and provide the benefit of mentoring for young lawyers. A new business model of selling law practices is gaining traction in North Carolina and nationally. At Lawyers Mutual, we are working with our founding members, and newest members, to educate and ease the transition process. We author articles, speak on succession planning and assist our insured firms with their transition plans.

We are dedicated to forward thinking, helping our insureds and our community of lawyers navigate the landscape.

We invite you to join in the discussion. Join us at one of our community programs or #FutureLaw.

## Year in Review - Underwriting

We underwrite coverage for more than 7,800 attorneys. The Underwriting Department continues to improve risk assessment and pricing adequacy through individualized underwriting by carefully reviewing applications, law firm websites, and other available information to understand the risks and needs of each policyholder. The Department continues to provide exceptional service to our policyholders throughout the year by timely responding to requests for policy information, answering questions about premium and coverage, and addressing the changing needs of our policyholders.

While commercial carriers continue to move in and out of the North Carolina market, and policyholders continue to retire from private practice, our base of policyholders remains stable, with new applications from recent law graduates, lawyers making lateral moves, and former policyholders wanting to return to Lawyers Mutual because of our exemplary service and commitment to the NC legal community.

We are again pleased to announce that all policyholders of record as December 31, 2015, will receive a 5.7% dividend in 2016. We are committed to returning capital to our loyal policyholders whenever financially feasible.

For 38 years, Lawyers Mutual has provided reasonable and reliable insurance for North Carolina attorneys. This is our only line of business, and we do it the best. We know that your professional liability insurance is the most important investment you make in your 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.



RENEE RIGGSBEE | VICE-PRESIDENT,  
UNDERWRITING

*We are again pleased to announce that all policyholders of record as December 31, 2015, will receive a 5.7% dividend in 2016. We are committed to returning capital to our loyal policyholders whenever financially feasible.*



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.*

## 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, 2015. 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 2015 Annual Statement is available upon request.

### ARE WE THERE YET?

Each year, management spends a significant amount of time projecting where the Company will be financially a year, two years and even three years down the road. The only certainty with projections is that actual results will be different to some extent. The past year, Lawyers Mutual's results of operations were positive and in line with our projections. The Company's surplus, a measure of the ability to continue offering quality professional liability coverage, improved by 4% during the year, somewhat lower than expected due to investment market valuation declines. Growing the Company's surplus via responsible underwriting and prudent investments continues to be management's goal.

### LAWYER'S MUTUAL BUSINESS ENVIRONMENT

Lawyers Mutual has experienced a significant decline in the number of claims reported and activated over the past five years and it appears that claim frequency is stabilizing after the extremely high counts experienced during the real estate recession. However, with business activity increasing, the likelihood of a greater number of future reported claims exists. Wells Fargo recently commented in its 2016 Economic Outlook that:

*Housing demand is gradually reviving as the housing market becomes unstuck. Buyers and sellers are becoming more comfortable with the state of the market.*

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 \$2.2 million underwriting gain and \$3.6 million net income in 2015, lower than the 2014 underwriting gain of \$6.6 million and the 2014 net income of \$9.3M. The Company's unassigned surplus, as of year-end, was approximately \$68.9 million representing a \$2.8 million increase over the prior year-end. This strong level of surplus enables the Company to endure a probable continuation of low investment yields and volatility in claims, among other various risks. Lawyers Mutual reported total revenues (comprised of premiums, investment gains and other income) of \$17.4 million during 2015. Revenues were approximately \$2.7 million lower than the prior year due to a reduction in realized gains on sale of investments of \$3.1 million. The reduction of realized gains in 2015 followed the completion of an investment diversification project begun in 2014 that required sale and reacquisition of investments.

Management expected an increase in claims incurred during 2015 and the Company did see an increase of \$3.8 million over the prior year. Included in this increase was a large single claim that went to policy limits as well as a moderate increase in overall claim counts. Lawyers Mutual experienced a 56.7 percent loss ratio and an 82.5 percent combined ratio (loss ratio + expense ratio excluding dividends) during the calendar year ended December 31, 2015. These strong ratios followed the even stronger favorable ratios from the previous year. Lawyers Mutual's investment income, from all sources, increased approximately \$169,000 during 2015. The Company's diversified investment portfolio contained modest allocations to energy partnerships that suffered value declines during the year that were partially offset by increased income and valuation increases in REIT investments. The overall total return on investments, net of fees, was a positive 1.12 percent for the year and exceeded a weighted average benchmark used to judge performance. Lawyers Mutual's investment income improved in 2015 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. As bonds held either mature or are called, the reinvestment of these funds are often at lower yields, challenging overall investment yields.

## **POLICYHOLDER DIVIDENDS**

Although surplus increased less than expected in 2015 the Company declared a 5.7% policyholder dividend for 2015 and a 10% policyholder dividend for 2014 payable upon the expiration of year-end in-force claims-made policies. This is the fifth consecutive year of policyholder dividends and is part of the \$7.5 million of policyholder dividends declared over the past twelve years.

## Financials

### *Statutory Statements of Income*

Years Ended December 31st	2015	2014
<i>Underwriting income:</i>		
<i>Premiums earned</i>	\$ 14,197,884	\$ 14,079,302
<i>Deductions:</i>		
<i>Losses incurred</i>	2,661,736	1,494,821
<i>Loss adjustment expenses incurred</i>	5,380,697	2,724,901
<i>Other underwriting expenses incurred</i>	3,991,427	3,282,722
	<u>12,033,860</u>	<u>7,502,444</u>
<i>Net underwriting gain / (loss)</i>	<u>2,164,024</u>	<u>6,576,858</u>
<i>Investment income:</i>		
<i>Net investment income earned</i>	2,596,252	2,427,509
<i>Realized capital gains / (losses) - net of tax ( 2015: \$106,861; 2014: \$1,753,000 )</i>	301,845	3,402,616
<i>Net investment gain</i>	<u>2,898,097</u>	<u>5,830,125</u>
<i>Other income / (expense):</i>		
<i>Loss from balances charged off</i>	(30,665)	(14,790)
<i>Finance and service charges not included in premiums</i>	273,087	220,465
<i>Other income</i>	27,014	10,904
<i>Net other income</i>	<u>269,436</u>	<u>216,579</u>
<i>Income before dividends to policyholders and federal income taxes</i>	5,331,557	12,623,562
<i>Dividends to policyholders</i>	979,524	1,716,459
<i>Income before federal income taxes incurred</i>	<u>4,352,033</u>	<u>10,907,103</u>
<i>Federal income taxes incurred</i>	782,820	1,635,709
<i>Net income</i>	<u>\$ 3,569,213</u>	<u>\$ 9,271,394</u>

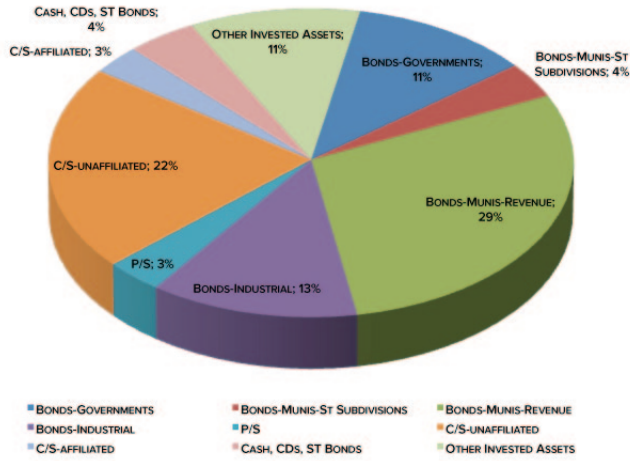
## Financials

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

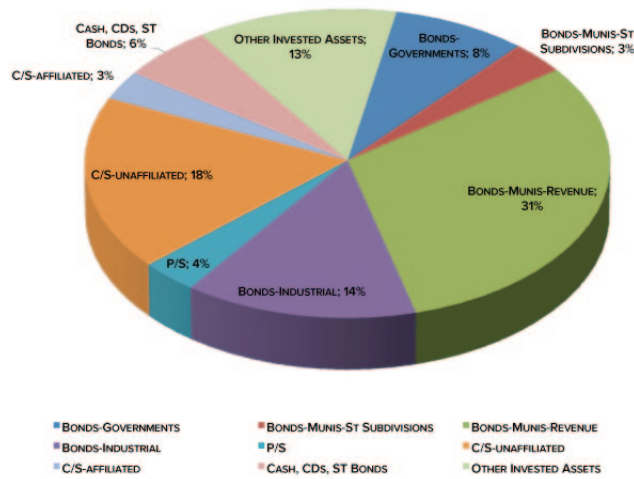
<b>Admitted Assets</b>	As of December 31,	
	<b>2015</b>	<b>2014</b>
<b><i>Cash and investments:</i></b>		
<i>Bonds, at amortized cost (market 2015: \$53,641,217; 2014: \$52,344,292)</i>	\$ 51,920,888	\$ 50,122,899
<i>Preferred stocks, at amortized cost (market 2015: \$1,955,331; 2014: \$1,926,272)</i>	1,849,150	1,836,364
<i>Preferred stocks, at market (amortized cost 2015: \$1,284,160; 2014: \$1,203,290)</i>	1,322,968	1,231,259
<i>Common stocks (cost 2015: \$18,420,988; 2014: \$14,638,779)</i>	23,231,545	19,597,306
<i>Cash and short-term investments</i>	4,130,676	5,288,014
<i>Other invested assets</i>	9,881,773	11,337,833
<i>Receivable for securities</i>	24,852	7,806
<b><i>Cash and investments</i></b>	<b>92,361,852</b>	<b>89,421,481</b>
<i>Interest and dividend income due and accrued</i>	656,128	608,005
<i>Premiums in course of collection</i>	3,038,207	2,141,698
<i>Reinsurance recoverables on claim payments</i>	136	25,557
<i>Other amounts receivable under reinsurance contracts</i>	624,891	902,746
<i>Current Net Federal income tax recoverable</i>	1,183,136	1,879,285
<i>Deferred Net Federal income tax asset</i>	246,378	-
<i>Receivable from subsidiary</i>	360,591	153,052
<i>Other</i>	61,949	58,497
<b><i>Total assets</i></b>	<b>\$ 98,533,268</b>	<b>\$ 95,190,321</b>
<b>Liabilities and Policyholders' Surplus</b>		
	<b>2015</b>	<b>2014</b>
<b><i>Liabilities:</i></b>		
<i>Unpaid losses</i>	\$ 8,212,593	\$ 8,439,262
<i>Unpaid loss adjustment expenses</i>	9,599,762	8,330,299
<i>Taxes, licenses, fees and other expenses payable</i>	874,698	980,128
<i>Net Deferred Tax Liability</i>	-	626,899
<i>Unearned premiums</i>	6,670,469	6,491,492
<i>Advance premiums</i>	886,584	782,592
<i>Dividends declared and unpaid</i>	1,088,349	1,789,687
<i>Ceded reinsurance premiums payable, net of ceding commissions</i>	671,206	622,972
<i>Funds held by company under reinsurance treaties</i>	1,440,774	899,153
<i>Amounts withheld by company for account of others</i>	7,696	7,696
<i>Payable for securities</i>	67,245	27,900
<i>Other</i>	129,872	89,612
<b><i>Total liabilities</i></b>	<b>29,649,248</b>	<b>29,087,692</b>
<b><i>Policyholders' Surplus:</i></b>		
<i>Total Policyholders' Surplus</i>	68,884,020	66,102,629
<b><i>Total liabilities and Policyholders' Surplus</i></b>	<b>\$ 98,533,268</b>	<b>\$ 95,190,321</b>

# Financials

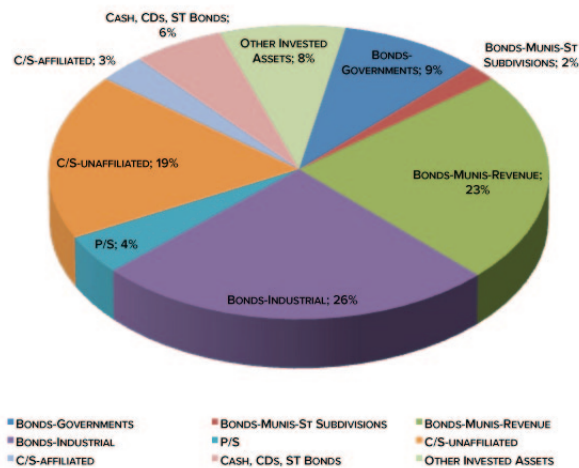
**CASH & INVESTED ASSETS - FAIR VALUE 12-31-2015**



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



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



# Board of Directors, Officers and Community Boards

## BOARD OF DIRECTORS

**G. Gray Wilson, Chairman**

*Wilson & Helms LLP  
Winston-Salem*

**John W. Babcock**

*Wall Babcock, LLP  
Winston-Salem*

**June L. Basden**

*Carruthers & Roth, PA  
Greensboro*

**Michael A. Colombo**

*Colombo, Kitchin, Dunn, Ball & Porter, LLP  
Greenville*

**Ronald L. Gibson**

*Ruff, Bond, Cobb, Wade & Bethune, LLP  
Charlotte*

**Valerie Johnson**

*Copeley Johnson & Groninger PLLC  
Durham*

**James B. Maxwell, Director Emeritus**

*Maxwell, Freeman & Bowman, PA  
Durham*

**John M. May**

*Robbins May & Rich LLP  
Pinehurst*

**Kenneth W. McAllister**

*McAllister, Aldridge & Kreinbrink, PLLC  
High Point*

**William G. (Bill) Pappas**

*Parker, Poe, Adams & Bernstein LLP  
Raleigh*

**Sharon L. Parker**

*Sharon L. Parker, PA  
Marion*

**Sarah Sparboe Thornburg**

*McGuire, Wood & Bissette, P.A.  
Asheville*

**O. Richard Wright, Jr.**

*Wright, Worley, Pope, Ekster & Moss, PLLC  
Tabor City*

---

## OFFICERS

**Daniel M. Zureich**

*President and CEO*

**William S. Graebe**

*Vice President of Claims*

**Robert A. Neal**

*Vice President of Finance, Treasurer and CFO*

**Renée C. Riggsbee**

*Vice President of Underwriting*

**Camille Stell**

*Vice President of Client Services*

**William R. Stroud, Jr.**

*Senior Vice President*

## COMMUNITY BOARD MEMBERS

### EASTERN CAROLINA COMMUNITY BOARD

**Jerry A. Allen, Jr.**

*Walker, Allen, Grice, Ammons & Foy, L.L.P.  
Goldsboro*

**Ronald C. (Ron) Crosby, Jr.**

*Crosby Legal PLLC  
Fayetteville*

**Katherine H. Davis**

*Huggins, Davis & Associates, LLP  
Lumberton*

**Herman E. Gaskins, Jr.**

*Gaskins & Gaskins, PA  
Washington*

**Melody J. Jolly**

*Cranfill Sumner & Hartzog, LLP  
Wilmington*

**Debra L. Massie**

*Wheatly Wheatly Weeks Lupton & Massie, PA  
Beaufort*

**Sarah D. Miranda**

*Hutchens Law Firm  
Fayetteville*

**Jon G. Nuckolls**

*The Graham Nuckolls Conner Law Firm, PLLC  
Greenville*

**Brian Paxton**

*Farris & Farris, P.A.  
Wilson*

**Bonnie J. Refinski-Knight**

*Harris Creech Ward & Blackerby, PA  
New Bern*

**Ellen P. Wortman**

*Hedrick Gardner Kincheloe & Garofalo LLP  
Wilmington*

### CHARLOTTE COMMUNITY BOARD

**Robert J. Bernhardt**

*Bernhardt and Strawser, PA  
Charlotte*

**William M. Claytor**

*Baucom Claytor Benton Morgan & Wood, PA  
Charlotte*

**Edward G. (Woody) Connette, III**

*Essex Richards, PA  
Charlotte*

**Edward B. (Ward) Davis**

*Bell Davis & Pitt, PA  
Charlotte*

**Tricia M. Derr**

*Lincoln Derr, PLLC  
Charlotte*

**Robert C. Dortch, Jr.**

*Sellers Hinshaw Ayers Dortch & Lyons PA  
Charlotte*

**Irvin W. (Hank) Hankins**

*Parker Poe Adams & Bernstein, LLP  
Charlotte*

**Amy Purwin Hunt**

*Horack Talley Pharr & Lowndes, PA  
Charlotte*

**Pender McElroy**

*James, McElroy & Diehl, PA  
Charlotte*

**George Miller**

*Dozier Miller Pollard & Murphy, LLP  
Charlotte*

### WESTERN CAROLINA COMMUNITY BOARD

**Samuel Aycock**

*Starnes Law Firm  
Morganton*

**Eloise D. Bradshaw**

*Patrick Harper & Dixon LLP  
Hickory*

**William Christy**

*Stone & Christy PA  
Black Mountain*

**Phillip Feagan**

*Feagan Law Firm PLLC  
Columbus*

**Anne Duvoisin Fisher**

*Henson & Fuerst PA  
Blowing Rock*

**Steve Grabenstein**

*The Van Winkle Law Firm  
Asheville*

**Jacqueline Grant**

*Roberts & Stevens PA  
Asheville*

**Mark Melrose**

*Melrose Law PLLC  
Asheville*

**Elizabeth Miller**

*Elizabeth T. Miller, Attorney at Law  
Rutherfordton*

**Heather Newton**

*Heather Newton, Attorney at Law  
Asheville*

**Natalie Teague**

*Teague Immigration Law Office  
Asheville*

**Henry Teich**

*Grimes Teich Anderson LLP  
Asheville*

**Steve Warren**

*Long Parker Warren Anderson & Payne PA  
Asheville*

## Lawyers Insurance

Lawyers Insurance enjoyed another successful year in 2015 providing a full suite of insurance products to meet the needs of North Carolina lawyers as the endorsed insurance agency of the North Carolina Bar Association.

One of the great challenges and opportunities for the future lies in the field of healthcare. Health coverage, through administration of the North Carolina Bar Association Health Benefit Trust, is the primary endeavor of Lawyers Insurance. Both before and after implementation of the Affordable Care Act, the cost of health coverage continues to increase at a higher rate than inflation.

Much of this recent increase has been driven by pharmacy costs, particularly specialty medication. An unfortunate consequence of the legal and regulatory environment surrounding the approval of new medications and the granting of exclusivity on both old and new medications, is that there are currently no real checks on the costs of medications, either market-based or regulatory. Therefore, pharmaceutical companies have extraordinary pricing power.

We are in an age of incredible advancement in the pharmaceutical arena. Diseases from diabetes to cancer may be cured or much more easily managed through medication. This should ultimately have the effect of lowering overall health costs, if the challenge of proper oversight and market based reforms are achieved.



WILLIAM STROUD | SENIOR VICE PRESIDENT

*Health coverage, through administration of the North Carolina Bar Association Health Benefit Trust, is the primary endeavor of Lawyers Insurance.*

**#FUTURELAW**

---

