



HERE TODAY,  
**CHANGE IS**  
**HERE**  
TOMORROW

**2018 ANNUAL REPORT**



**LAWYERS  
MUTUAL**

LIABILITY INSURANCE  
COMPANY OF  
NORTH CAROLINA

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## PRESIDENT'S MESSAGE

DAN ZUREICH | PRESIDENT & CEO

It is my distinct honor to once again report to you our accomplishments and plans. In my opinion, there is no better job than working for a company that has its insureds' best interests at heart (we really do make every decision with you in mind) and insures a group that does so much good.

Everyone at Lawyers Mutual remains steadfastly committed to our mission of helping you manage the risks of your law practice. On behalf of each of us, I would like to extend a heartfelt "thank you" for trusting us to help you manage those risks. We know that you have choices and do not take your loyalty for granted. We strive to provide you with superior service and protection, and sincerely hope that is your impression.

Last year was another strong year for us. We continued to strengthen our balance sheet, and at the same time increased our policyholder dividend from about 5.6% of final policy premium to about 6.9% of final policy premium (an increase of about 23%). With this year's dividend, we will have returned nearly \$9.24 million to policyholders since 2011. As you've probably heard me say many times, "one of the greatest benefits of being insured by a mutual insurance company is that we share our financial success with our policyholders." Our goal is not only to continue paying dividends. We hope to be able to continue to increase them.

Our major challenges generally remained the same. We continue to face an extremely competitive lawyers professional liability insurance market driven by an overabundance of capital. And like you, we continue to be greatly concerned about cyber security and cybercrime. In fact, one of our company goals for 2018 was to become compliant with the New York Department of Financial Services cybersecurity regulations by year-end. We wanted to be proactive, so set our goal on complying with a tough standard, even though North Carolina has not yet enacted cybersecurity legislation or regulations. We have also worked hard to implement policies and educate our people on ways to spot and avoid cybercrime.

Our Annual Report theme is appropriate – change is here. In 2018, we formed two subsidiaries, Lawyers Mutual Consulting & Services, LLC and LM Title Agency, LLC. (LM Consulting & Services helps lawyers thrive in an evolving marketplace. LM Title provides the Real Estate bar industry leading service and real time advice from trained and experienced real estate professionals.) We sold our interest in our home office building and executed a new lease for 30% less space, which will result in significant savings. We implemented the first phase of our insured portal (there is more to come). And finally, we welcomed several new employees, said goodbye to two long-time employees and successfully transitioned three employees into leadership roles.

Looking ahead, 2019 promises to be an equally exciting year as we continue to develop and grow our subsidiaries, implement additional phases of our insured portal, revisit our strategic plan and work with you to find ways to improve your experience with Lawyers Mutual.

In closing, I would like to thank you for your business. We greatly appreciate your loyalty and hope that we continue to earn your trust. Please do not hesitate to let us know how we can better serve your needs.

# ENTERPRISE AND OPERATIONAL RISK MANAGEMENT

PATRICK BROWN | VICE PRESIDENT OF ENTERPRISE AND  
OPERATIONAL RISK MANAGEMENT



Data breaches, privacy lawsuits, and fines ranging from the millions and into the billions are now a regular occurrence. We all face new risks and pressures that were not part of the practice of law just a decade or two ago.

At Lawyers Mutual, we take our role as custodian of your personal information seriously. We also appreciate the opportunity to assist you, our insureds, in better protecting yourselves and your clients in this digital age.

During the past year we spoke to many of you at CLEs about the emerging threats faced by businesses, and particularly law firms. We published articles and toolkits to help you identify risks and put procedures in place to safeguard your clients' funds and data.

Internally, we updated our operational policies and added safeguards designed to meet the highest standards that regulators have imposed on insurance companies nationally, even though those regulations have not yet been proposed here in North Carolina.

You will hear me often say that no amount of protection will prevent a dedicated bad actor from breaching a system. We want you to know we are actively working to protect your personal information and be positioned to quickly and effectively respond should a successful attack occur.

Change is here and it is a great opportunity for all of us to become stronger together.



## YEAR IN REVIEW: CLIENT SERVICES

JULIE D. BEAVERS | DIRECTOR OF CLIENT SERVICES

Change is here. As the practice of law continues to evolve, Client Services remains a constant in delivering resources and programming to meet the professional needs of our insureds.

Our goal is to help our insureds practice more affordably, efficiently, and effectively while navigating the challenges of a busy law practice.

We accomplish this goal by delivering timely and relevant content and programming in response to trends in the marketplace, emerging technologies, changes in ethics rules, risk management concerns, and general business interests of our insureds.

As an added benefit, through these efforts we get to know our insureds on a personal basis which fortifies the relationship and enhances the insured experience.

We aspire to serve as a valued partner to our insureds and their successful law practices.

### CLIENT SERVICES HIGHLIGHTS OF 2018

- successfully transitioned leadership to Julie Beavers, our new Director of Client Services
- increased traffic to the LM website by 45%
- increased followers on all social media platforms
- 92 speaking engagements including 74 CLEs and various programs at law firms, law schools and various legal associations
- the successful launch of the North Carolina Managing Partners Summit
- enhanced Cyber Security education through alerts, newsletter articles and blog posts plus numerous presentations across the state
- a 53% increase in Lending Library activity
- optimal attendance of 1200 attorneys, paralegals and other professional staff at the annual Put Into Practice CLE roadshow
- collaboration and successful support of legal associations including the North Carolina Bar Association, North Carolina State Bar, The North Carolina Chief Justice's Commission on Professionalism, NC Advocates for Justice, NC Association of Defense Attorneys, NC Association of Women Attorneys and numerous local bar associations



## YEAR IN REVIEW: CLAIMS

CLAIRE MODLIN | VICE PRESIDENT OF CLAIMS

2018 was a year of change for the Claims Department with the departure of long time Vice President of Claims, Will Graebe. Will retired after 20 years of service to Lawyers Mutual and will be missed by Lawyers Mutual and our insureds. Claire Modlin, an attorney with over 22 years of experience in private practice, assumed the role of Vice President of Claims on January 1, 2019. In addition, Uta Zacharias joined the Company as Senior Claims Counsel on November 1, 2018. Under new leadership, the Claims Department looks forward to continuing the tradition of excellent service to our insureds and the community.

We are pleased to report another year of favorable claims results and outstanding service to our insureds in 2018. Claim frequency was steady in 2018. Residential real estate and plaintiff's personal injury practice areas were the primary drivers of frequency, followed by estates and trusts and family law practice areas. Although claims severity was flat for 2018 as compared to 2017, severity was up over recent years. The higher severity was driven by claims in the commercial real estate and residential real estate practice areas. With a robust real estate market in North Carolina, we expect our insured real estate attorneys to continue to handle a large volume of residential and commercial transactions.

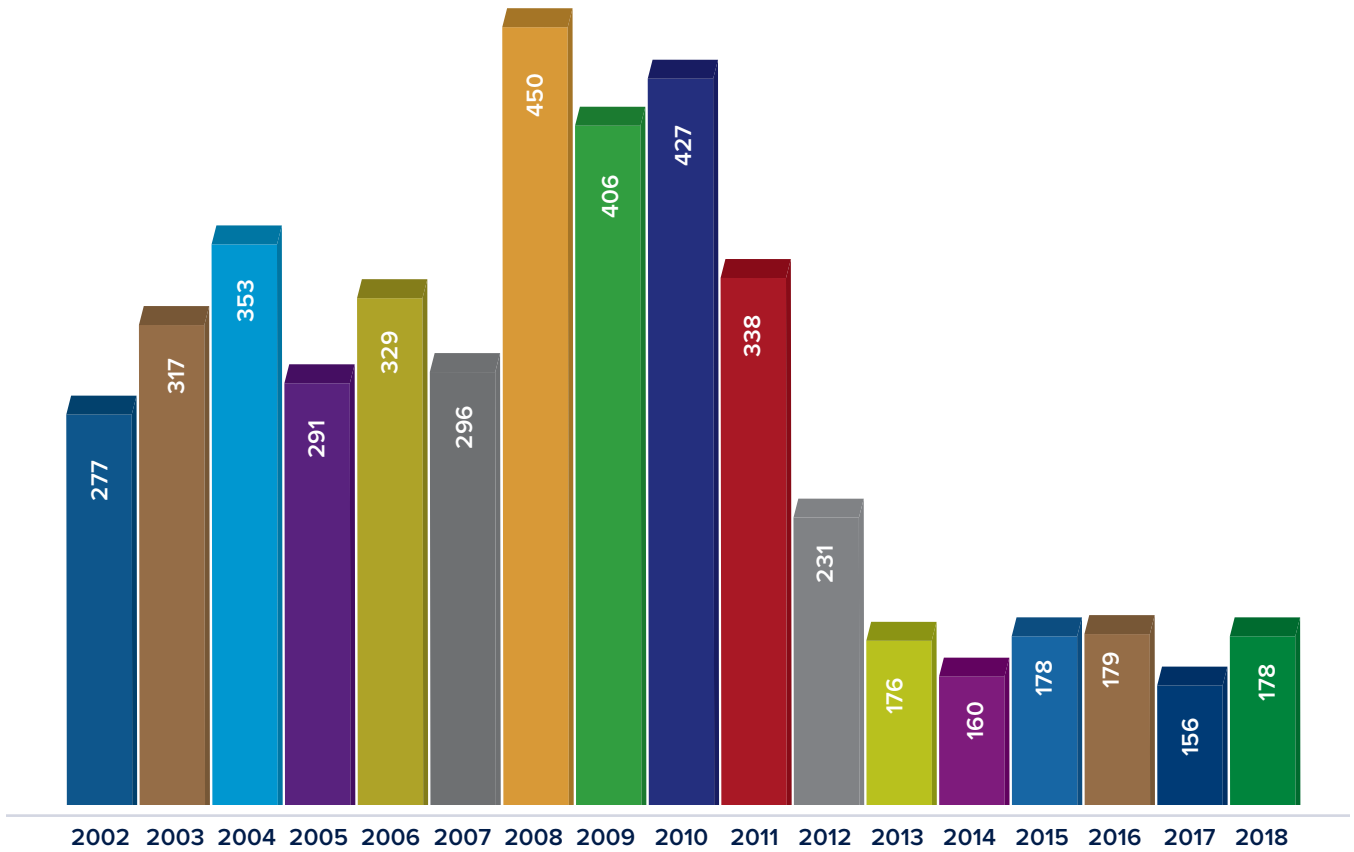
We continue to receive reports of wire fraud scams from our insureds. The policy exclusion with safe harbor provisions to protect our insureds against such claims has now been applied to all policies. We anticipate that having the exclusion on all policies will significantly reduce wire fraud losses related to real estate transactions in 2019. Lawyers Mutual will continue with our educational and risk management efforts and hopefully prevent our insured lawyers from falling victim to this scam in the future.

As always, our claims attorneys have been very active speaking throughout the state on various continuing education topics. The Claims Department is working with Client Services to develop and offer a technology CLE to help our insureds comply with the new technology hour required by the NC State Bar in 2019.

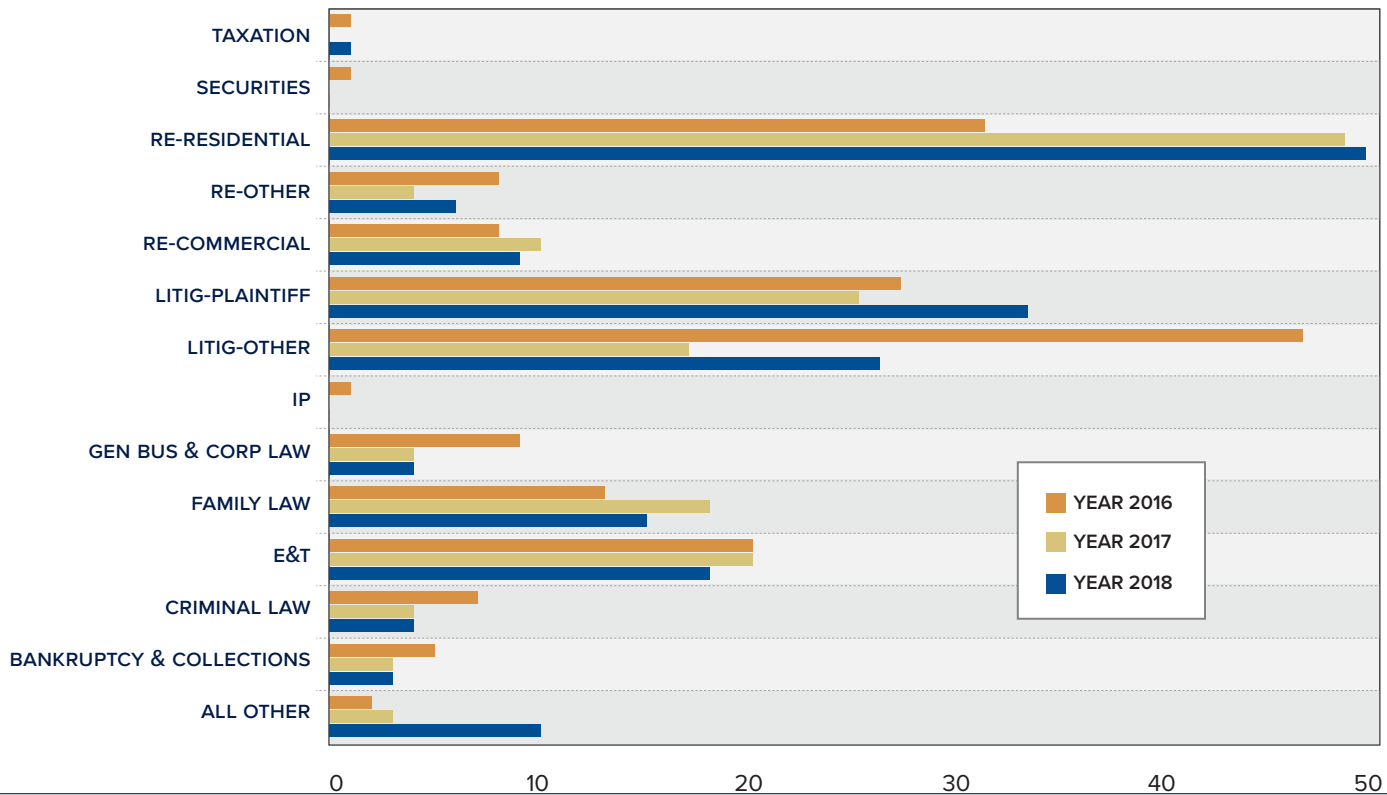
The Underwriting Department has been heavily involved in the rollout of the Lawyers Mutual Client Portal which gives insureds access to quotes, policy documents and online payments. The Claims Department is working to expand the convenience to our insureds by providing an online form where an attorney/firm can report a potential malpractice claim through the client portal. Our goal is to improve the client experience by making it easier for our insureds to report claims through the use of technology.

The Claims Department could not provide such outstanding service without the cooperation of our insureds and the assistance of our exceptional outside defense counsel. It is also a team effort with our Underwriting and Client Services Departments. Although change is here, we remain dedicated to providing the best service and doing the right thing for our insureds; we are optimistic about 2019 and beyond.

## REPORTED CLAIMS BY YEAR



## REPORTED CLAIMS BY PRACTICE AREA







## YEAR IN REVIEW: UNDERWRITING

KATHY FISHER | VICE PRESIDENT OF UNDERWRITING

2018 was a year of change for the underwriting department.

### NEW FACES AND NEW ROLES.

Kathy Fisher has been appointed Vice-President of Underwriting. Kathy joined us in 2015 as an underwriter. Prior to joining the company, she was a partner for 8 years with Yates McLamb & Weyher, LLP and an associate for 5 years with Patterson, Dilthey, Clay, Bryson and Anderson, LLP.

Tammi Kinney, our administrative assistant, joined the underwriting department in April 2018. Tammi has over 20 years of administrative and office management experience, making her an indispensable member of the team.

In July 2018, we welcomed Sara Valentine as an underwriter. Sara brings over 9 years of experience as a litigation paralegal in the areas of medical malpractice, products liability, personal injury, and financial services she gained while with McGuireWoods and Hedrick Gardner Kincheloe & Garofalo, LLP.

Juan Sosa joined us in October 2018 as an underwriter. Prior to joining the company, Juan was an associate for 3 years with Turning Point Litigation. His experience handling a wide-range of litigation matters makes him a valuable addition to the underwriting team.

Jess McKnight continues to provide stability and continuity as he celebrated 9 years of service with Lawyers Mutual in 2018.

### NEW ONLINE ACCESS FOR OUR INSURED.

In December 2018, we introduced our insured portal. The portal provides our insureds with 24-hour access and online convenience to manage their policy.

The portal gives insureds access to policy quotes, current and historical policy documents, forms to make changes to their policy, as well as a summary of recent payments and the ability to make online payments.

### OUR MISSION REMAINS THE SAME.

Robert C. Gallagher, sportswriter, said “Change is inevitable—except from a vending machine.” While change (except from a vending machine) may be inevitable, we strive to make changes that consistently and continuously provide value to our insureds. As some of our faces change and technology changes, our underwriters continue to build long lasting relationships with our insureds by understanding changes to their practice and responding to their coverage needs.



# FINANCIALS

## POLICYHOLDERS INFORMATION

ROBERT NEAL | SENIOR VICE PRESIDENT, FINANCE, TREASURER AND CFO



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, 2018. 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. An electronic copy of the Company's 2018 Annual Statement is available upon request.

### CHANGE IS HERE

Economic and financial changes have captured much attention in the last year. Highlights of changes include: significant oscillations in equity markets during February and December, declining N.C. unemployment rates, increasing Fed rates and a smaller Fed balance sheet, a current inverted US Treasury yield curve, real estate activity growing since the low water marks of 2008 – 2011, cyber breach threats, and cyber defense more mainstream than ever.

### FINANCIAL RESULTS

With all the changes experienced during the year in North Carolina's and the nation's economy, Lawyers Mutual was able to record a strong Net Underwriting gain of \$4,346,262. Underwriting expenses as a percent of premiums declined from 27.2% to 25.1%. The Company increased investment income on core investments but also recorded a significant, unusual, non-recurring investment gain on a real estate investment.

Total admitted assets topped \$114 million at year end. Policyholder Surplus rose to \$86.8 million, an increase of 6.7%, keeping pace with claims inflation, economic risks and other potential risks within investments markets. The strong underwriting results, investment gains and reduced Federal taxes provided sufficient growth in policyholders' surplus to keep pace with the changing environment as well as to return a portion of surplus to our insureds in the form of a 6.9% policyholder dividend. The 2018 declaration of a dividend represented an increase of 23% over the prior year's policyholder dividend percentage.

Leverage ratios (measuring premium writings, claim reserves and, total liabilities as compared to Policyholder Surplus) have continued to improve with a combined Net Leverage ratio of 50%.

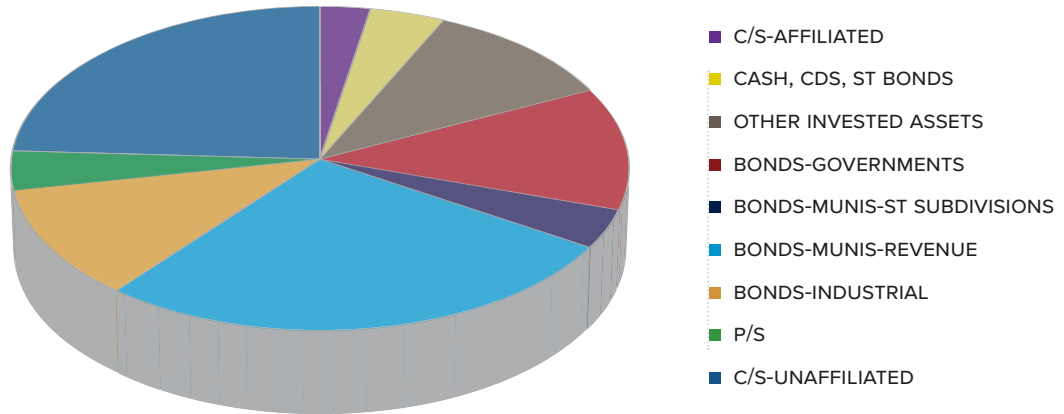
### SIGNIFICANT EVENTS OCCURRING IN 2018

- Independent rating agency, A.M. Best, affirmed the Company's secure financial position rating of "A" Excellent with a Stable outlook for the near future.

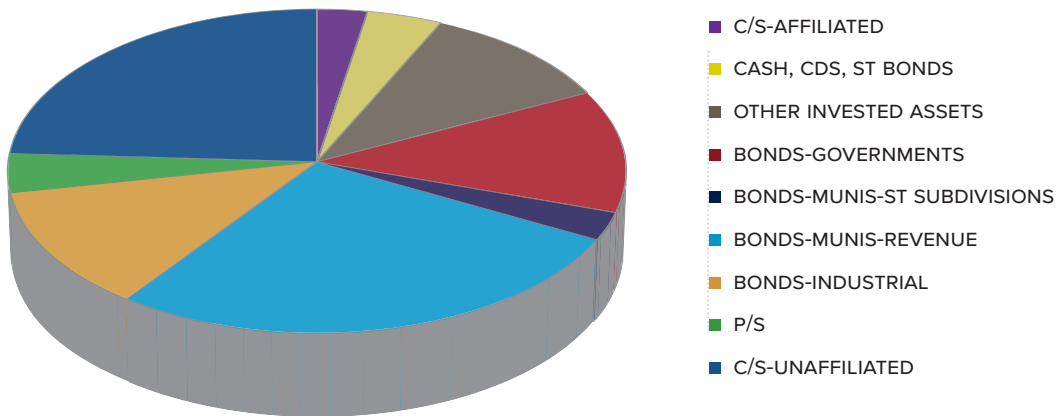
- The Company's real estate subsidiary received a significant distribution from a downstream affiliate upon the December 2018 sale of the Weston II, Cary, N.C. office building.
- The new Federal tax act (the Tax Cuts and Jobs Act) was approved by Congress late in 2017. Lawyers Mutual's marginal 2018 tax rate was significantly lower (21%) going forward.

We at Lawyers Mutual continue to anticipate future changes and will be working hard to ensure the Company's financial future remains strong.

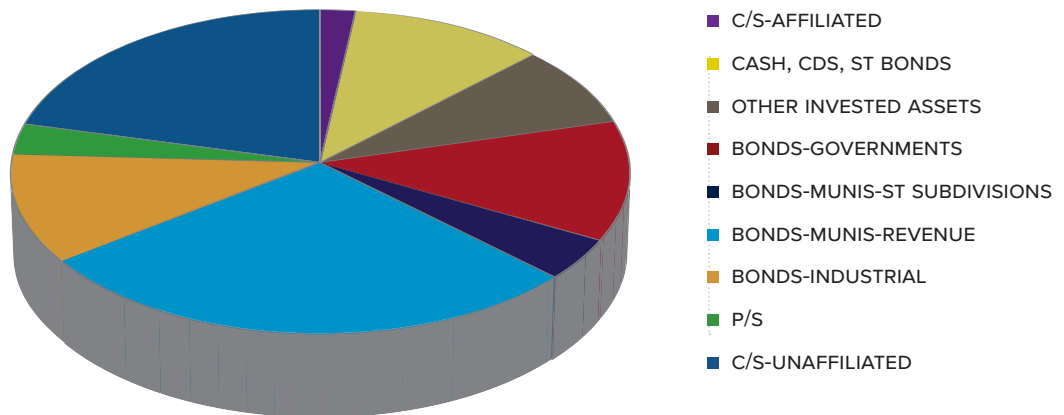
### CASH & INVESTED ASSETS – Fair Value 12.31.2018



### CASH & INVESTED ASSETS – Fair Value 12.31.2017



### CASH & INVESTED ASSETS – Fair Value 12.31.2016



## FINANCIALS:

# STATUTORY STATEMENTS OF INCOME

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### *Statutory Statements of Income*

<b>Years Ended December 31</b>	<b>2018</b>	<b>2017</b>
<i>Underwriting Income</i>		
<i>Premiums earned</i>	<b>15,524,658</b>	<b>15,553,066</b>
<i>Underwriting deductions:</i>		
<i>Losses incurred</i>	2,081,925	4,048,131
<i>Loss adjustment expenses incurred</i>	4,153,103	3,714,960
<i>Other underwriting expenses incurred</i>	4,943,368	4,923,969
<b><i>Total underwriting deductions</i></b>	<b>11,178,396</b>	<b>12,687,060</b>
<b><i>Net underwriting gain</i></b>	<b>4,346,262</b>	<b>2,866,006</b>
<i>Investment income:</i>		
<i>Net investment income earned</i>	7,999,390	2,914,840
<i>Realized capital gains - net of tax ( 2018: \$176,334; 2017: \$438,363)</i>	625,185	850,940
<b><i>Net investment gain</i></b>	<b>8,624,575</b>	<b>3,765,780</b>
<i>Other income / (expense):</i>		
<i>Loss from balances charged off</i>	(624)	9,888
<i>Finance and service charges not included in premiums</i>	279,892	273,720
<i>Other income</i>	18,917	3,533
<b><i>Total other income</i></b>	<b>298,185</b>	<b>287,141</b>
<b><i>Income before dividends to policyholders and federal income taxes</i></b>	<b>13,269,022</b>	<b>6,918,927</b>
<i>Dividends to policyholders</i>	1,248,017	1,018,060
<b><i>Income before federal income taxes incurred</i></b>	<b>12,021,005</b>	<b>5,900,867</b>
<i>Federal income taxes incurred</i>	2,203,666	973,441
<b><i>Net income</i></b>	<b>\$ 9,817,339</b>	<b>\$ 4,927,426</b>



## FINANCIALS:

### ADMITTED ASSETS, LIABILITIES AND POLICYHOLDERS' SURPLUS

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

	As of December 31	
	2018	2017
<b>Admitted Assets</b>		
<b>Cash and investments:</b>		
<i>Bonds</i>	\$ 59,998,847	\$ 54,852,844
<i>Common stocks</i>	25,647,612	28,143,591
<i>Preferred stocks</i>	3,657,864	3,596,347
<i>Cash and short-term investments</i>	11,793,216	4,090,055
<i>Other invested assets</i>	9,071,947	11,696,219
<i>Receivable for securities</i>	319,141	-
<b>Subtotals, cash and invested assets</b>	110,488,627	102,379,056
<i>Interest and dividend income due and accrued</i>	798,795	682,264
<i>Premiums in course of collection</i>	2,413,782	2,775,602
<i>Reinsurance recoverables on claim payments</i>	-	1,581,882
<i>Other amounts receivable under reinsurance contracts</i>	61	420,535
<i>Current Net Federal income tax recoverable</i>	268,663	1,223,511
<i>Deferred Net Federal income tax asset</i>	273,379	-
<i>Receivable from subsidiary</i>	476,735	335,126
<i>Other</i>	95,405	68,282
<b>Total admitted assets</b>	<u>\$ 114,815,447</u>	<u>\$ 109,466,258</u>
<b>Liabilities and Policyholders' Surplus</b>	2018	2017
<b>Liabilities:</b>		
<i>Unpaid losses</i>	6,648,172	7,012,225
<i>Unpaid loss adjustment expenses</i>	8,107,293	8,003,431
<i>Taxes, licenses, fees and other expenses payable</i>	1,153,292	1,100,079
<i>Net Deferred Tax Liability</i>	-	610,351
<i>Unearned premiums</i>	7,154,546	7,222,528
<i>Advance premiums</i>	724,988	702,328
<i>Policyholder dividends declared and unpaid</i>	1,314,337	1,082,545
<i>Ceded reinsurance premiums payable, net of ceding commissions</i>	767,458	567,514
<i>Amounts withheld by company for account of others</i>	1,639,819	1,748,395
<i>Provision for reinsurance</i>	21,030	-
<i>Payable for securities</i>	472,899	54,621
<i>Other liabilities</i>	25,000	16,779
<b>Total liabilities</b>	28,028,834	28,120,796
<b>Policyholders' surplus:</b>		
<i>Total Policyholders' surplus</i>	86,786,613	81,345,462
<b>Total Liabilities and Policyholders' Surplus</b>	<u>\$ 114,815,447</u>	<u>\$ 109,466,258</u>

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# LAWYERS INSURANCE AGENCY

WILLIAM STROUD | PRESIDENT



## Lawyers Insurance Changes With the Times

The south end of Topsail Island is just as beautiful as it was 30 years ago, but if you were to look at satellite images from then and now, you would see some big changes. This holds true for the practice of law as well, and especially for the business of running a law firm.

While many aspects of a law practice resemble those of 30 years ago, some have undergone major change. Two of these are the cost of providing health coverage and the risks that emanate from the digital revolution.

Health coverage is at least 2 to 3 times more expensive than 30 years ago. As a seasoned personal injury lawyer put it, the cost for his clients having been to the emergency room seems to have had an extra zero added to the end as compared to earlier in his career. In those 30 years, groundbreaking drugs have helped many life-limiting conditions, but the cost has been astronomical.

The NC Bar Association Health Benefit Trust, administered by Lawyers Insurance, is not immune to these cost increases, but its unique structure and attributes give it a cost advantage over many of the health insurance products available to small businesses. NC Bar Association members are lucky to have such a plan, and every law firm should check it out.

The digital revolution has transformed law offices just as it has other small businesses. There are many expenses that have been reduced or eliminated over a generation. For most, gone are the days of expensive letterhead and law books. Phone service is cheap and virtual paralegals and legal assistants have reduced staff costs.

Against this backdrop, most firms still do not have in place the different forms of Cyber insurance necessary to protect their practice, and many ask, 'do I really need it?' The answer is an unqualified 'YES,' and the coverage is also reasonably priced. No one can know if they will be the victim of a data breach or social engineering fraud any more than they know if they will get in a car accident or their house will catch fire. Cars still crash, housefires still occur, and we live in a world full of digital risks.

Lawyers Insurance remains committed to addressing the insurance needs of North Carolina law firms.





# LAWYERS MUTUAL CONSULTING & SERVICES, LLC

CAMILLE STELL | PRESIDENT AND CEO

Lawyers Mutual launched two new subsidiaries in 2018. One of these, Lawyers Mutual Consulting & Services, LLC, is where I am spending my time and energy.

Our Annual Report theme, change is here, describes why Lawyers Mutual Consulting & Services was born. The legal profession is undergoing profound changes. Our mission is helping lawyers and our peers thrive in an evolving marketplace.

Lawyers Mutual Consulting & Services is a natural progression of work that has been ongoing for several years in strategic planning, succession planning, and business development coaching for law firms.

As we discussed the formation of the consulting company with our three Community Boards located across the state, the feedback was positive. We started promoting the Company in October. Interest by lawyers across the State has been favorable. One-on-one consulting and succession planning workshops are available and online coaching options are in development.

## **SUCCESSION PLANNING: AN ANCHOR SERVICE**

As Lawyers Mutual deliberated the creation of the consulting business, we took note of our insured base and services available to them. There are few consultants offering succession planning services, although a great number of lawyers are at or approaching retirement age. The statistics are alarming:

- 400,000 (out of 1.3 million lawyers) in the United States are 62 and older
- 30 – 40% of actively practicing lawyers are at the age and stage where they are beginning to retire or to contemplate retirement
- 63% of law firm partners, aged 60 or older, control at least ¼ of their firm revenue
- Most law firms do not have succession plans in place.

## **SOLO AND SMALL FIRM ASSISTANCE: ANOTHER ANCHOR SERVICE**

The 2018 Clio Legal Trends Report surveyed 60,000 solo and small firm attorneys, and the data shows:

- Lawyers work 2.4 hours per day on client matters (utilization)
- Lawyers bill 1.9 hours per day on client matters (realization)
- Lawyers collect 1.6 hours per day on client matters (collections)

The numbers show it is tough to be a lawyer in today's technology-driven and competitive marketplace.

## DESIGNING A PLAN FOR SUCCESS

In every development, there is always a personal story. I was inspired to start the consulting business in part, because I read a book.

The book, “Designing Your Life: How to Build a Well-Lived, Joyful Life” by Bill Burnett and Dave Evans, is described as “a book that shows you how to build – design – a life you can thrive in, at any age or stage.”

As I read the book, I began to think about my next phase. I love mentoring, coaching and matching legal professionals in the right jobs and the right careers, and my passion is connecting with people and connecting them to each other.

I am having so many interesting conversations with people. I am talking with lawyers about what their retirement plans will look like. I am talking with law firm leaders and managing partners about how to be servant leaders in their organizations and how to re-design their law firms for 21st century lawyers and clients. I am talking with young lawyers about how to build inspiring law practices that feed their families and also feed their souls.

Creation of Lawyers Mutual Consulting & Services has been the most exhilarating time of my career. I am humbled daily by the positive feedback I get, and by how many people are in my corner, cheering me on and genuinely wanting to see my success.

Change is here. Through the consulting business, Lawyers Mutual is committed in a new way to helping you thrive. Stay connected with us to see where this journey takes us. Let me know how I can help you along the way.

# LM TITLE AGENCY, LLC

TROY CRAWFORD | MANAGING COUNSEL



The real estate marketplace for lawyers is constantly in motion.

With that in mind, in 2018, Lawyers Mutual evaluated the landscape and decided to make a bold move, we started LM Title Agency, LLC, a wholly owned subsidiary.

This move did not happen in a vacuum. Extensive analysis was performed as to whether a subsidiary agency would be compatible with Lawyers Insurance and Lawyers Mutual. We had discussions with stakeholders across the state to make sure we would be supported by the bar. The results were favorable.

Multiple agencies were evaluated, and negotiations pursued. In October, the Board of Directors authorized the formation and funding of LM Title Agency, LLC through an asset purchase of Trust Title Agency, LLC in Garner, NC. Michelle Church, an owner of Trust Title, was hired by LM Title as Director of Operations and Troy Crawford was named Managing Counsel.

Change is here.

In November, we opened our doors for business.

Nick Long was hired as Vice-President of Underwriting and Olivia McElvaney joined as our Prior Policy Coordinator and Office Associate. With our initial team assembled, extensive training began. Our first priority is the highest level of customer service and dedication to North Carolina's real estate bar.

We look forward to growing in 2019 and providing excellent service to the attorneys of the state.

Here today and Here tomorrow.



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919.677.8900    1.800.662.8843

[www.lawyersmutualinc.com](http://www.lawyersmutualinc.com)