

Report on

Market Conduct Examination

of the

Lawyers Mutual Liability Insurance Company of North Carolina

Cary, North Carolina

by Representatives of the

North Carolina Department of Insurance

as of

September 18, 2013

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Raleigh, North Carolina
September 18, 2013

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Commissioner:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a general examination has been made of the market conduct activities of

**Lawyers Mutual Liability Insurance Company of North Carolina
(NAIC #36013)**

NAIC Exam Tracking System Exam Number: NC299-M34
Cary, North Carolina

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of Lawyers Mutual Liability Insurance Company of North Carolina. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that manifested no concerns were omitted.

SCOPE OF EXAMINATION

This examination commenced on August 19, 2013, and covered the period of January 1, 2008, through December 31, 2012, with analyses of certain operations of the Company being conducted through September 18, 2013. All comments made in this report reflect conditions observed during the period of the examination.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of policyholder treatment, marketing, underwriting practices, terminations, and claims practices.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for consumer complaints, sales and advertising, producers who were not appointed and/or licensed, and the use of forms and rates/rules that were neither filed with nor approved by the Department; 7 percent for claims; and 10 percent for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing a violation, the Department issues a reminder to the company.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with Company procedures and practices in the following area:

Consumer Complaints – NAIC company code was not included on the Company response.

Specific violations related to each area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoj.com, by clicking “INSURANCE DIVISIONS” then “Legislative Services”.

This examination identified a single non-compliant practice. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify improper or non-compliant business practices in North Carolina does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company’s practices and ensure consumer protection.

COMPANY OVERVIEW

History and Profile

Lawyers Mutual Liability Insurance Company of North Carolina was incorporated on September 19, 1977, under the laws of North Carolina. The Company commenced business on May 1, 1978.

The Company wholly owns Lawyers Insurance Agency (LIA), which acts as an agent for insurance carriers unrelated to the Company or LIA, Weston Real Estate Holding Company, LLC (Weston) and Lake Crabtree Holding Company, LLC (LCHC) which hold interests in land

and buildings for eventual resale as well as for office space leasing. The Company owns a non-controlling minority interest in Lawyers Reinsurance Company (Lawyers Re) and Lawyers Administrative Workgroup, LLC (LAW).

Company Operations and Management

The Company is a writer of lawyers professional liability coverage and is licensed only in North Carolina. The Company is a non-assessable mutual insurer owned by its policyholder members and was formed for the purpose of providing stability to the legal professional liability market in North Carolina.

Direct written premium for the Company's 2012 lawyers professional liability operations was \$16,777,084. Premiums written in North Carolina between 2008 and 2012 increased approximately 3.9 percent. The charts below outline the Company's lawyers professional liability line of business in 2012 and loss ratios in North Carolina for the examination period.

Line of Business	Written Premium	Percentage
Lawyers Professional Liability	\$16,777,084	100.0
Total	\$16,777,084	100.0

Year	Written Premium	Earned Premium	Incurred Losses	Loss Ratio
2008	\$16,140,495	\$16,057,953	\$ 8,206,373	51.1
2009	\$17,482,451	\$16,802,877	\$12,155,253	72.3
2010	\$18,230,076	\$18,179,507	\$ 8,431,106	46.4
2011	\$16,961,976	\$18,094,065	\$ 3,149,502	17.4
2012	\$16,777,084	\$16,785,354	\$ 1,927,417	11.5

Certificate of Authority

The Certificate of Authority issued to the Company was reviewed for the period under examination. The certificate was reviewed to determine compliance with the provisions of

NCGS 58-7-15. The Company's writings in North Carolina were deemed to be in compliance with the authority granted.

Disaster Recovery Procedures

The Company's Business Continuity plan provides for the prevention of various types of disasters, including human error, computer virus, hardware or system failure, software corruption, natural disaster, and recovery based on the type of disaster. In addition, restoration priorities and recovery process, which includes disaster mitigation, the routine backup of data, designation of alternative work sites, establishing communications, system recovery process, and network recovery processes are detailed in the plan.

Regarding the back-up and storage of electronic data, the Company performs continuous incremental back-ups using Worksmart's DataVault technology, which allows the Company to perform back-ups of all servers. As a result, file restoration can be done in minutes. The back-ups consist of full images of every server, and all DataVault back-ups are duplicated to a device located on site and a secondary device located in Madison, Wisconsin. In cases of server failure, a virtual server can be created using the recovery process detailed in the plan.

POLICYHOLDER TREATMENT

Consumer Complaints

The Company's complaint handling procedures were reviewed to determine compliance with applicable North Carolina statutes and rules.

The Company's complaint register for the period under examination was in compliance with the provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 19, Section 0103. The Company's complaint register was reconciled with a listing furnished by the Consumer Services Division of the Department. All four complaints from the Department's listing were selected for review.

The distribution of complaints requiring a response to the Department is shown in the chart below.

Type of Complaint	Total
Claims	4
Total	4

The Company's response to each complaint was deemed to be appropriate to the circumstances. One complaint was responded to in excess of seven calendar days; however an extension was requested and granted.

The Company was deemed to be in violation of the provisions of 11 NCAC 4. 0123 as one response to a Departmental inquiry (25.0 percent error ratio) did not contain the Company's National Association of Insurance Commissioners company code.

The average service time to respond to a Departmental complaint was four calendar days. A chart of the Company's response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	3	75.0
8 - 14	1	25.0
Total	4	100.0

Privacy of Financial and Health Information

The Company advised it does not obtain personal financial or health information during the application process.

MARKETING

Policy Forms and Filings

Policy forms and filings for the Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. The review was based on the lawyers professional liability line of business.

The Company's lawyers professional liability policy is an independently filed program that utilizes its own rates and forms. Filings were submitted to the Department by the Company.

Sales and Advertising

Sales and advertising practices of the Company were reviewed to determine compliance with the provisions of NCGS 58-63-15.

The Company uses traditional direct marketing materials such as ads, flyers, newsletters, social media, and website content that are approved by management and/or the Vice President of Client Services. The Company advertises in publications targeted for the North Carolina legal community only, including publications by the North Carolina Bar Association, the North Carolina Advocates for Legal Justice, and the North Carolina State Bar. The Company maintains an Internet site at www.lawyersmutualnc.com that provides background information relative to its operations, as well as products and services offered.

No unfair or deceptive trade practices were noted in this segment of the examination.

Producer Licensing

The Company does not employ producers to market its insurance products. The Company markets its products directly to practicing lawyers in North Carolina. The Company appointed four employees and terminated five employees during the period under examination. The appointment and termination forms were submitted to the Department in accordance with the timetable stipulated under the provisions of NCGS 58-33-40 and 58-33-56.

Agency Management

The Company uses a direct marketing approach to market its products. No agency force, neither Company nor Independent, was used during the period under examination.

Social Media

The Company uses social media outlets: Twitter, Facebook, LinkedIn, Byte of Prevention-Company Blog, Pinterest, and videos on Vimeo to build brand, raise its profile, educate insureds, and tell the Company's story (from a historical perspective to law students, new graduates, and attorneys).

The Vice President of Client Services is responsible for all social media from developing strategy, writing and sharing content, educating employees and insureds on how to use social media, and to implementation such as posting on Facebook.

UNDERWRITING PRACTICES

Overview

The Company's marketing philosophy in North Carolina is directed to lawyers professional liability insurance, its sole product. The Company provided the examiners with a listing of active lawyers professional liability policies for the period under examination.

Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. Additionally, the policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

Lawyers Professional Liability

The Company provided a listing of 1,786 active lawyers professional liability policies issued during the period under examination. Fifty policies were randomly selected for review.

The Company's lawyers professional liability coverages were written using independently filed rates. Policies were written on an annual basis. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines. All policy files contained sufficient documentation to support the Company's application of filed rates and premiums charged. All premiums charged were deemed correct.

TERMINATIONS

Overview

The Company's termination procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules. The review was based on the lawyers professional liability line of business.

Special attention was placed on the validity and reason for termination, timeliness in issuance of the termination notice, policy refund (where applicable), and documentation of the policy file. A total of 551 policies were terminated during the period under examination. The examiners randomly selected 50 terminations for review. All policies written by the Company expire at the end of the policy term and new policies are written to replace them; therefore, there were no nonrenewals.

Lawyers Professional Liability Cancellations

Fifty cancelled lawyers professional liability policies were randomly selected for review from a population of 551.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Insured's request	41	82.0
Nonpayment of premium	6	12.0
Rewritten	3	6.0
Total	50	100.0

The Company was not required to issue cancellation notices for 44 of the cancellations reviewed as these policies were cancelled at the request of the insured or coverage was rewritten. Cancellation notices for the remaining six policies stated the specific reason for cancellation. All insureds were given proper and timely notification of cancellation.

All premium refunds were deemed correct. The Company issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

CLAIMS PRACTICES

Overview

The Company's claims practices were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. The review encompassed paid, closed without payment, and litigated claims.

Claims service in North Carolina is provided by the home office in Cary, North Carolina, under the direction of its Vice President of Claims. A claim is deemed reported under the Insuring Agreement when written notice of the claim is received. Once properly notified, the Company assigns the matter to one of the Company attorneys for handling. That attorney then oversees the evaluation of the claim. When a civil action is filed against the Company's insured, Lawyers Mutual retains defense counsel on behalf of its insured to defend the claim. The Vice President of Claims and the President of Lawyers Mutual have the discretion to authorize settlement payments up to \$100,000. For any settlement payments in excess of \$100,000, authority must be obtained from a vote of a committee of the Company's Board of Directors known as the Claims Committee. The Claims Committee meets on a monthly basis to consider such requests for authority. All efforts are made to settle or resolve claims without going to trial. The Company does not utilize the services of independent adjusters.

Paid Claims

The examiners randomly selected 50 of the 488 claims paid by the Company during the period under examination. The claim files were reviewed for timeliness of payment, supporting documentation, and accuracy of payment.

All payments issued by the Company were deemed to be accurate. Deductibles were correctly applied. The Company's average payment time for this type of claim was 292 calendar days. It should be noted that the payment time is a direct reflection of the nature of the claims themselves and the time required to move them through the legal system is in no way indicative of a lack of expeditious handling by the Company.

Closed Without Payment Claims

Fifty closed without payment claims were randomly selected for review from a population of 1,057. The claim files were reviewed to determine if the Company's reasons for closing the claims without payment were valid.

All reasons for denial or closing the files without payment were deemed valid. Claims were denied on an average of 11 calendar days for the 5-year period.

Litigated Claims

Fifty litigated claims were randomly selected for review from a population of 213. The claims were reviewed to determine if the Company had engaged in any unfair claims practices. The review of litigated claims disclosed no violation of the provisions of NCGS 58-63-15.

SUMMARY

The Market Conduct examination revealed the following:

1. Policyholder Treatment
 - a. The Company was deemed to be in violation of the provisions of 11 NCAC 4.0123 as 25.0 percent of the responses to a Departmental inquiry did not include its National Association of Insurance Commissioners company code.

TABLE OF STATUTES AND RULES

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-2-131	Examinations to be made; authority, scope, scheduling, and conduct of examinations.
NCGS 58-2-132	Examination reports.

NCGS 58-2-133	Conflict of interest; cost of examinations; immunity from liability.
NCGS 58-2-134	Cost of certain examinations.
NCGS 58-7-15	Kinds of insurance authorized.
NCGS 58-33-40	Appointment of agents.
NCGS 58-33-56	Notification to Commissioner of termination.
NCGS 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
11 NCAC 4.0123	Use of Specific Company Name in Responses.
11 NCAC 19.0103	Complaint Records.

CONCLUSION

An examination has been conducted on the market conduct affairs of Lawyers Mutual Liability Insurance Company of North Carolina for the period January 1, 2008, through December 31, 2012, with analyses of certain operations of the Company being conducted through September 18, 2013.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of Company operations in the areas of policyholder treatment, marketing, underwriting practices, terminations, and claims practices.

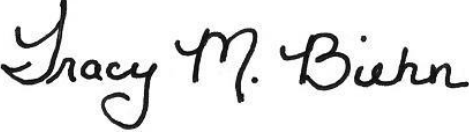
In addition to the undersigned, Kelvin A. Owens and Sharon O'Quinn, North Carolina Market Conduct Examiners, participated in this examination.

Respectfully submitted,



Norma M. Rafter, CPCU
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink that reads "Tracy M. Biehn". The signature is written in a cursive style with a large, stylized 'T' and 'B'.

Tracy M. Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina