



LUMBERMEMO

PENNSYLVANIA LUMBERMENS MUTUAL INSURANCE COMPANY | INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY

GROWTH & TRENDS REPORT



John K. Smith, *President & CEO*

You may have recently received our annual report that outlined the success we achieved in 2016 as an organization. We are also pleased that A.M. Best, the most widely recognized provider of ratings and financial data for the insurance industry, reaffirmed our rating of A- (Excellent). Our results continue to be acceptable as we wade more deeply into 2017.

Interestingly, we are off to the strongest start we have had in nearly a decade for new business development, while our ability to retain customers upon renewal is close to record highs. We believe that these results are a reflection of the value we demonstrate to our clients and the level of risk management and insurance we bring to wood-related businesses throughout America. Apparently, many of you agree.

Recently we have noticed a number of past clients returning to the fold. We feel this is due to competitors who have jumped into the niche thinking they had a better approach, but have become so overwhelmed with losses they are exiting almost as quickly as they entered.

We are exceeding our premium budget both on a new and renewal basis. Our losses, while a little bit higher than we would like, are well within expectation and our expenses continue to remain stable due to the aggressive expense management programs in place.

Over the past four or five months, I have received a significant number of calls regarding trends in the commercial automobile marketplace. PLM and almost every other major commercial auto insurer in the U.S. have embarked upon broad-based programs to address unprofitability associated with this line of business. While many are talking about distracted driving being a problem, in my estimation, the issues in the commercial auto market reach much further than that.

Utilization of commercial vehicles has surged as a result of the rebound in housing and the economy—not only in the lumber industry, but for business in general. Hence, there are more commercial vehicles on the road today. Now, the drop in the price of gas, reduced unemployment, and an increase in consumer confidence have crowded the roadways further with a significant surge in private passenger automobile travel. This is occurring at a time when infrastructure projects focused on America's highways have increased road hazards significantly!

We all know how difficult it is to hire and retain quality drivers. There are more inexperienced drivers on the road who continue to increase the frequency of losses to a significant extent. If you have been driving in urban areas lately, something you may have noticed is the number of bikes on the road. This has caused further angst. Finally, we add the issue of distracted driving—and I don't just mean texting and cell phones. In today's vehicles there are more radios, gadgets, and navigations systems that all contribute to additional distractions.

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The difficulties in the commercial auto market are visible on the claims side, as well. The cost to repair vehicles, including the sheet metal involved, has increased. Medical costs are also skyrocketing.

So, what is the solution? We are closely underwriting each of our renewals, enhancing our loss control operations and attempting to provide insureds with more extensive support for various safety vehicle training programs. We have looked not only at the previous loss history of our insureds, but have attempted to look into the future to better understand what pricing will support losses in the pipeline. All in all, PLM and the insurance industry are enduring significant losses. At the end of the day we can expect pricing to rise—in some cases significantly—not only at PLM but in the commercial auto marketplace as a whole.

If you want to talk commercial auto loss control, please feel free to contact Doug Hoyle, our Loss Control Director, at dhoye@plmilm.com or 267-825-9128.

We recently held our Annual Policyholder meeting and were

delighted to add two additional Board members to the PLM and ILM Board of Directors. Both names might be familiar to some of you. Cally Fromme, Vice President of Development at Kodiak Inc. and W. Craig Myers, recently retired from PLM. Both agreed to be nominated to our Board of Directors and were elected during our April policyholder meetings.

Further, the Board was pleased to appoint four of our fellow employees to Assistant Vice President positions: Traci Barber, AVP of Customer Service; Kathleen Dalton, AVP of Operations; Tricia Kilrain, AVP Field Operations Western Region; and Bob McSorley, AVP Field Operations Northeast & Mid-Atlantic Regions. They were all recognized by the Board for their outstanding expertise and contributions to our clients and to PLM. Further information is available later in this document regarding these individuals.

Should you have any questions or comments please feel free to direct them to me at jsmith@plmilm.com or give me a call at 267-825-9246.



THE DOVETAIL: JOINING SAFETY WITH OPERATIONS

WHAT NEGLIGENT ENTRUSTMENT MEANS FOR YOUR BUSINESS

F. Doug Hoyle, *Loss Control Director*



When you ask someone to drive on behalf of your company, you are passing on both a massive responsibility and, arguably, your implicit trust. When that trust is considered misplaced, the concept of negligent entrustment applies—one which could have expensive repercussions for companies whose employees operate vehicles or machinery.

Negligent entrustment occurs when one party allows another to engage in an activity, like driving a car, when the first party knows or should know that the second lacks the knowledge or experience to safely do so, creating a risk of harm to others. (Please keep in mind the legal definition varies from state to state). This is often applied to claims involving motor vehicles, but it may apply to heavy equipment and potentially dangerous tools.

A negligent entrustment lawsuit can cost a company millions of dollars when a jury awards the plaintiff punitive damages. Many insurance policies do not cover punitive damages, and some states do not allow punitive damages to be covered by insurance. Even if your policy does cover punitive damages, the size of a negligent entrustment settlement may exceed your automobile liability/umbrella liability policy limits.

However, 95 percent of automotive accidents are caused by human error. That means companies can reduce the risk of errors by addressing driver selection. Companies should consider:

- **A fleet safety policy:** *Develop and implement a formal policy that includes minimum driver qualification standards and disciplinary guidelines.*
- **A job application:** *Ask applicants to list all driving violations or accidents for the past five years, and ask them to authorize the employer to obtain and review motor vehicle records (MVR) on a regular basis.*
- **Proof of license:** *Before allowing anyone to drive a vehicle for company purposes, obtain, inspect, photocopy and put on file proof of a valid driver's license. If the individual has lived in other states during the previous five years, obtain drivers' license information for those states so that the driving records for them can be checked as well.*

Visit www.plmilm.com/lm-negligent-entrustment/ to read the full article.

THE FINANCE CORNER

HARD WORK PAYS OFF: IHLA AND OLA ENJOY DIVIDEND PAY OUT

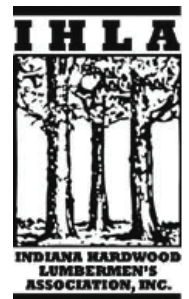
It's that time of year again – when we can recognize plan groups for their attentiveness to the bottom line with a monetary award. We are happy to announce that PLM/ILM has paid dividends to Indiana Hardwood Lumbermen's Association (IHLA) and Oklahoma Lumbermen's Association (OLA), two of our Safety Group Dividend Plans.

At the end of June, PLM/ILM paid a five percent dividend to the participating members of the IHLA Safety Group Dividend Plan. The group ended their 2016 plan year with an impressive loss ratio of just below 26 percent, earning the group their dividend. With 56 members in the group, dividends totaled \$243,335.

Also in June, the OLA Safety Group Dividend Plan received dividends for their 2016 plan year. OLA achieved a loss ratio of less than 42 percent, earning the group a five percent dividend as well. The group's 24 members received dividends totaling \$67,727.

We are pleased to mail or deliver checks in person to all the participating members.

For more information on the recent dividend payouts or on any of our 13 dividend plans, please contact Susan Cho at 267-825-9350 or at scho@plmilm.com. Dividend program information can also be found on our website at www.plmilm.com/dividend-programs/.



DON'T LET GOOD EVIDENCE GO BAD

Tony J. Sciarrino, Esq., *Director of Claims Litigation*

If a vehicle in your fleet is involved in a collision, you have a duty to preserve both the electronic and physical evidence related to that accident. If a customer is injured in a trip and fall incident in your store, you have a duty to save the video of that incident. Whether the evidence is electronic or physical and even if it paints your business in a negative light, you have a duty to preserve it. The failure to do so can expose you to an allegation of spoliation of evidence which can have serious legal ramifications including negative jury instructions, sanctions and, in some states, a separate cause of action against you.

The availability and utilization of electronic evidence has grown dramatically over the last 20 years. More and more businesses utilize surveillance cameras, both in their stores and in their facilities. Most companies utilize electronic record keeping, extended email storage and a variety of other technologies designed to save information. Further, many vehicles utilize black box technology that records speed, brake and steering inputs. The vehicle saves such data in the event of a collision.

How important is it to preserve evidence?

As the availability and variety of evidence has increased, so has the need to preserve it. The courts have reasoned that it is an important requirement that the parties to litigation preserve relevant evidence to prevent one party from subverting the fair administration of justice by destroying evidence.

A recent case that took place just blocks away from our Philadelphia offices demonstrates the importance of properly preserving evidence (*St. Clair v. 1511 Locust Tavern C.P. Phila. No. 140300915*). In this case, the patron of a bar/restaurant claimed that the bar over-served another patron who then assaulted and injured him. The bar advised the victim that they had surveillance tapes of the incident. When suit was filed months later, the video did not exist any longer. **Visit www.plmilm.com/lm-evidence/ to read the full article.**



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PLUMB SAFETY



CHECK IT OFF: BUILDING & PREMISES SECURITY

With all the talk in the news about cybersecurity, it may seem as if the physical security of businesses is taking a back seat. But it remains as critical as ever to secure buildings, equipment, vehicles, property and other physical, business assets.

We recommend taking the time to regularly inspect the state of your physical security. To streamline that process, we have created a checklist to help you review your building security and premises safety. Visit www.plmilm.com/building-security-checklist/ to access it.

If you're asking yourself, "What's a tamper-proof screw?" or "Why is my list of action items so long?", then please reach out. Doug Hoyle is available to help you assess your security practices and answer your questions, call 267-825-9128 or email dhoyle@plmilm.com.

NEW BOARD MEMBERS AND OFFICERS JOIN PLM LEADERSHIP

PLM welcomed two new board members and promoted four officers at our April board meeting. These new company leaders represent the best of PLM: experienced, knowledgeable and committed to our insureds.

Cally Fromme is familiar to many of you reading as a leader in the lumber and building materials industry. She served as president and CEO of Zarsky's Lumber of Victoria, Texas until the company was sold to Kodiak Building Partners in 2015. Now, she is vice president of business development for Kodiak Building Partners. Plus, Ms. Fromme is currently a member of the Executive Council on Construction Supply and previously served as a board member of Lumber Merchandising Corp (LMC) and Lumber & Building Materials Institute (LBMI), as well as a past chair for the board of the National Lumber and Building Material Dealers Association (NLBMDA).

With more than 45 years of experience in the insurance industry, W. Craig Myers is no stranger, either. He has broad experience in the insurance industry, working with agencies and insurance carriers alike on product management, sales, underwriting and profit centers—including 11 years with PLM. Visit www.plmilm.com/lm-new-board-members/ to read the full article.