

WE HELP  
LAWYERS  
BUILD A  
BETTER PRACTICE

— THE —  
BAR PLAN®

ANNUAL REPORT 2014



## Karen McCarthy | President & Chief Executive Officer

2014 was a strong year for The Bar Plan. Lawyers' Professional Liability direct written premiums remained above \$17 million; policyholder surplus stayed strong at \$17.9 million; new business was just under \$1 million; market share in our domiciliary state of MO grew to 71%; and business from independent producers continued to grow.

Our court bond program remains a true success story. Bond direct written premiums were up by 8% to exceed \$1.3 million; surplus is over \$5.2 million; the combined ratio remained low at 78.9%; market share in our domiciliary state of Missouri for court fiduciary bonds grew to 35%; and we continue to add marketing partners and expand into new markets.

In recent months I have had the pleasure of personally meeting with many of our independent producers. It was a great opportunity to share information about the program, to learn about their needs and challenges, and to hear their suggestions. At every meeting I asked about the level of service and professionalism they receive from The Bar Plan, and I was very gratified by the consistent expressions of appreciation for our high level of both.

An exciting next step in our level of service and ease of doing business is our new administrative software we are installing in 2015. It will replace our 20 year old legacy software and will allow for significant leaps forward in online capabilities, including online applications and access

to information through insured and agent portals. It will also facilitate administrative efficiencies, shortened turnaround times, and improved analytics.

We are fortunate to have a loyal base of insureds who understand the value of a Bar-related mutual insurance company that is focused solely on the insurance needs of lawyers. The Bar Plan is committed to being here for lawyers over the long term with broad coverage, claims managed by attorneys, unsurpassed risk management and practice management services, and top-notch customer service. Being a mutual insurance company means that our focus is and will remain on you, our policyholders.



## Jerome Brant | Chairman of the Board

The Bar Plan was born out of crisis in the Lawyers' Professional Liability market place. Commercial insurance companies were no longer interested in writing this line of business and were either exiting the market or forcing significant rate increases (100+%) on its policyholders. This was not unique to Missouri, it was happening all over the country.

In response to this crisis, State Bar Associations across the country began researching ways to assure that attorneys in their respective states would be able to find professional liability insurance coverage and The Missouri Bar was among them. Sixteen states formed companies for the purpose of providing

lawyers with a financially stable insurance carrier committed to writing lawyers professional liability insurance and serving the legal community for the long term. The effort was hugely successful.

The Bar Plan Mutual Insurance Company is still a mutual insurance company, owned by its policyholders. The Bar Plan's mission is to provide broad coverage at the lowest possible price which is consistent with long-term financial stability of the company. The Bar Plan is committed to the legal community and to this line of business. Unlike most commercial carriers that have entered and exited this market as changes in corporate goals and policies dictate, The Bar Plan

has remained a constant, serving Missouri lawyers continuously since 1986.

Oversight of the company is provided by a dedicated board of directors made up of practicing attorneys as well as a retired CPA and a retired Medical Malpractice carrier CEO. The staff of the company is long-tenured, with the average tenure of the management team being 16 years.

While we are not the largest company, we are financially strong and uniquely skilled at handling lawyers' professional liability. We understand this business and more importantly, we understand your business.



## Greg Klaus | Chief Financial Officer

One of the keys to a successful insurance company is the strength of its balance sheet, and The Bar Plan Mutual Insurance Company has a strong and conservative balance sheet. Total Admitted Assets as of December 31, 2014 are \$47.9 million consisting of high quality bonds with a book value over \$29.1 million, and Unaffiliated Equities with a book value over \$5.5 million. Surplus as Regards Policyholders is \$17.9 million or 37.4% of the Total Admitted Assets. Total Assets and Surplus were relatively unchanged from the prior year despite the Company's underwriting and operating losses, and Total Liabilities decreased from the prior year by 1.3%.

A couple of key financial ratios underscore The Bar Plan's financial strength. Net

Leverage measures the Company's exposure to premium risk and liability risk in relation to its surplus base, and The Bar Plan's Net Leverage ratio is 2.7. For companies like ours the acceptable range is below 6.0. The Bar Plan's Net Premium Written to Surplus ratio which is also a measure of the Company's premium leverage is .59 to 1. For companies like ours the acceptable ratio is below 2 to 1. As you can see both of these ratios are well within acceptable levels and are clear indications of The Bar Plan's strength.

In addition, effective on January 1, 2014 the Company contracted with AAM Insurance Investment Management (AAM) for the management of the Company's fixed and equity portfolios. AAM only manages investment portfolios

for insurance companies and has been doing so since 1982. During 2014 AAM expanded and diversified the bond portfolio with high quality conservative bonds, increasing the bond portfolio from \$23.4 million to \$29.1 million while reducing cash and short term investments by \$5.3 million.

With the strength of our balance sheet as outlined above, and as further evidenced by our "A" "Exceptional" Financial Strength Rating from Demotech, Inc., The Bar Plan Mutual Insurance Company is meeting our mission to be the premier company for Lawyers' Professional Liability Insurance and Court Bonds for the long term.

## 2014 Financial Information

### Statutory Statements of Admitted Assets, Liabilities, & Surplus

(Dollars in thousands) (December 31)

	2014	2013
<b>Admitted Assets</b>		
Bonds	\$29,125	\$23,355
Common stocks	10,545	11,495
Real estate - home office	1,567	1,662
Receivable for securities	6	-
Cash & short-term investments	<u>1,155</u>	<u>6,473</u>
Total cash and invested assets	42,398	42,985
Receivables:		
Premium receivable	3,437	3,454
Reinsurance recoverable on paid losses	517	203
Accrued investment income	176	182
Receivable from subsidiaries	46	19
Federal income tax recoverable	41	37
Premium tax receivable	24	52
Other Assets:		
Deferred tax asset, net	1,024	1,035
Electronic data processing equipment	46	46
Other assets	<u>191</u>	<u>326</u>
<b>Total Admitted Assets</b>	<b><u>\$47,900</u></b>	<b><u>\$48,339</u></b>
<b>Liabilities And Surplus</b>		
Liabilities:		
Reserve for losses	\$13,988	\$14,054
Reserve for loss adjustment expenses	8,090	8,489
Commissions payable	87	81
Accrued expenses	281	211
Taxes, licenses, and fees	-	-
Current federal and foreign income taxes	-	-
Unearned premiums	5,530	5,392
Advanced premiums	665	782
Remittances and items not allocated	168	21
Accounts withheld by company for accounts of others	393	118
Ceded reinsurance premiums payable	595	890
Payable for securities	-	8
Unclaimed funds	23	30
Payable to subsidiaries	28	29
Profit commission payable	-	170
Provision for reinsurance	<u>168</u>	<u>171</u>
Total liabilities	30,016	30,446
Surplus:		
Policyholder contributions	272	278
Surplus note	5,009	5,009
Unassigned surplus	<u>12,603</u>	<u>12,606</u>
Total surplus	<u>17,884</u>	<u>17,893</u>
<b>Total Liabilities And Surplus</b>	<b><u>\$47,900</u></b>	<b><u>\$48,339</u></b>

### Statutory Statements of Operations & Changes in Surplus

(Dollars in thousands) (December 31)

	2014	2013
<b>Net premiums earned</b>	<b>\$10,446</b>	<b>\$10,681</b>
Losses incurred	5,038	4,128
Loss adjustment expense incurred	3,534	2,646
Other underwriting expense incurred	<u>4,021</u>	<u>4,127</u>
<b>Net underwriting gain (loss)</b>	<b><u>(2,147)</u></b>	<b><u>(220)</u></b>
<b>Investment Income:</b>		
Investment income, net of investment expenses	425	524
Net realized capital loss on investments net of federal income tax for 2013 and 2012 of \$0 and \$0, respectively	<u>944</u>	<u>159</u>
<b>Net investment income</b>	<b>1,369</b>	<b>683</b>
<b>Other income, net</b>	<b><u>301</u></b>	<b><u>307</u></b>
<b>Income (loss) before federal income taxes</b>	<b>(477)</b>	<b>770</b>
<b>Federal income taxes expense (benefit)</b>	<b><u>(3)</u></b>	<b><u>(44)</u></b>
<b>Net income (loss)</b>	<b><u>\$(474)</u></b>	<b><u>\$814</u></b>
<b>Other changes in surplus:</b>		
Net increase/(decrease) in non-admitted assets	635	692
Refunds of policyholder contributions	(6)	(9)
Change in net unrealized capital gains/(losses) on bonds and common stock	317	1,043
Change in provision of reinsurance	3	(110)
Change in net deferred income tax	(484)	(143)
Cumulative effect of changes in accounting principles	-	-
Prior year tax period adjustment	-	-
<b>Change in surplus</b>	<b><u>(9)</u></b>	<b><u>2,287</u></b>
<b>Surplus, beginning of year</b>	<b><u>17,893</u></b>	<b><u>15,606</u></b>
<b>Surplus, end of year</b>	<b><u>\$17,884</u></b>	<b><u>\$17,893</u></b>





## Cindy Pulverenti | Vice President - Agency

Our primary focus at The Bar Plan Insurance Agency is to establish relationships with lawyers and independent agents and to assist them with Lawyers' Professional Liability ("LPL") insurance, Court Bonds, and other insurance needs. Our licensed agents are long-tenured and they utilize their knowledge and expertise to provide a professional and friendly experience that helps the customer feel confident in their purchase decisions.

LPL insurance is not a commodity, and we know that differences among policies can have significant and long-lasting impacts on insureds. As a bar-related mutual insurance company, our mission is to provide the broadest possible coverage at the best possible price consistent with

long-term financial stability. We stay abreast of what the commercial carriers are offering and we do our best to educate lawyers about the benefits of being a Bar Plan insured, including coverage, risk management and claims handling. In addition to LPL and Court Bonds, our agents can assist lawyers and law firms with many of their other insurance needs, including a Lawyers' Business Owner's Policy and Workers' Compensation Insurance, and the Group Term Life Insurance and standalone Accidental Death & Dismemberment insurance for Missouri Bar members.

The Bar Plan Insurance Agency stays connected to those we serve in the legal community. The Agency team serves

the legal community in a variety of ways through attendance and sponsorship of legal conferences, seminars, and social events, and our participation on various boards and committees, including the steering committee for the MO Bar Annual Solo and Small Firm Conference. In 2014, our agents and Management team attended over 60 law-related conferences and seminars and assisted thousands of lawyers.

We believe this direct involvement helps us be better prepared to meet the changing needs of the legal community and those we serve.



## Patrick O'Leary | Vice President and General Counsel In Charge of Underwriting

The Lawyers' Professional Liability Underwriting Department is committed to superior customer service and to ensuring that the purchasing and policy management processes are efficient and professional. Our underwriters average more than 20 years with The Bar Plan and they bring their experience and expertise to this commitment every day.

2014 underwriting results were strong. New business applications averaged over 50 per month, and new business premiums exceeded \$900K. Just over half of this new business premium was from the 113 firms that came to The Bar

Plan from other carriers, which is a strong testament to the value and customer service we offer. Overall premium retention for 2014 was a strong 98.3%.

As part of our ongoing commitment to superior customer service, we added an Underwriting Service Representative in 2014 and restructured the department to improve efficiency, flexibility and turnaround times. We are actively assisting with implementation of the company's new administrative software to offer a state-of-the-art customer experience, and expanded online servicing options for law firms and independent agents.

The legal landscape is dynamic and our underwriting process is evolving to meet the new and changing business models among law firms, and the exposures they present. Our underwriters work closely with our Risk Management team to evaluate these exposures and to help our insureds minimize their risks, and ultimately save money on their LPL insurance. We also benefit greatly from the active participation of our management and staff with local, state and national Bar Associations, which allows us to stay abreast of trends and emerging issues affecting the law firms we serve.



## Teresa Niederwimmer | Vice President - Claims

From a claims perspective, 2014 was a good year. We continued to see a decrease in the overall number of claims reported. The number of new claims reported decreased from 240 in 2013 to 227 in 2014.

When looking at the types of claims reported, we continued to see the most significant exposure in the area of Collection and Bankruptcy, specifically claims arising from alleged violations of the Fair Debt Collection Practices Act.

These claims accounted for 19 percent of the total claims reported in 2014. Allegations of violations of the Act came not only from consumers, but also collection clients. Further, it is not just collection firms that are experiencing claims, but general practitioners who do collection work. We do not see claims in this area of the law waning any time soon.

The next most frequent area of practice which resulted in claims was Corporate and Business Organizations with 16

percent, followed by Plaintiff Personal Injury/Property Damage coming in third with 15 percent of all claims reported.

We are also happy to report that frequency, which compares the number of claims reported to the total number of insureds, remained consistent with what we saw in 2013.

The average cost of a closed claim with an indemnity payment has generally risen over the last 10 years. However, we are happy to report that in 2014 the average cost of a closed claim decreased 39% from 2013, and was below the general trend line. One of our goals is to keep rising costs in check through diligent claims management and working with our insureds and defense counsel to identify and take advantage of reasonable claim resolution opportunities. This has the added benefit of shortening the length of time a claim is open and reducing defense costs.

We could not make these strides without our knowledgeable claims staff. All claims are managed by licensed attorneys with experience in the private practice of law before joining The Bar Plan. They understand both the practice of law and the claims handling process, which is essential to quality claims management for our insureds.

Our claims attorneys work closely with our outstanding panel of defense attorneys who are uniquely knowledgeable and experienced in the defense of lawyers' professional liability claims. These defense attorneys are distinguished members of the legal communities we serve and colleagues of our insureds whom they defend.

Looking forward, we will continue to strive to make the claims process more efficient. This, in turn, will reduce both the economic and noneconomic costs to our insureds.

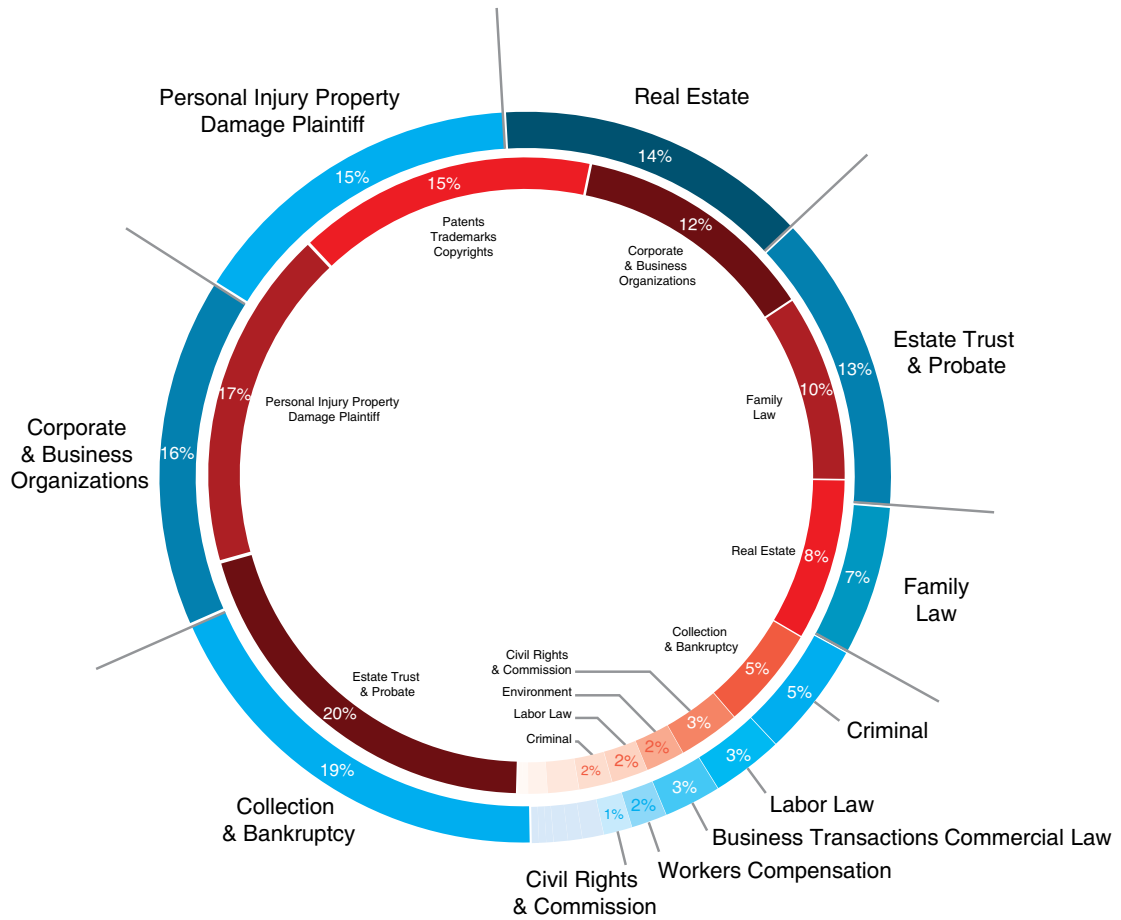


# Open Claims | By area of law

(As of December 31, 2014)

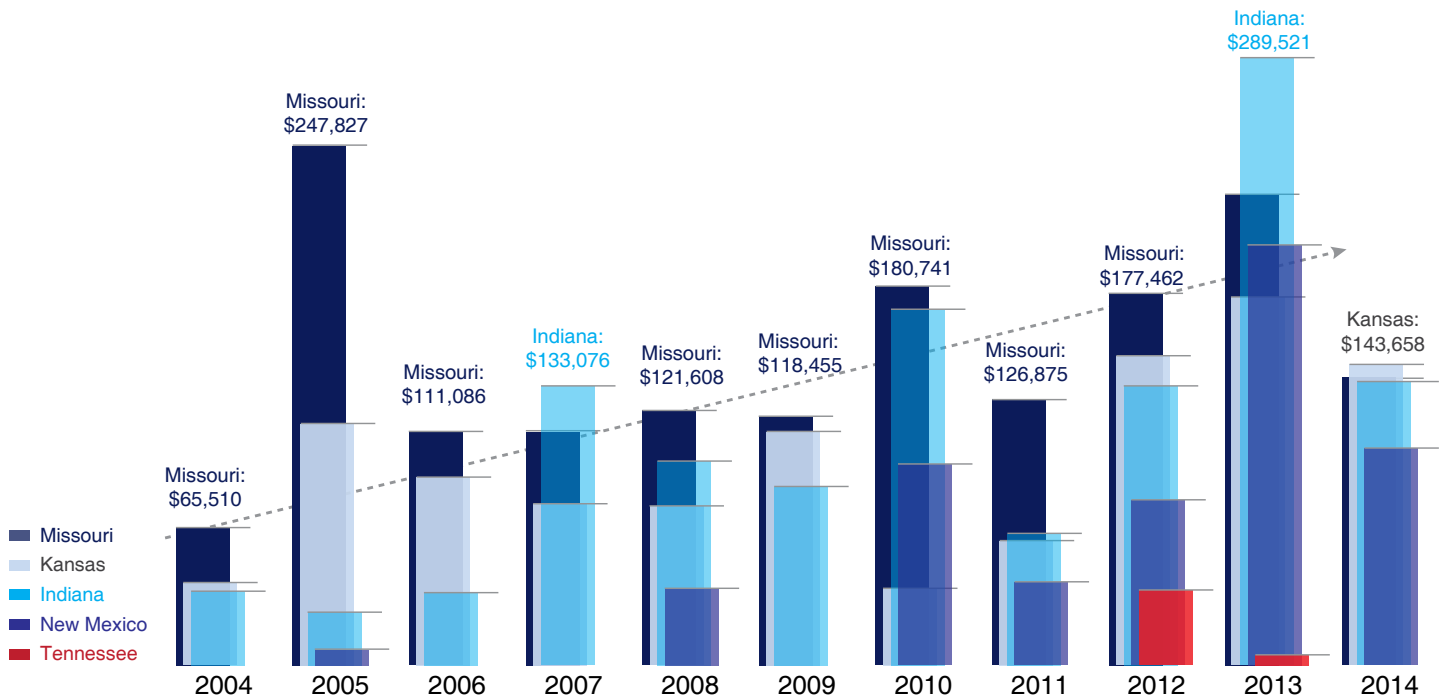
○ Open Claims by area of law

○ Claims Severity by area of law



# Average Cost of Closed Claims | By Closed Year, By State

(With indemnity payment, as of December 31, 2014)



This bar graph summarizes the average cost to resolve a claim over the last 10 years by state. The values at the top of each year highlight the state with the highest average cost of that given year.



## Kim Edgar | Vice President - Surety and Fidelity

The Bar Plan Surety and Fidelity Company and its parent company The Bar Plan Mutual Insurance Company write civil court related surety bonds in all 50 states and the District of Columbia. Our Court Bond program is unique in that we market and sell directly to attorneys and through independent agents.

We have established marketing partners in 18 states, and that number continues to grow. These partners sell our bond program under their own brand. Marketing partners are generally selected because of their expertise and proven track record with insurance products for lawyers.

The Court Bond Program is one of a kind and fills a real need of lawyers and their clients. Our experienced, attorney-managed underwriters focus exclusively on court bonds. This means we understand the unique needs of attorneys and their clients, and we deliver exactly what is needed without frustrating delays and re-writes. We differentiate ourselves by offering a 24-hour turnaround, competitive rates, and easy accessibility through an online application process.

2014 was another good year for the Court Bond Program. The combined program generated over \$1.3M in direct written premium. This represents an 8% increase

over 2013, and exceeds initial premium projections. The Company operated at a 42% loss and LAE ratio for the year. As of Dec. 31, 2014 we had 4,125 bonds in-force in 28 states.

In early 2015, we added a new marketing partner, Texas Lawyers Insurance Exchange (TLIE). TLIE has an exemplary presence and reputation among Texas lawyers, and offers an exciting growth opportunity for our Program. We continue to foster strong marketing partnerships as we expand the Program across the country.



## Chris Stiegemeyer | Executive Vice President - Risk Management

The Bar Plan Foundation's goal is to promote and improve ethics and professionalism in the practice of law. The primary means of accomplishing this goal is through the Foundation's Risk Management seminar series. The Foundation also conducts in-house law firm seminars and participates in state and local bar association conferences. We also offer a law firm audit program and a free risk management telephone hot line for lawyers with ethics or malpractice questions.

The Foundation, established in 1993, awards annual scholarships to third-year law students at several law schools. Each candidate must possess the highest degree of professionalism and ethics. The funding for the scholarships is generated from income from these two programs:

### **Risk Management Education**

In 2014, The Bar Plan Foundation conducted 59 seminars to over 2,000 attorneys and addressed critical risk management and professionalism issues. The Foundation added a webinar

option, which has continued to grow year-over-year.

### **Annual Golf Tournament**

In 2014, the Foundation's Tournament Beneficiary was Share Pregnancy & Infant Loss Support, whose services include bed-side companions, counseling, support group meetings, resource packets, private online communities, training for caregivers, and so much more. The local chapter received \$6,558.50.

**The Bar Plan Mutual Insurance Company**

**Jerome E. Brant**  
Chairman  
Liberty, MO

**Karen R. McCarthy**  
President & Chief Executive Officer  
St. Louis, MO

**Richard G. Steele**  
Vice Chairman  
Cape Girardeau, MO

**Kent O. Hyde**  
Treasurer  
Springfield, MO

**Ann P. Hagan**  
Secretary  
Mexico, MO

**Michael J. Delaney**  
Jefferson City, MO

**John R. Gunn**  
St. Louis, MO

**Brian J. Kinman**  
St. Louis, MO

**Walter R. Lamkin**  
St. Louis, MO

**The Bar Plan Insurance Agency, Inc.**

**Karen R. McCarthy**  
President & Chief Executive Officer  
St. Louis, MO

**Jerome E. Brant**  
Secretary  
Liberty, MO

**Ann P. Hagan**  
Mexico, MO

**The Bar Plan Surety and Fidelity Company**

**Michael P. Gunn**  
Chairman  
St. Louis, MO

**Karen R. McCarthy**  
President & Chief Executive Officer  
St. Louis, MO

**John F. Bild**  
Treasurer  
St. Louis, MO

**Phillip D. Fraim**  
Secretary  
Oklahoma City, OK

**John R. Gunn**  
St. Louis, MO

**Vanita A. Massey**  
Kansas City, MO

**Richard G. Steele**  
Cape Girardeau, MO

**Michael Yarber**  
Austin, TX

**Lois M. Zerrer**  
Springfield, MO

**The Bar Plan Foundation Board of Trustees**

**Karen R. McCarthy**  
President & Chief Executive Officer  
St. Louis, MO

**Christian A. Stiegemeier**  
Executive Vice President, Secretary  
St. Louis, MO

**Keith A. Birkes**  
Jefferson City, MO

**Kent O. Hyde**  
Springfield, MO

**David E. Larson**  
Kansas City, MO

**Jennifer L. Schwendemann**  
St. Louis, MO

**Scott E. Seitter**  
Kansas City, MO



**Executive**

**Karen R. McCarthy**  
President & Chief Executive Officer

**Legal & Compliance**

**Patrick M. O'Leary**  
Vice President and General Counsel

**Kimberly M. Edgar**  
Compliance Analyst

**Tracy E. Britt**  
Compliance Assistant

**Underwriting**

**Gayle E. Tegtmeier**  
Vice President - Underwriting

**Linda J. Langley**  
Senior Underwriter

**Linda Herndon Balagna**  
Underwriter

**Alicia R. Park**  
Underwriting Service Representative

**Thresa E. Betts**  
Underwriting Assistant

**Carole A. Paris**  
Underwriting Assistant

**Agency Operations**

**Cynthia L. Pulvirenti**  
Vice President - Agency

**Mark G. Bockius**  
Regional Sales Manager

**Annette R. Hilyard**  
Account Representative

**Robert D. Murray**  
Regional Sales Manager

**Jeffrey D. Thompson**  
Regional Sales Manager

**Risk Management**

**Christian A. Stiegemeier**  
Director of Risk Management

**Christina Lewis Abate**  
Risk Manager

**Finance**

**Gregory H. Klaus**  
Chief Financial Officer

**Tina M. Daniels**  
Accounting Manager

**Kelly R. Townsend**  
Accountant

**Vicky L. Barteau**  
Accounting Assistant

**Corporate Operations**

**Cynthia L. Pulvirenti**  
Vice President - Corporate Operations

**Kathleen M. Keeling**  
Human Resource Generalist

**Mark G. Bockius**  
Facilities Manager

**Brenda L. Bauman**  
Receptionist

**Taylor N. Townsend**  
Receptionist

**Marketing**

**Susan McCourt Baltz**  
Director of Marketing

**Joseph C. Allen**  
Graphic Designer

**The Bar Plan Foundation**

**Karen R. McCarthy**  
President & Chief Executive Officer

**Christian A. Stiegemeier**  
Executive Vice President - Foundation

**Christina Lewis Abate**  
Risk Manager

**Claims**

**Teresa M. Niederwimmer**  
Vice President - Claims

**Valerie L. Polites**  
Senior Claims Counsel

**Deanna J. Brady**  
Claims Counsel

**Charles S. Coffey**  
Claims Counsel

**Christopher E. Meyer**  
Claims Counsel

**Janet C. James**  
Claims Assistant

**Glennis R. Wagner**  
Claims Paralegal

**Information Systems**

**J. Brian Bostrom**  
Director of Information Systems

**Cynthia J. Sanderbeck**  
Network Administrator

**Katrinna R. Brangenberg**  
Senior Database / Applications Programmer

**Michael D. Barnard**  
Database / Applications Programmer

**Court Bond Program**

**Kimberly M. Edgar**  
Vice President – Surety Underwriting

**Cathleen P. Ahearn**  
Senior Bond Underwriter

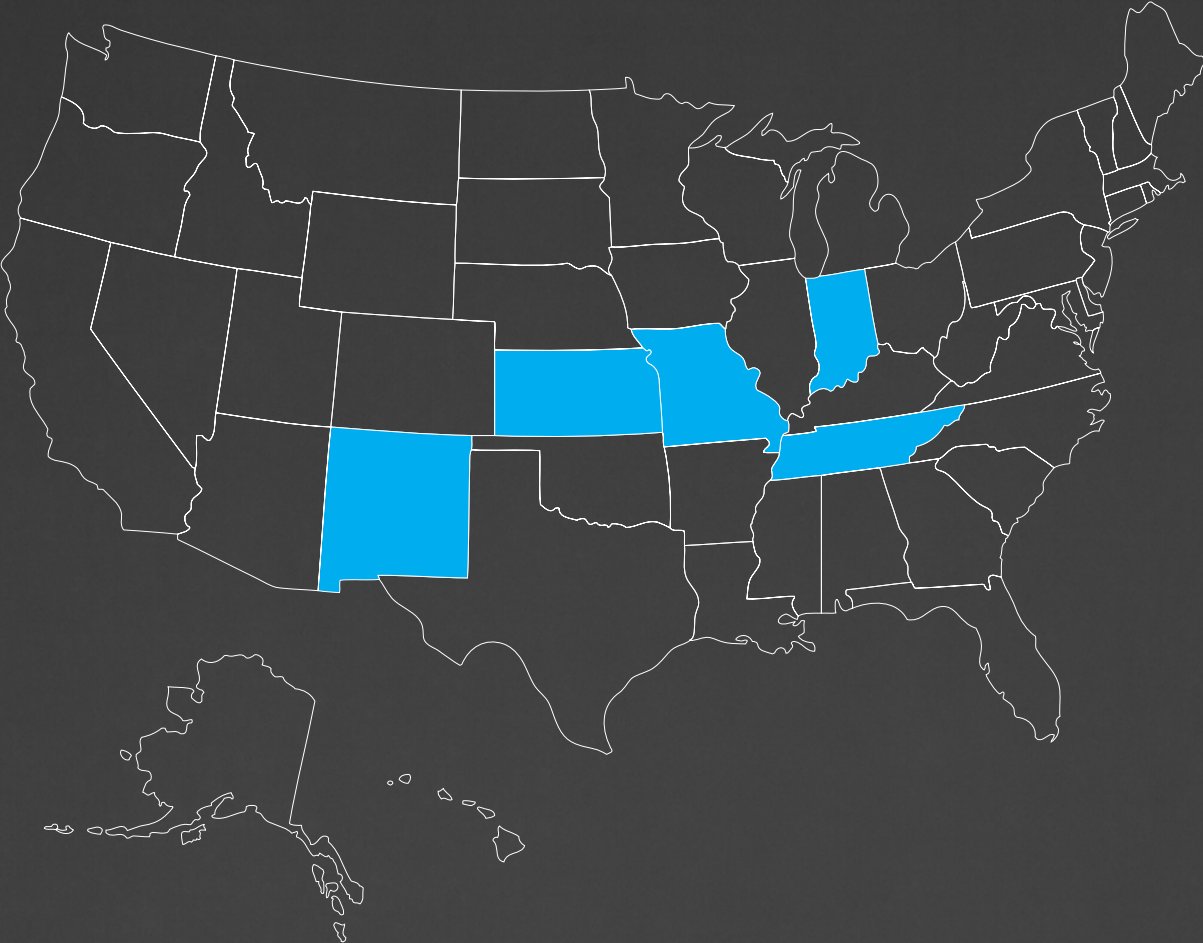
**Deborah J. Eller**  
Bond Underwriter

**Alison M. Kickham**  
Underwriting Assistant

**Brittney E. Barteau**  
Underwriting Assistant



**Where We Write** | Lawyers' Professional Liability Insurance



Where We Write | Court Bonds

