

THE  
BAR PLAN

We Help Lawyers  
Build a Better Practice

ANNUAL REPORT 2013



67%

of Missouri lawyers choose  
The Bar Plan for Lawyers'  
Professional Liability insurance \*



## Letter From Our CEO

The Bar Plan experienced a return to historic norms in 2013, resulting in a profitable year and solid strengthening of policyholder surplus. Net written premiums were up 9% while the total number of open claims dropped by 76 claims. Our Net Income After Tax of \$814,230 represents an 8% return on net earned premium. Our \$2,286,064 increase in surplus represents a 15% year-over-year increase resulting in a Net Written Premium to Surplus Ratio of .6. This ratio indicates a very strong surplus position for the amount of premium written and is significantly stronger than the generally acceptable ratio of 2 times Net Written Premium to Surplus.

In 2013 we not only retained a very high percentage of our insured attorneys, but we also welcomed back former insureds and new attorneys to our company as we wrote 10% more new business firms than the previous year. All of this was achieved while holding the line on expenses which are 10% below 2007 levels and essentially unchanged since 2010. Additionally, our claim reserves remain very conservative as compared to our peers, and showed a redundancy as of December 31, 2013.

Following this very successful year and recognizing that our Company has gone through a period of significant volatility in recent years, we reviewed reports that evaluate the quality of our current insured base in terms of claims experience. We are pleased to report that the quality of our current insured base is excellent based on historical claim experience. Approximately 85% of our insured lawyers have never reported a claim and 93% have loss ratios with The Bar Plan of less than 65%, which represents profitable business. This is strong testament to our underwriting discipline and effective risk management services.

As we move into 2014 and beyond, The Bar Plan will continue to focus on operating efficiencies and improved customer service, with an emphasis on the use of technology to improve the ease of doing business for our customers and other stakeholders. Our goal is to meet and exceed their expectations and to provide quality options to everyone regardless of their level of sophistication or participation in the latest technology.

I recently participated in workshops and exchanges with CEOs of other bar-related insurance companies across the country who encounter similar challenges and opportunities as The Bar Plan. We shared valuable insights, ideas and experiences to further improve this unique and important model for serving lawyers. As mutual insurance companies owned by our policyholders with a mission to serve lawyers over the long term, we offer a unique set of products, services and operational values not available through commercial carriers. We are grateful to our many colleagues, business partners and customers who make this all possible.

Best regards,

A handwritten signature in cursive script that reads "Karen R. McCarthy".

Karen R. McCarthy  
President & CEO  
The Bar Plan

Statutory Statements of Admitted Assets, Liabilities, & Surplus

(Dollars in thousands) (December 31)

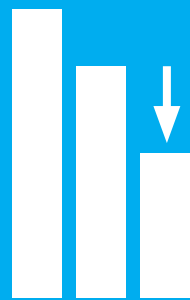
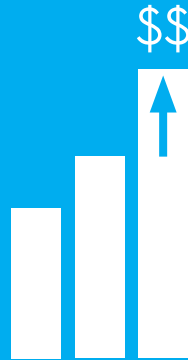
	2013	2012
<b>Admitted Assets</b>		
Bonds	\$23,355	\$28,128
Common stocks	11,495	9,891
Real estate - home office	1,662	1,732
Cash & short-term investments	<u>6,473</u>	<u>4,446</u>
Total cash and invested assets	42,985	44,197
Receivables:		
Premium receivable	3,454	3,154
Reinsurance recoverable on paid losses	203	406
Accrued investment income	182	262
Receivable from subsidiaries	19	196
Federal income tax recoverable	37	19
Premium tax receivable	52	-
Other Assets:		
Deferred tax asset, net	1,035	936
Electronic data processing equipment	46	49
Other assets	<u>326</u>	<u>257</u>
<b>Total Admitted Assets</b>	<b><u>\$48,339</u></b>	<b><u>\$49,476</u></b>
<b>Liabilities And Surplus</b>		
Liabilities:		
Reserve for losses	\$14,054	\$15,296
Reserve for loss adjustment expenses	8,489	10,098
Commissions payable	81	688
Accrued expenses	211	562
Taxes, licenses, and fees	-	27
Current federal and foreign income taxes	-	-
Unearned premiums	5,392	5,323
Advanced premiums	782	592
Remittances and items not allocated	21	43
Accounts withheld by company for accounts of others	118	409
Ceded reinsurance premiums payable	890	561
Payable for securities	8	-
Unclaimed funds	30	16
Payable to subsidiaries	29	-
Profit commission payable	170	194
Provision for reinsurance	<u>171</u>	<u>61</u>
Total liabilities	30,446	33,870
Surplus:		
Policyholder contributions	278	288
Surplus note	5,009	5,009
Unassigned surplus	<u>12,606</u>	<u>10,309</u>
Total surplus	<u>17,893</u>	<u>15,606</u>
<b>Total Liabilities And Surplus</b>	<b><u>\$48,339</u></b>	<b><u>\$49,476</u></b>

Statutory Statements of Operations & Changes in Surplus

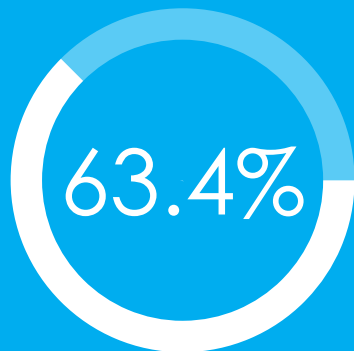
(Dollars in thousands) (December 31)

	2013	2012
<b>Net premiums earned</b>	<b>\$10,681</b>	<b>\$10,455</b>
Losses incurred	4,128	6,428
Loss adjustment expense incurred	2,646	7,976
Other underwriting expense incurred	<u>4,127</u>	<u>4,562</u>
<b>Net underwriting gain (loss)</b>	<b>(220)</b>	<b>(8,511)</b>
<b>Investment Income:</b>		
Investment income, net of investment expenses	524	785
Net realized capital loss on investments - net of federal income tax for 2013 and 2012 of \$0 and \$0, respectively	<u>159</u>	<u>88</u>
<b>Net investment income</b>	<b>683</b>	<b>873</b>
<b>Other income, net</b>	<b>307</b>	<b>282</b>
<b>Income (loss) before federal income taxes</b>	<b>770</b>	<b>(7,356)</b>
<b>Federal income taxes expense (benefit)</b>	<b>(44)</b>	<b>-</b>
<b>Net income (loss)</b>	<b><u>\$814</u></b>	<b><u>\$(7,356)</u></b>
<b>Other changes in surplus:</b>		
Net increase/(decrease) in nonadmitted assets	692	786
Refunds of policyholder contributions	(9)	(14)
Change in net unrealized capital gains/(losses) on bonds and common stock	1,043	202
Change in provision of reinsurance	(110)	(61)
Change in net deferred income tax	(143)	(530)
Cumulative effect of changes in accounting principles	-	131
Prior year tax period adjustment	-	<u>52</u>
<b>Change in surplus</b>	<b><u>2,287</u></b>	<b><u>(6,790)</u></b>
<b>Surplus, beginning of year</b>	<b><u>15,606</u></b>	<b><u>22,396</u></b>
<b>Surplus, end of year</b>	<b><u>\$17,893</u></b>	<b><u>\$15,606</u></b>

15%  
Gain in surplus  
since 2012



4.5%  
Decrease in  
expense ratio



Loss & Loss  
Adjustment Expense  
(LAE) Ratio. Lowest  
level in the last 10  
years

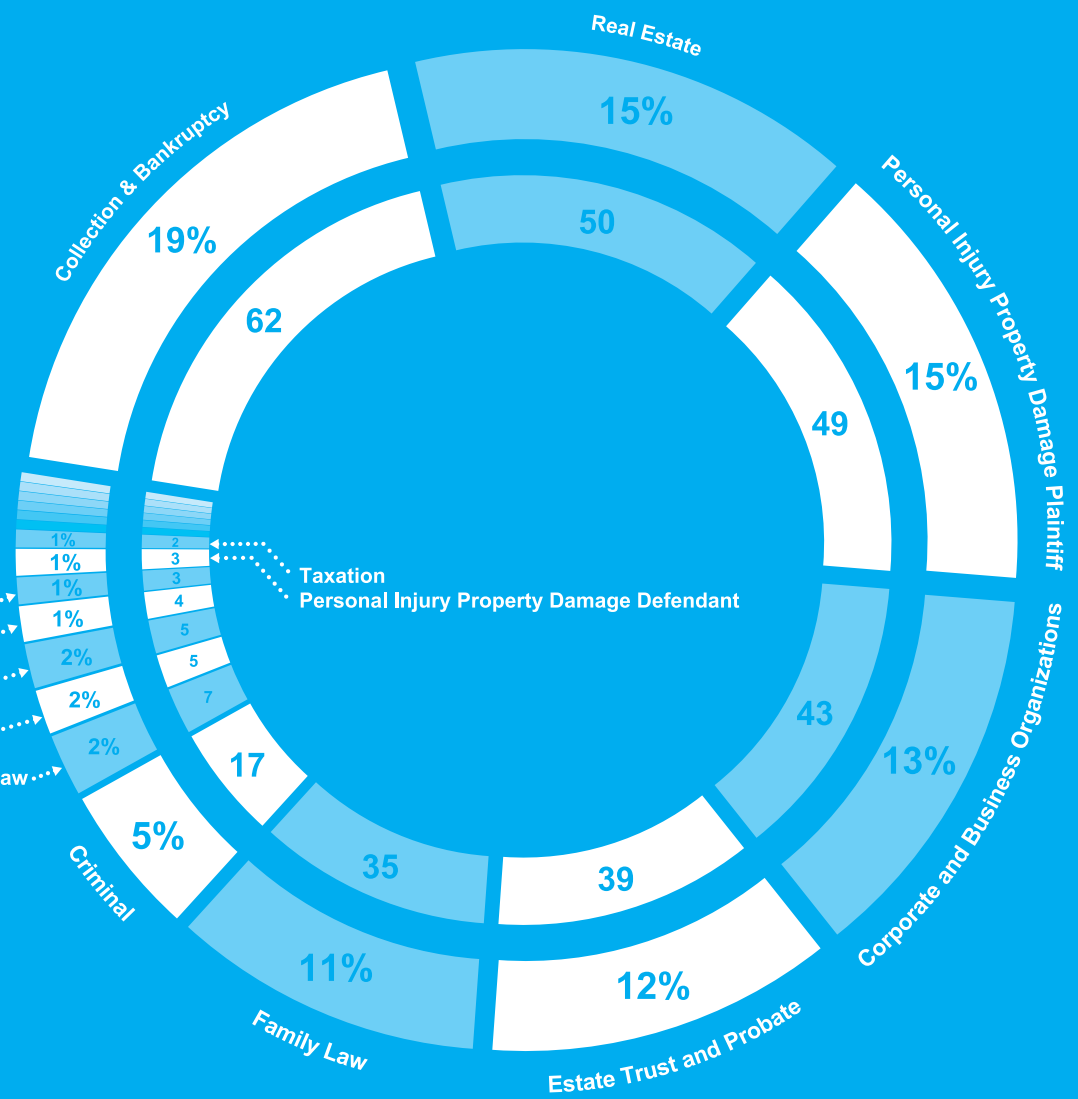
# Open Claims | By area of law

(as of December 31, 2013)



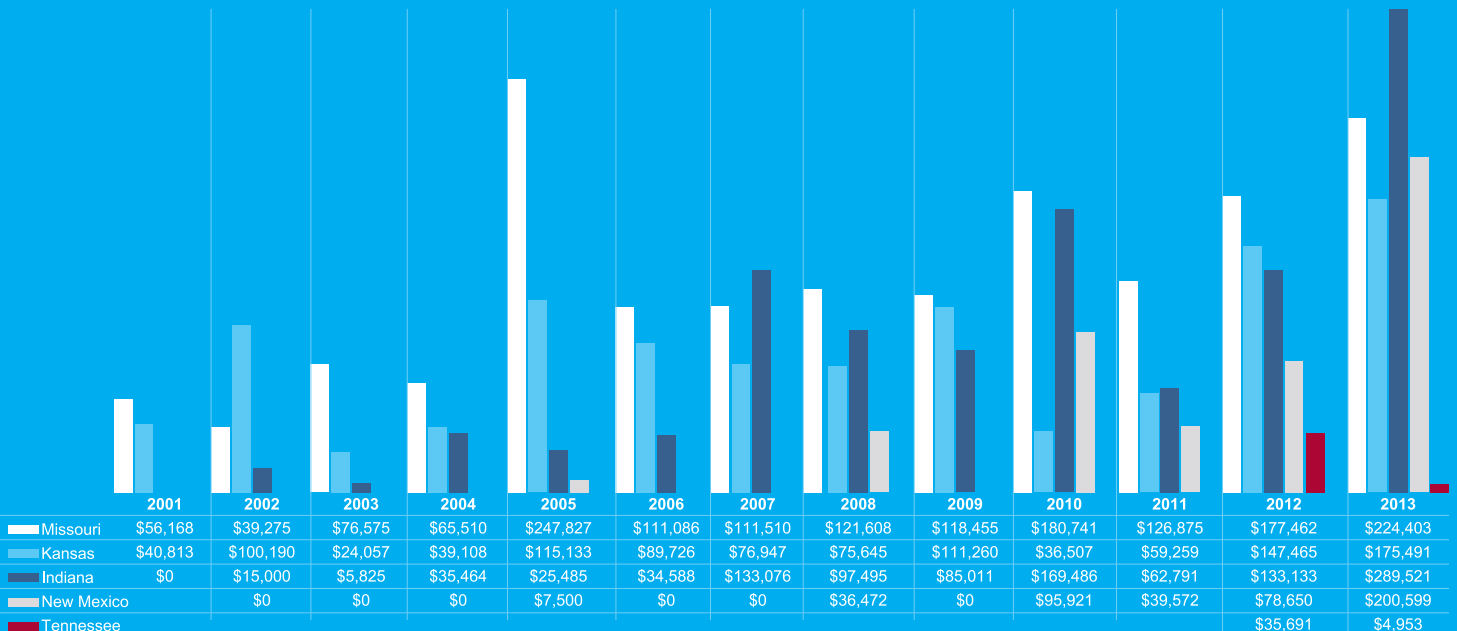
- Securities SEC: 1
  - Construction Building Contracts : 1
  - Environment : 1
  - Local Government : 1
  - Government Contracts and Claims : 1
  - Consumer Claims: 1
- ≤1%

- Patents Trademarks Copyrights
- Civil Rights & Commission
- Workers' Compensation
- Labor Law
- Business Transactions Commercial Law



# Average Cost of Closed Claims | By closed year

(With indemnity payment, as of December 31, 2013)





## Claims in 2013

2013 saw a continued reduction in frequency of claims as reflected in the number of open claims. As of December 31, 2013, we had 330 open claims. This is lowest number of open claims at year-end that we have seen in the last five years.

Despite a reduction in frequency, we continued to see an increase in severity. Of the claims closed in 2013 in which expenses were incurred, five claims resulted in payments in excess of \$1 million dollars. This is a first for The Bar Plan. However, despite the increase in severity, the majority of claims closed in 2013 were closed without incurring any costs.

As in years past, The Bar Plan obtained a number of successful defense verdicts, summary judgments, victories on appeal, and acceptable settlements. This is due in large part to our outstanding defense counsel and cooperative insureds.

Throughout the history of The Bar Plan, the number one area giving rise to claims has traditionally been Plaintiff's Personal Injury/Property Damage. In 2013 we saw this practice area move to the third spot, behind Collection and Bankruptcy (19% of all claims reported) and Real Estate (15% of all claims reported). We are seeing that claims against our

insureds alleging violations of the Fair Debt Collection Practices Act are not simply reserved for collection attorneys; but are a consideration for any practitioner who represents clients in a collection matter.

The Bar Plan benefits from internal and external audits and a comprehensive risk management program which includes risk management audits of insureds to reduce the likelihood of future claims. This serves all insureds, not just those who undertake risk management audits. We also pride ourselves in having licensed, experienced lawyers trained in the intricacies of legal professional liability insurance and claim handling techniques manage our claims. Our claims personnel are ready to assist our policyholders with questions and concerns regarding claim handling and claim avoidance. They are here to guide our insureds from initial report through the conclusion of each matter reported to The Bar Plan.

Looking forward, The Bar Plan expects the number of claims reported to continue to decrease, but the cost of defending legal malpractice claims to continue to be significant. As a result, our goal for 2014 and beyond is to continue to work to keep those costs in check through aggressive and diligent claims management.



## Surety & Fidelity

The Bar Plan Surety and Fidelity Company ("Surety") is a wholly-owned subsidiary of The Bar Plan Mutual Insurance Company ("Mutual") and, together with the Mutual, operates The Bar Plan's Court Bond Program.

The program is licensed in all 50 states and the District of Columbia. It is marketed and sold directly to attorneys online and through a

growing list of marketing partners in various states. Marketing partners are generally selected because of their expertise and proven track record with insurance products for lawyers.

The program continued its steady growth in 2013 and experienced a low loss ratio, signifying excellent claims experience.

The court bond program offers various types of surety bonds that are filed in relation to civil court matters, including probate. We differentiate ourselves by offering a 24-hour turnaround, competitive rates, and attorney-managed underwriters who understand the needs of attorneys and their clients.



## Agency

The Bar Plan Insurance Agency, Inc., a wholly-owned subsidiary of The Bar Plan Mutual Insurance Company, serves a dual role. It provides sales and customer service support for The Bar Plan's Lawyers' Professional Liability Insurance and Court Bond programs.

Additionally, it offers an array of insurance products important to lawyers including Business Owner's Policy, Workers' Compensation insurance, and the Group Term Life Insurance program for The Missouri Bar\*.

Our agents work closely with firms who insure directly with The Bar Plan and independent insurance producers to ensure they receive quality information and service to meet their needs.

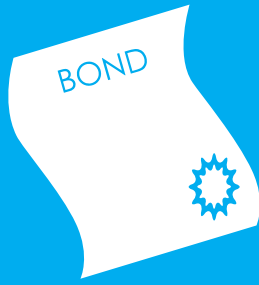
Our agency team understands the importance of being connected with our insureds and the legal community. We stay connected in a variety of ways through attendance at legal conferences, seminars, and social events, and our participation on various boards and committees. In

2013, our agents attended over 60 law-related conferences and seminars and participated on The Missouri Bar's Solo and Small Firm Conference steering committee.

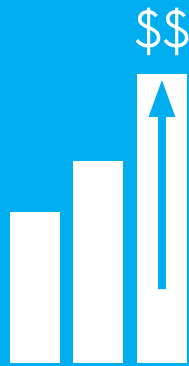
We believe this direct involvement with those we serve fosters understanding which allows us to provide better products and services to meet the changing needs of the legal community.

\* Underwritten by ReliaStar Life Insurance Company, a member of the Voya family of companies. Program available only to The Missouri Bar members.

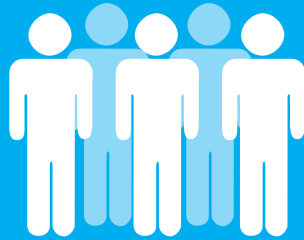




Over  
**4,000**  
surety bonds in  
force in 31 states



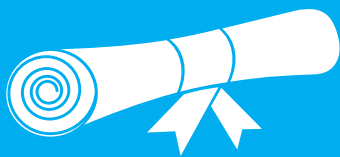
**5%**  
Gain in Surety  
Direct Written  
Premium



**424**  
New Lawyers'  
Professional Liability  
(LPL) firms in 2013

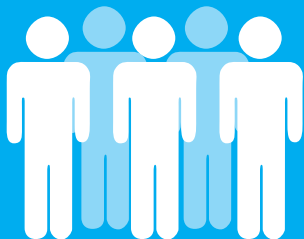


**538**  
New LPL  
lawyers insured  
in 2013



\$11,000

Given in law  
school scholarships



Over

3,000

Attorneys attended  
Ethics CLE series



# Foundation

## Risk Management Education

In 2013, The Bar Plan Foundation conducted 63 seminars and the seminar series was presented to over 3,000 attorneys and addressed critical risk management and professionalism issues.

## Annual Golf Tournament & Scholarship Recipients

In 2013, the Foundation's Tournament Beneficiary was Amethyst Place who received \$7,000 to help provide safe and supportive housing to women recovering from drug and alcohol addiction, and their children. In addition to our beneficiary, The Bar Plan Foundation awarded scholarships to the following:

**Sara Christensen**, the recipient of the Richard P. Sprinkle Scholarship (\$1,000), was a Founder and first Chief Justice of the UMKC –Law School Board of Barristers drafting its organizational constitution and coordinating its initial writing curriculum for trial advocacy concepts and skills. She developed the curriculum for a week-long camp of the Blue Valley School District for 7th-9th grades on the Bill of Rights and Students' Rights and worked with Blue Valley Northwest High School students in preparing for the State and National level congressional hearing We the People Competition.

**Ashley Grace** of UMKC- Law School is The Bar Plan Foundation's Roy A. Larson Scholarship (\$2,500) recipient. Rachel contributed a top-ranked Comment to and was the Articles and Symposia Editor for the UMKC Law Review. She served as President of the Emissary Program (designed to attract strong new students to the school), a federal district

court clerk, an intern at Legal Aid, and an intern at the U.S. Attorney's Office. She received the Joseph E. Stevens, Jr. memorial Prize for outstanding legal writing and served as Membership Chair for the Association of Women Law Students.

**Aaron Friess** attended Washburn University - School of Law (\$2,500) where he ranked third in his class. He received the 2013 Judge J. Richard Foth Writing Award for appellate brief writing, served as Editor-in-Chief of the Washburn Law Journal and served on the Student Committee for Faculty Recruitment.

**Scott Sergent**, before entering the University of Missouri - School of Law (\$2,500), served for eleven years as a municipal police officer. As a law student, Scott was on the Dean's List in 2012/2013, was a member of the Criminal Law Association and Phi Delta Phi, recognized as the 2012 Top Moot Court Oral Advocate, attained Eagle Scout status in 1991. During law school he served as a volunteer in his children's Parent Association, as an Assistant Scoutmaster, and on the Board of Directors of the Columbia Credit Union.

**Amanda Hildebrand** attended Washington University (\$2,500) where she served as Vice President of the Immigration Law Society, was a member of the Women's Law Caucus and worked with the Metropolitan St. Louis Equal Housing and Opportunity Council to promote awareness of equal housing laws and rights for the LGBT community.



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