



Meeting the Moment

LAWYERS MUTUAL ANNUAL REPORT 2021





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Life is lived in the moments.

The last two years were full of moments none of us had ever imagined, much less experienced.

But Lawyers Mutual was ready.

We were born 45 years ago in a different sort of crisis.

We knew what needed to be done.

Together with our insureds, our families and our communities, we met the moment and emerged even stronger.

PRESIDENT'S MESSAGE

Valued Policyholders,

We are pleased to report that Lawyers Mutual enjoyed a strong year in 2021, enhancing our solid capital position and declaring an approximate \$1 million policyholder dividend. By the end of 2022, we will have returned nearly \$11.3 million to policyholders in the form of dividends since 2011. One of our continuing goals is to return as much capital via policyholder dividends as is financially prudent, a major benefit of being insured with a mutual company. The capital strength of your professional liability insurance carrier and its policyholder dividend history are important. But other non-insurance related things are also important and need to be mentioned.

Over the past two years, we all have been profoundly changed by the pandemic. Initially, we had to figure out how to keep our operations and law practices up and running. We had to be there to serve you. You had to be there to serve your clients.

We experienced stress, anxiety, and fear. As time went on, we became a bit more comfortable, knowing that we could meet the needs of our respective clients even amidst a pandemic. In fact, we got better at what we were doing, became more efficient and were able to provide more flexibility for clients. However, as the pandemic continued to drag on, many of us began to suffer from work-related burn out, necessitating that we try to find a better work-life balance. And later, some, including me, suffered from pandemic fatigue, which appropriately called into focus personal health and wellness. To say that these past two years have challenging is an incredible understatement. But we have survived and, in many ways, are better today than before the pandemic. Better at serving our clients and paying attention to and taking care of ourselves.

One thing helped those of us at Lawyers Mutual immensely during the last two years. You. Whether answering questions about your policy, assisting you with a claim (more optimistically helping you avoid a claim), delivering virtual CLE, or providing you with resources or advice on practice and risk management issues, you gave us purpose and a common focus – ensuring that we met, and hopefully exceeded, your needs and expectations. For that, we thank you.

On behalf of everyone at Lawyers Mutual, we offer our sincere appreciation for your continued loyalty, support, and trust.

Dan Zureich



DAN ZUREICH, PRESIDENT & CEO

ENTERPRISE & OPERATIONAL RISK MANAGEMENT

The Enterprise and Operational Risk Management Team operates largely in the background with tasks such as maintaining the technology and security programs, supporting other departments through business analytics, and developing and testing policies and procedures to maintain operations through unexpected events. The challenges of 2020 continued into 2021 with an ever-evolving pandemic and many projected return to office dates pushed into the future due to new variant surges.

Throughout it all, we continued to ensure you, our insureds, received the highest level of service whether your employees or ours were in an office, at home, or anywhere else in the world. The legal community's response to the challenges of the past two years continues to show how resilient and adaptive we all are in meeting whatever comes our way.

COVID-19 was not the only challenge we all faced. Cyber criminals increased their attacks on governments, businesses, and individuals. From the headline-grabbing discovery of the SolarWinds platform breach and the ransomware-infected Colonial Pipeline, to everyday attacks on individuals and businesses of all sizes making up \$6.9 Billion in losses reported to the FBI's Internet Crime Complaint Center. The story of the year was a massive increase in reported losses due to phishing attacks, which have increased more than 10-fold since 2018.



PATRICK BROWN

VICE PRESIDENT OF
ENTERPRISE AND
OPERATIONAL RISK
MANAGEMENT



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CLIENT SERVICES

With law firms fully adapted to the pandemic law life, we focused heavily on best practices involving law practice management and legal operations. We maintained priority messaging from the courts along with updates regarding shifting regulations and laws impacting the delivery of legal services. While there were breaks in the pandemic storm, we continued offering virtual programs to our valued policyholders to underscore our commitment of protecting the legal community while keeping them informed on how best to protect their livelihood. Client Services feels confident in its support of the company's mission of providing value to insureds through education and the sharing of resources to help lawyers better serve their clients.

HIGHLIGHTS

- Focused communication on Cybersecurity and Wire Fraud. With remote work being the preferred mode of operation for most legal service providers, criminals seized the opportunity to target law firms. As a result, Lawyers Mutual double-downed on its approach to educate the legal profession on best practices to protect law firm operating systems from theft and costly disruption. MFAs for the win!
- Engaged an outside consultant to relaunch the company's social media communications to improve consistency and overall digital engagement. One of the first campaigns included sharing poignant, meaningful quotes from LM insureds, #intheirownwords.
- Virtual CLE. With the legal community fully embracing technology including virtual CLE offerings, we posted record attendance for online programs. We witnessed participation from all corners of North Carolina including remote areas and smaller communities which are often absent from traditional events. This response inspired us to continue offering a blend of in-person and virtual programs to our valued policyholders.



JULIE D. BEAVERS

DIRECTOR OF CLIENT
SERVICES

***Client Services
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CLAIMS

Despite the challenges presented over the past two years, Lawyers Mutual's claims attorneys continued to provide outstanding service to our insureds in 2021. Not only do our experienced claims attorneys assist with claims, but they also help avoid claims and minimize damages through our claims repair program. In 2021, of the claims closed, 78% were closed with no payment. The remaining 22% of claims were resolved through settlement.

In 2021, litigation errors accounted for one-third of all claims reported to Lawyers Mutual. Plaintiff's Personal Injury, under the litigation umbrella, constituted the single practice area with the most reported claims at 36. Residential real estate came in second with 32 reported claims. Estates and trusts claims were third at 31 claims, followed by family law claims with 28 reported in 2021. We expect these four areas of practice (Plaintiff's personal injury, residential real estate, estates and trusts and family law) to continue to lead in terms of claim counts.

Cyber-crime remains an area of concern for attorneys. Wire fraud was a problem prior to Covid-19; however, with the increase in remote work spurred by the pandemic, wire fraud has increased. Cyber-attacks have occurred in every sector of life and attorneys are not immune. In fact, real estate attorneys are a prime target for cyber criminals. We encourage our insureds to be proactive in protecting their data and systems and to familiarize themselves and their staff with cybersecurity. The Claims Department works closely with Client Services to try and do our part by alerting our insureds to common scams and issues as they arise.

HIGHLIGHTS

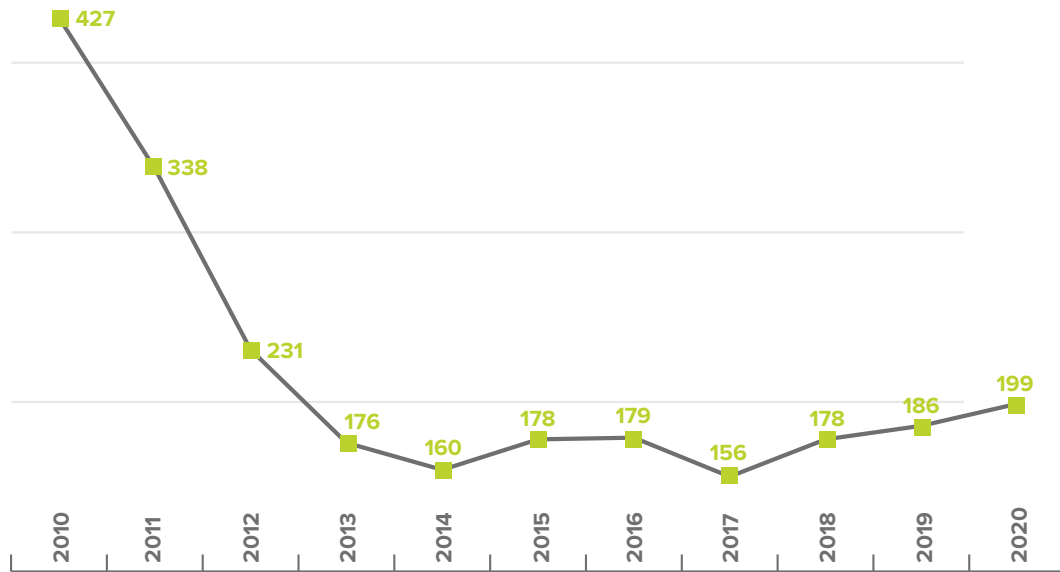
- Resolution of Claims. Of the claims closed in 2021, 78% of those files were closed with no payment. The remaining 22% of claims were resolved through settlement.
- Most Frequent Claims by Area of Practice in 2021: Plaintiff's Personal Injury (36), Residential Real Estate (32), Estates and Trusts (31), Family Law (28) and Litigation Other (10).



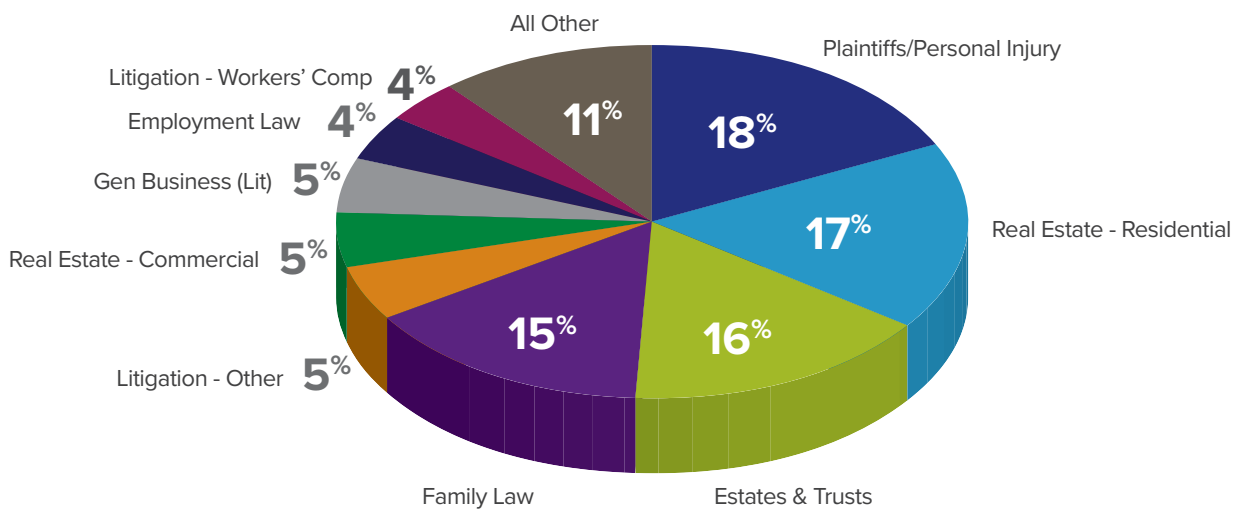
CLAIRE MODLIN
VICE PRESIDENT OF CLAIMS

Not only do our experienced claims attorneys assist with claims, but they also help avoid claims and minimize damages through our claims repair program.

REPORTED CLAIMS BY YEAR



REPORTED CLAIMS BY PRACTICE AREA



UNDERWRITING

Motivation is what started Lawyers Mutual in 1977. A group of lawyers came together and invested their own money to form the first mutual insurance company for lawyers to address the lack of available legal malpractice insurance for North Carolina lawyers. Commitment is what keeps Lawyers Mutual successful. Underwriting commitment means being accountable to a single policyholder concerning their coverage and premium, as well as being accountable to all our policyholders concerning company performance.

Our underwriting successes in 2021 were the result of our continued commitment to North Carolina lawyers and their trust in us to be there when needed.

We are committed to providing exceptional service to our insureds. We are launching an updated insured portal and mobile app in 2022 so our policyholders can be mobile and utilize additional services such as:

- Fast and easy online payments
- Access to policy documents
- Electronic policy changes requests
- Paperless billing to improve the environment
- Email payment reminders
- Saving time with autopay
- Online completion and submission of policy change requests, such as adding an attorney, removing an attorney, and change of address or business name;
- Access to current policy documents, such as declarations pages, endorsements, and attorney listing;
- Access to current invoices, billing documents, and payment information;
- Online payment options, including paperless billing, email reminders, and autopay;
- Online completions and submission of reissue applications; and
- Online completion and submission of new policy applications.



KATHY FISHER
VICE PRESIDENT OF
UNDERWRITING

-
- ***More than 7,500 insured attorneys***
 - ***88% retention rate***
 - ***645 new attorneys added***
 - ***\$18.6M in total premiums, ensuring the financial strength of the company***
-

FINANCIALS: POLICYHOLDERS INFORMATION

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, 2021. 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 2021 Annual Statement is available upon request.

Lawyers Mutual's strong financial health strengthened further in 2021, posting an Underwriting Gain and experiencing continued support from Investments. New for 2021, the Company wrote assumed premiums for the first time, participating as a reinsurer on a contract with Wisconsin Lawyers Mutual Insurance Company. The Company experienced slightly lower reported claims compared to prior year, but severity continued to increase during 2021. With inflation at record levels, the Company expects severity to continue to be an issue that must be managed in part, by judiciously closing claims as quickly as possible. The Company's financial results in 2021 and strong surplus position allowed the declaration of a policyholder dividend.

FINANCIAL RESULTS

Lawyers Mutual was able to record a strong Net Income of \$4,456,767 on beginning of year Surplus of \$96,307,044. Net Income was composed of a Net Underwriting Gain of \$1,400,466. The Net Underwriting Gain included an increase of \$329,958 in Direct Premiums Written, \$175,172 in new Assumed Premiums Written, and \$1,592,849 in lower Claims Incurred compared to prior year numbers. Investment Gains of \$5,091,462 fell short of prior year's gains which were unusually high due to investment asset reallocations that took place in 2020. Declared dividends of \$1,002,356 were \$486,910 higher than prior year. Other Underwriting expenses as a percent of premiums declined from 25.5% to 24.7%. The Company's investment income on core investments increased by 23.8% due to a significant increase in dividends from common stocks and other invested assets.

Total admitted assets topped \$140 million at year end as Policyholder Surplus rose to \$102.5 million, an increase of 6.4%, keeping pace with claims inflation, economic risks, and other potential risks within investment markets. The Underwriting Gain and continued strong investment performance, including



WILL BATTEN
VICE PRESIDENT, FINANCE

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distributions from subsidiaries, 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 5.5% policyholder dividend.

Leverage ratios (measuring premium writings, claim reserves and, total liabilities as compared to Policyholder Surplus) decreased slightly with a combined Net Leverage ratio of 52% at yearend 2021 as compared to 53% at the end of 2020.

Please see the accompanying summary financial statements for more information.

FINANCIALS: STATUTORY STATEMENTS OF INCOME

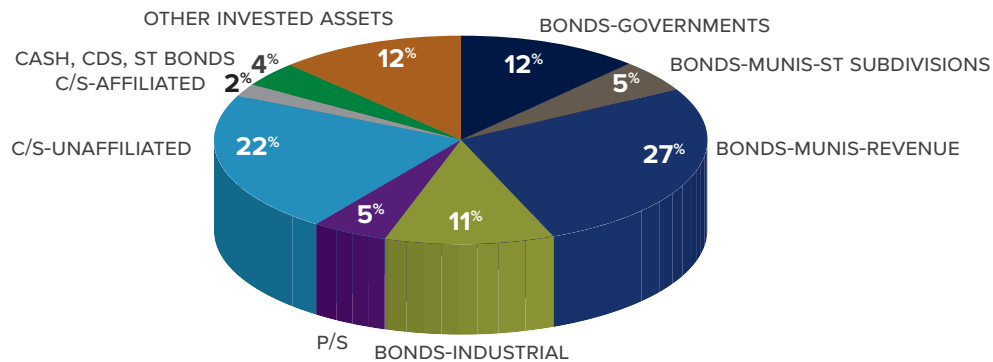
Years Ended December 31	2021	2020
<i>Underwriting Income</i>		
<i>Premiums earned</i>	15,238,378	14,762,979
<i>Underwriting deductions:</i>		
<i>Losses incurred</i>	3,773,304	6,207,532
<i>Loss adjustment expenses incurred</i>	6,295,659	5,454,280
<i>Other underwriting expenses incurred</i>	3,768,949	3,768,339
Total underwriting deductions	13,837,912	15,430,151
Net underwriting gain	1,400,466	(667,172)
<i>Investment income:</i>		
<i>Net investment income earned</i>	4,505,413	3,640,654
<i>Realized capital gains - net of tax (2021: \$267,340; 2020: \$765,833)</i>	318,709	2,880,991
Net investment gain	4,824,122	6,521,645
<i>Other income / (expense):</i>		
<i>Loss from balances charged off</i>	16	(738)
<i>Finance and service charges not included in premiums</i>	248,269	207,079
<i>Other income / (expense)</i>	1,052	1,867
Total other income	249,337	208,208
Income before dividends to policyholders and federal income taxes	6,473,925	6,062,681
<i>Dividends to policyholders</i>	1,002,357	515,446
Income before federal income taxes incurred	5,471,568	5,547,235
<i>Federal income taxes incurred</i>	1,014,801	20,541
Net income	\$ 4,456,767	\$ 5,526,694

FINANCIALS:

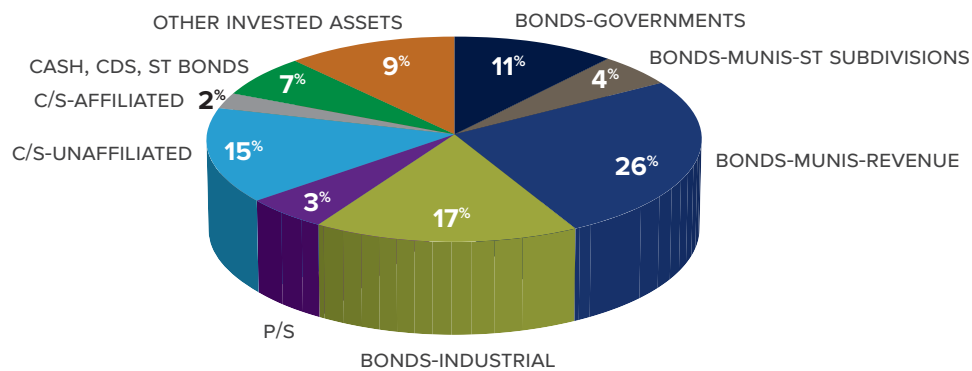
ADMITTED ASSETS, LIABILITIES AND POLICYHOLDERS' SURPLUS

	As of December 31	
Admitted Assets	2021	2020
Cash and investments:		
Bonds	\$ 73,632,846	\$ 74,833,605
Common stocks	34,631,218	23,475,907
Preferred stocks	7,274,374	6,885,658
Cash and short-term investments	5,864,783	9,124,325
Other invested assets	15,952,616	14,654,224
Receivable for securities	-	16,090
Subtotals, cash and invested assets	137,355,837	128,989,809
Interest and dividend income due and accrued	778,175	789,919
Premiums in course of collection	2,390,897	2,291,542
Other amounts receivable under reinsurance contracts	-	6,200
Current Net Federal income tax recoverable	97,910	117,232
Deferred Net Federal income tax asset	-	248,913
Receivable from subsidiary	188,506	169,107
Other	95,116	108,467
Total admitted assets	\$ 140,906,441	\$ 132,721,189
Liabilities and Policyholders' Surplus	2021	2020
Liabilities:		
Unpaid losses	10,092,235	10,602,264
Unpaid loss adjustment expenses	14,352,536	12,225,779
Taxes, licenses, fees and other expenses payable	771,775	1,015,725
Net Deferred Tax Liability	199,448	-
Unearned premiums	7,612,824	7,622,543
Advance premiums	1,204,522	1,223,494
Policyholder dividends declared and unpaid	1,038,331	569,686
Ceded reinsurance premiums payable, net of ceding commissions	669,495	562,874
Amounts withheld by company for account of others	2,046,145	1,963,214
Provision for reinsurance	25,631	41,621
Payable for securities	383,016	561,945
Other liabilities	25,000	25,000
Total liabilities	38,420,958	36,414,145
Policyholders' surplus:		
Total Policyholders' surplus	102,485,483	96,307,044
Total Liabilities and Policyholders' Surplus	\$ 140,906,441	\$ 132,721,189

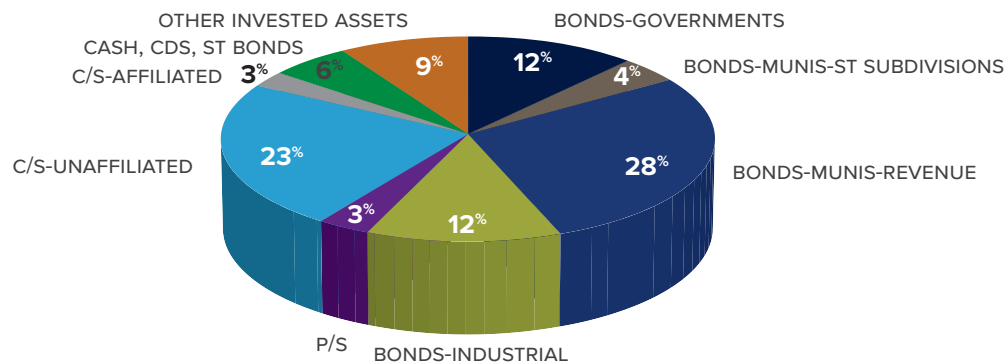
CASH & INVESTED ASSETS – Fair Value 12.31.2021



CASH & INVESTED ASSETS – Fair Value 12.31.2020



CASH & INVESTED ASSETS – Fair Value 12.31.2019



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Vice President of Claims

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Vice President of Enterprise and Operational Risk Management

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Vice President of Finance

Kathy Fisher

Vice President of Underwriting

William R. Stroud, Jr.

Senior Vice President

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President and CEO, Lawyers Mutual Consulting & Services, LLC

Troy Crawford

Managing Counsel, LM Title Agency, LLC

William R. Stroud, Jr.

President, Lawyers Insurance Agency

OUR SUBSIDIARIES: LAWYERS INSURANCE AGENCY, LLC

How does Lawyers Insurance help lawyers?

We have developed valuable expertise in Cyber Liability coverage to offer lawyers the best protection against this serious, evolving threat. A majority of law firms still do not have Cyber Liability coverage. Today, it is as essential as professional liability coverage.

We have managed the NC Bar Association Health Benefit Trust for 20 years. Our rate increases have been lower than medical trend for the last five years, and our average cost is significantly below the average commercial insurance customer. This health plan is only available to NC law firms, and it is a tremendous value add to NC Bar Association membership.

We offer most any coverage that a lawyer or law firm might need. A group Dental program for groups as small as two employees. Expert guidance to assist seasoned lawyers moving onto Medicare. A unique and easy to use Surety Bond program. Any business insurance your firm might need, and access to markets to meet unusual needs.

Each year, we pay a dividend to Lawyers Mutual that directly enhances the dividend paid to Lawyers Mutual insureds.

Highlights

- NCBA Health Benefit Trust covers 9,000 lives
- 99% retention of existing NCBA Health Benefit Trust law firms
- Approaching \$1 million in Cyber Liability premiums
- Excellent rates and benefits
- Paid 21st annual dividend to Lawyers Mutual



WILLIAM STROUD
PRESIDENT



We offer most any coverage that a lawyer or law firm might need.



OUR SUBSIDIARIES:

LAWYERS MUTUAL CONSULTING & SERVICES

By 2021, collaborating with clients virtually seemed normal. And our clients welcomed the flexibility. We collaborated via Microsoft Teams video chats, RingCentral calls, Zoom video calls, as well as meetings on platforms such as Remo.

Innovation is more important than ever. And our clients found themselves reaching out to LMCS to determine what “evolve and thrive” means for them.

HIGHLIGHTS

Continued to build the virtual community, Leading Law. We began holding monthly Leading Law Roundtables which are conversations among our members led by expert facilitators on industry topics such as recruiting and retention, the client experience, and using data in small firms. We have members from across the U.S. and Canada participating in a Mastermind-style format that is designed to help build modern law practices.

Speaking Engagements, CLEs, Publications. We continued to deliver impactful content in a virtual world. With more than 20 speaking engagements and 50 articles and white papers covering topics such as law firm compensation, diversity and inclusion planning, strategic planning, and succession planning, education continued to be a cornerstone of our mission.

We enjoyed “Meeting the Moment” with our clients and encouraging them in their journey to Evolve and Thrive.



CAMILLE STELL

PRESIDENT



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OUR SUBSIDIARIES: LM TITLE AGENCY, LLC

In 2021 LM Title continued to grow our headcount, profitability and service levels. One of our biggest projects was launching a series of live CLEs online. With registrations over 100+ registrants, engagement with the marketplace continues to exceed expectations.

We hired several new team members to allow us to provide industry-leading turnaround times producing commitments, revisions and final policies. The expanded team allows us to focus on improving workflow efficiencies and the overall client experience.

With regard to marketing and communication, we re-launched the lmtitle.com website to spotlight new content areas and to provide clients and future clients a central location to register for our growing program offerings.



TROY CRAWFORD
MANAGING COUNSEL



We hired several new team members to allow us to provide industry-leading turnaround times producing commitments, revisions and final policies.





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www.lawyersmutualinc.com

