

Report for:
Legal Mutual Liability Insurance Society of Maryland
Prepared by Minnesota Lawyers Mutual Insurance Company
As Conservator under Maryland Senate Bill 886
December 30, 2015

Legal Mutual Liability Insurance Society of Maryland (Legal Mutual) continues to be administered by Minnesota Lawyers Mutual Insurance Company (MLM). Legal Mutual has minimal activity other than claim administration. As of the end of the third quarter of 2015, there were 13 remaining open claims. Two additional claims have been reported during the fourth quarter of 2015.

24-110 (F) states that the conservatorship terminates on the earlier of:

- 1) The exhaustion of the assets of Legal Mutual; and
- 2) The date when all claims asserted against Legal Mutual before the BAR DATE are satisfied or otherwise settled.

Per this section, MLM assumed it would be administering claims well beyond January 1, 2016 (BAR DATE). Recently, the Maryland Insurance Administration (MIA) determined that Senate Bill 886 Section 8 repeals 24-110 and Section 3 terminates MLM's conservatorship on December 31, 2015. Once this was determined, MLM initiated discussions with the MIA and the Maryland Property & Casualty Insurance Guaranty Corporation (PCIGC) to determine the best course of action to transfer the administration of Legal Mutual from MLM to the PCIGC. Though the talks have occurred over a very short timeframe, MLM and the PCIGC have been very cooperative in charting a course of action.

The full transition of Legal Mutual administration will be completed during the first quarter of 2016. The remainder of this report outlines the items outstanding that need to be accomplished to complete the transition. Given the short planning timeframe, there are likely additional items that have yet to be contemplated, but MLM and the PCIGC will work diligently to have the full transition completed before March 31, 2016.

ASSETS

Legal Mutual has a Money Market account with PNC Bank which satisfies the Maryland state deposit requirements. The PCIGC will work with the MIA to get those funds released. This will require approvals from MLM and the MIA.

Legal Mutual owns common stock from NAMIC (valued at \$8k) which allowed it to purchase E&O and D&O insurance at competitive rates. There is no need to purchase additional E&O or D&O coverage. MLM has initiated the process to sell this security. This should be completed before the end of the first quarter.

There are significant amounts due from reinsurers (\$140K). Legal Mutual utilized US Re as a broker for the reinsurance treaties generating the receivables. MLM has requested reimbursement from US Re. Unfortunately, there is little incentive for the reinsurers (or the broker) to satisfy this request quickly. MLM has committed to do whatever it can to press for speedy recovery of these funds in the next 45 days.

There was \$280k in the Legal Mutual checking account as of 9/30/2015. MLM will retain this account for the first few weeks in January as there are additional checks that need to be processed. The PCIGC will either assume the checking account or establish a new account and funds will be transferred in late January. Under the second option, MLM will work with the PCIGC to ensure that all outstanding checks have cleared or are reissued before the current checking account is closed.

LIABILITIES

The primary liabilities of Legal Mutual are reserves for losses and loss adjustment expenses. MLM will copy all current open claim files and send physical hard copies to the PCIGC in January. Claimants will be notified of the transition. MLM will be available for consultation on any claim item through the transition.

There is one open claim that is currently 100% reinsured by MLM. MLM will work with the insured to transfer the obligations of Legal Mutual to MLM, which would allow MLM to make payments directly for this claim. Assuming MLM can reach an agreement with the insured, MLM will retain the administration of this claim.

There is a very small premium tax amount due to the MIA. MLM will make this payment and file the 2015 Maryland Premium Tax Return. All other known premium tax amounts owed to or from the MIA have been resolved.

MLM issued a \$55,000 surplus note to Legal Mutual in 2010. Interest on the note has not been paid since June of 2011. MLM has requested that the MIA allow Legal Mutual to pay the principal and outstanding interest (\$14,850) to MLM to satisfy the note prior to the transition of the checking account. Legal Mutual cannot payoff this note without the approval of the MIA.

OTHER TRANSITION ITEMS

Legal Mutual has one extended reporting endorsement that was renewed in 2015. MLM reinsures this policy 100%. MLM will offer this insured a MLM policy to cover the same risk on a direct basis in 2016. Assuming this insured is willing to accept a MLM policy, there will be no outstanding policies for the PCIGC to administer.

When MLM took over the administration of Legal Mutual in 2006, all of the old underwriting and claim files were placed in storage in Maryland. All information subsequent to 2006 has been maintained by MLM electronically. MLM will continue to maintain the Legal Mutual data and make it available to the PCIGC whenever needed. The documents in storage may be needed if claims are reported to the PCIGC after January 1, 2016. The PCIGC is evaluating Senate Bill 886 further to determine if they are required to accept additional claims. Once that determination has been made, the PCIGC will decide what to do with the documents in storage. Currently, the storage costs about \$508 per month. MLM will transition storage access to the PCIGC in January.

Legal Mutual is currently in a dispute with Armour Re over reinsurance premiums on treaties from the 1990s. Armour Re claims that an additional \$72,000 (plus interest) is owed to them from Legal Mutual. Legal Mutual has taken the position that the issue was resolved in 2006 and no additional funds are owed. Further, Legal Mutual claims that Armour Re is barred from seeking arbitration due to their waiting an unreasonable amount of time to submit their claim. The two parties attempted to negotiate the dispute, but an acceptable settlement could not be reached. Last week MLM rejected Armour's

most recent offer and terminated negotiations. The PCIGC has indicated they are not established to resolve anything beyond a policyholder claim. Consequently, their position will be that Armour Re is barred from seeking damages from them.

MLM will put together the 12/31/2015 financials for Legal Mutual in January. Thereafter, the financial reporting responsibilities of MLM will be complete. MLM is prepared to transfer all necessary accounting records to the PCIGC in the first quarter of 2016. MLM has contracted with Buffamante Whipple Buttafaro, PC in the past to complete the Legal Mutual federal income tax return. MLM can assist the PCIGC with this process for the 2015 return, if necessary.

As a claim handling organization, the PCIGC is not accustomed to running other aspects of an insurance operation. They are currently researching the legal obligations and procedural issues that may cause them difficulties in the future. They intend to work closely with the MIA and MLM as they navigate this process.

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