

REPORT OF EXAMINATION  
OF THE  
LAWYERS' MUTUAL INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2022

*Commissioners Signature*

A handwritten signature in blue ink, appearing to be 'D. DeLuca', written over a horizontal line.

Filed on June 6, 2024

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Los Angeles, California  
May 15, 2024

Honorable Ricardo Lara  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

LAWYERS' MUTUAL INSURANCE COMPANY

(hereinafter also referred to as the Company). Its home office is located at 3110 West Empire Avenue, Burbank, California 91504.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2017. This examination covered the period from January 1, 2018 through December 31, 2022.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial

statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

### COMPANY HISTORY

The Company was incorporated under the laws of California on June 27, 1978 and commenced business on September 8, 1978.

#### Capitalization

At the Company's inception, the California Department of Insurance (CDI) authorized the infusion of additional capital via the issuance of up to \$24,300,000 in Certificates of Contribution (Certificates) to its policyholders. The funds were solicited in order to provide the surplus needed to adequately capitalize the growth of the Company. The Certificates do not bear interest, and repayment is subject to prior approval by the Company's Board of Directors and the CDI.

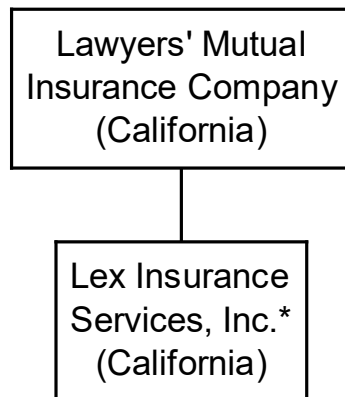
As of the examination date, the Company has repaid a total of \$22,400,000 in contribution certificates. The total policyholder Certificates remaining as of December 31, 2022 was \$1,900,000. No repayment of the principal was made during the examination period.

## Dividends

The Company paid cash dividends to its policyholders in the amount of \$3,585,163, \$2,749,828, \$2,510,139, \$2,320,785, and \$2,290,667 in 2018, 2019, 2020, 2021, and 2022, respectively.

## MANAGEMENT AND CONTROL

The Company is a mutual insurer which is owned by its policyholders. The following organizational chart depicts the Company's relationship within the holding company system. All ownership is 100%.



\*The Company's wholly-owned subsidiary, Lex Insurance Services, Inc. has been inactive since 2003

Management of the Company is vested in an eleven-member Board of Directors. The directors serve staggered terms of five years. Each director must be a policyholder of the Company or a named insured. Following are the members of the board and principal officers serving on December 31, 2022:

## Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Alan K. Brubaker San Diego, California	Attorney Wingert, Grebing, Brubaker, Juskie, LLP
Andrew M. Chick Sherman Oaks, California	President and Chief Executive Officer Lawyers' Mutual Insurance Company
Armand R. Feliciano Sacramento, California	General Counsel Public Policy Advocates, LLC
Craig E. Holden Rolling Hills Estate, California	Attorney Lewis, Brisbois, Bisgaard & Smith, LLP
Gail M. L. Mosse Burlingame, California	Attorney Law Offices of Gail Mosse
Gary E. Davis Oceanside, California	Chairman Lawyers' Mutual Insurance Company
Hal H. Bolen Fresno, California	Vice Chairman Lawyers' Mutual Insurance Company
Kim T. Spirito Palos Verdes Estates, California	Of Counsel McGaughey & Spirito
Royal F. Oakes La Canada, California	Attorney-at-Law
Marisa A. Moret San Francisco, California	Global Director Airbnb
Angela E. Oh Redondo Beach, California	Attorney Mediator California Civil Rights Department

## Principal Officers

<u>Name</u>	<u>Title</u>
Andrew M. Chick	President and Chief Executive Officer
Stuart J. Adlington	Executive Vice President and Chief Operating Officer
Garland Cheng	Treasurer and Chief Financial Officer
Brian A. Rawers	Secretary and General Counsel

<u>Name</u>	<u>Title</u>
Dana M. Ulise	Chief Underwriting Officer
Anne L. Thompson	Chief Claims Officer
Brian Ault	Chief Technology Officer
James P. Englezos	Chief Actuary

### Management Agreements

During the examination period, the Company had four authorized equity managers and one fixed income securities manager to manage the Company's investment portfolio. The majority of the Company's investments are managed by Sun Life Capital Management, LLC. Within the confines of the Company's investment guidelines, each investment management firm has the authority to execute transactions without prior consultation from the Company's management. Management fees are predicated upon the application of a specified percentage to the market valuation of each managed portfolio.

In addition to the above, the Company also maintains an investment consulting agreement with Beacon Pointe Advisors (BPA). Among the services provided by BPA is the historical performance evaluation of the above referenced investment firms. The fees for services by BPA are based on a percentage of the market value of the managed portfolios.

### TERRITORY AND PLAN OF OPERATION

The Company is only licensed in the state of California. The Company provides lawyers' professional liability coverage to members of the California State Bar, primarily to small law firms predominantly with three or less attorneys. Policyholders must be licensed to practice law in California with their primary place of business located within the state. The Company issues non-assessable claims-made policies which include a \$50,000 defense allowance in addition to the policy limits. Policy limits range from \$100,000/\$300,000 to \$5,000,000/\$7,000,000 per claim/ aggregate.

In September 2021, the Company launched a new Lawyers' Insurance Defense Program, insuring defense law firms with six or more attorneys.

During 2022, the Company wrote \$31,500,000 of direct premiums in California. The Company distributes its business on a direct and broker basis. Approximately 60% of the Company’s business is written on a direct basis; the remaining business is produced by its brokerage firms.

REINSURANCE

Assumed

The Company did not assume reinsurance during the examination period.

On January 30, 2023, the Company entered into a Reinsurance Agreement with XL Bermuda, LTD and AXA XL Reinsurance, LTD (XL/AXA), effective January 1, 2023 through December 31, 2023. The Company assumes 10% of the reinsurance portfolio from XL/AXA comprised of assumed reinsurance from various Lloyd’s syndicates. The reinsurance portfolio is highly diversified and includes property, casualty, cybersecurity, marine, and various other lines of business. The Company’s maximum aggregate liability is limited to \$9,800,000. In January 2024, the Company renewed the Reinsurance Agreement, effective January 1, 2024 to December 31, 2024.

Ceded

Following is a summary of the Company’s ceded reinsurance contracts as of December 31, 2022. All reinsurers are authorized.

Type of Contract	Reinsurers	Company's Retention	Reinsurer's Limit
<u>Excess of Loss</u>	65.5% Various Lloyd's Syndicates 12% Aspen Insurance UK Ltd 7.5% Hannover Ruck SE 7% Partner Reinsurance Company of the US 8% Berkley Insurance Company	\$750,000	\$6,300,000 for each claim in excess of \$750,000  \$1,000,000 ultimate net loss for each occurrence in excess of \$750,000  \$2,000,000 in excess of \$2,000,000 in aggregate claims in one policy



Type of Contract	Reinsurers	Company's Retention	Reinsurer's Limit
<u>Excess Cessions</u>	65.5% Various Lloyd's Syndicates 12% Aspen Insurance UK LTD 7.5% Hannover Ruck SE 7% Partner Reinsurance Company of the US 8% Berkley Company	\$2,000,000 of ultimate loss with respect to each claim and each policy, or \$4,000,000 of ultimate net loss in aggregate	\$3,000,000 ultimate net loss for each claim or in aggregate in excess of the Company's retention
<u>Casualty Excess Cessions</u>	89% Various Lloyds Syndicates 11% Aspen Bermuda Limited	\$5,000,000	\$5,000,000 up to \$10,000,000 for each claim and each policy and in aggregate in excess of \$5,000,000
<u>100% Quota Share – Cyber Coverage</u>	100% Houston Casualty Company	\$2,500	\$100,000 per insured event and in aggregate for any one policy in excess of \$2,500

### FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2022. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. There were no adjustments made to the statutory financial statements reported by the Company.

Statement of Financial Condition as of December 31, 2022

Underwriting and Investment Exhibit for the Year Ended December 31, 2022

Reconciliation of Surplus as Regards Policyholders from December 31, 2017 through December 31, 2022

Statement of Financial Condition  
as of December 31, 2022

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 280,171,316	\$	\$ 280,171,316	
Common stocks	50,325,952	218,881	50,107,071	(1)
Real Estate (Schedule A)	5,363,758		5,363,758	
Cash and short-term investments	6,705,998		6,705,998	
Other invested assets	20,975,430	2,344,885	18,630,545	
Investment income due and accrued	2,084,442		2,084,442	
Premiums and agents' balances in course of collection	1,452,091		1,452,091	
Premiums, agents' balances and installments booked but deferred and not yet due	49,682		49,682	
Amount recoverable from reinsurers	380,034		380,034	
Other amounts receivable under reinsurance contracts	583,884		583,884	
Current federal and foreign income tax recoverable and interest thereon	631,272		631,272	
Net deferred tax asset	1,564,106		1,564,106	
Electronic data processing equipment and software	1,155,004	1,155,004	0	
Furniture and equipment	209,123	209,123	0	
Aggregate write-ins for other than invested assets	<u>4,639,397</u>	<u>3,192,041</u>	<u>1,447,356</u>	
<b>Total assets</b>	<b><u>\$ 376,291,489</u></b>	<b><u>\$ 7,119,934</u></b>	<b><u>\$ 369,171,555</u></b>	

Liabilities, Surplus and Other Funds

	<u>Current Year</u>	<u>Notes</u>
Losses and loss adjustment expenses	\$ 62,145,406	(2)
Commissions payable, contingent commissions and other similar charges	96,555	
Other expenses	2,353,718	
Taxes, licenses and fees	124,716	
Unearned premiums	13,353,900	
Advance premiums	1,599,040	
Ceded reinsurance premiums payable	214,000	
Funds held by company under reinsurance treaties	200,000	
Aggregate write-ins for liabilities	<u>9,681,801</u>	(3)
<b>Total liabilities</b>	<b>89,769,136</b>	
Gross paid-in and contributed surplus	1,949,220	
Unassigned funds (surplus)	<u>277,453,199</u>	
Surplus as regards policyholders	<u>279,402,419</u>	
<b>Total liabilities, Surplus, and other funds</b>	<b><u>\$ 369,171,555</u></b>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2022

State of Income

<u>Underwriting Income</u>	<u>Current Year</u>
Premium earned	\$ 27,277,245
Deductions:	
Losses and loss expenses incurred	\$ 19,324,387
Other underwriting expenses incurred	<u>7,737,146</u>
Total underwriting deductions	<u>27,061,533</u>
Net underwriting gain	215,712
 <u>Investment Income</u>	
Net investment income earned	\$ 5,765,154
Net realized capital gain	<u>2,607,823</u>
Net investment gain	8,372,977
 <u>Other Income</u>	
Aggregate write-ins for miscellaneous income	\$ <u>99,817</u>
Total other income	<u>99,817</u>
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes	8,688,506
Dividends to policyholders	<u>2,290,667</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes	6,397,839
Federal and foreign income taxes incurred	<u>553,092</u>
Net income	<u>\$ 5,844,747</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2021	\$ 279,830,386
Net income	\$ 5,844,747
Change in net unrealized capital losses	(7,016,289)
Change in net deferred income tax	1,107,038
Change in nonadmitted assets	(1,546,704)
Aggregate write-ins for losses in surplus	<u>1,183,241</u>
Change in surplus as regards policyholders for the year	<u>(427,967)</u>
Surplus as regards policyholders, December 31, 2022	<u>\$ 279,402,419</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2017 through December 31, 2022

Surplus as regards policyholders, December 31, 2017			\$ 239,933,001
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 38,825,443	\$	
Change in net foreign exchange capital losses	2,334,007		
Change in net deferred income tax	606,839		
Change in nonadmitted assets		494,740	
Aggregate write-ins for gains and losses in surplus	<u>                    </u>	<u>1,802,132</u>	
Total gains and losses	\$ 41,766,289	\$ 2,296,872	
Net increase in surplus as regards policyholders			<u>39,469,417</u>
Surplus as regards policyholders, December 31, 2022			<u>\$ 279,402,418</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Common Stocks

The Company's investment in its wholly-owned subsidiary, Lex Insurance Services, Inc. (Lex), has a book value of \$218,881, but for statutory financial purposes, it was reported as a non-admitted asset. This occurred because the members of the Company's Audit Committee decided to non-admit the asset rather than incur the associated costs of an audit for Lex.

### (1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company's losses and loss adjustment expense reserves as of December 31, 2022, were found to be reasonably stated and have been accepted for purposes of this examination.

### (1) Aggregate Write-ins for Liabilities

The Company sponsors a nonqualified defined benefit pension plan, the Supplemental Executive Retirement Plan (SERP) to supplement the retirement plans for certain executives beyond the limits imposed on qualified plans under the Internal Revenue Code, Section 415. The Company reported Aggregate Write-ins for Liabilities in the amount of \$9,681,801 which represents the qualified defined pension plan liability for SERP as of December 31, 2022.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

None.

### Previous Report of Examination

None.

## ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

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Eduardo Montenegro, CFE (Fraud)  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California

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Anjanette Briggs, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California