



# LUMBERMEMO

PENNSYLVANIA LUMBERMENS MUTUAL INSURANCE COMPANY

## GROWTH & TRENDS REPORT



John K. Smith, *President & CEO*

**T**he first half of the year is behind us and our results are mixed depending upon the angle from which you view them. From a premium production standpoint, we are having a banner year with premium surging well above our expectations. This premium production windfall is driven by a record number of customers choosing to renew their coverages with PLM. Our retention of business upon renewal has jumped past 90 percent, the highest I have seen it in my almost 20 years at PLM, perhaps even the highest I have seen it in my 42 years in the insurance business. To think that more than 90 percent of our insureds had the faith and confidence in the Pennsylvania Lumbermens team to renew their coverages with us this year is simply incredible. Be assured that we will not rest on our laurels. We start each day with the thought, what can we do to improve upon the value of an insured's relationship with PLM?

Just as importantly, we have enhanced our ability to reach out and bring in new customers. We are having an exceptional year from a new business standpoint, as we've proved to many new clients that PLM is the company in which they should place their faith and confidence! We are indeed appreciative and thankful.

### GOOD NEWS, BAD NEWS

Surging lumber prices have caused many of our insureds to re-evaluate the level of coverage that they carry on their inventory. We are receiving a record number of requests to increase insureds' stock coverage as a result. The truth is that just about all of our insureds should be reacting to surging lumber prices and requesting us to increase their coverage on stock. I think many would find themselves underinsured should a loss occur if they have not adjusted their coverage values accordingly. At the same time, working hand-in-hand with many of our insureds, our Business Development Representatives (BDRs) and Loss Control Representatives are reviewing insureds' building coverage limits and are finding many with inadequate coverage as a result. We are running "core logic" valuations to assist both insureds and PLM in determining adequate building values. This strategic initiative has added additional premium to PLM.

From a profitability standpoint, the news is not as positive. A horrible January underwriting loss driven by bad weather (where we had to tap into our CAT reinsurance program), an abnormally large number of fires, as well as a number of costly auto and general liability losses conspired to create a hole in our profitability that we have been attempting to fill ever since. Interestingly, we have had multi-million dollar fires in every segment of our business with retail wholesalers, light manufacturers, and heavy manufacturers negatively impacted. This is indeed unusual. Our policyholder surplus has taken a hit as a result, but still remains extremely strong and is a reflection of our conservatively managed balance sheet.

### CONCERNS CONTINUE FOR COMMERCIAL AUTO

I would like to take a moment to further discuss with you two issues. First, an issue that affects everyone, whether they insure their commercial auto exposures with PLM or another company in the industry. I have had the opportunity to talk to many of my peers at a variety of industry meetings and have yet to find one who is not concerned about and taking remedial action to improve loss experience in the commercial auto line. Inexperienced drivers, overcrowded roads, distracted driving,

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increased frequency of delivery, road construction, complex technologies in vehicles, soaring medical costs, as well as repair costs are producing biting commercial auto loss results, for not only PLM, but the insurance industry as a whole.

We have reacted by dramatically tightening our underwriting standards and enhancing loss control assistance that is available to our insureds. We've also attempted to rework claim processes to better control claims costs and we've raised rates accordingly. Yet, loss frequency and severity on the auto line has surged, and there is no sign of abatement.

So, what can you do? The first step to addressing this issue is to understand that this problem will require your attention and involvement. Driver selection and training needs to be improved. More than 75 percent of our new losses this year have been caused by "driver error". Equipment maintenance needs to be prioritized and enhanced. A recent example of this is a large claim we received involving a rear-end collision due to the rubber being excessively worn on the brake pedal. The driver's foot slipped off the brake pedal as traffic was coming to a stop.

Loading and unloading activities also need to be evaluated, reworked and enforced, and if needed, supervised more carefully. Load securement procedures need to be followed and evaluated. Drivers should have the authority to not leave the yard if they believe the load has been improperly built and secured.

We have partnered with companies like Samba Safety and Drivers Alert to provide valuable resources to our insureds. Simply signing up for these services is not enough. You have to be committed to using them! You need to discuss these with our BDRs and Loss Control Representatives, sign up for them, and then **use the information that they generate to manage your fleet exposure**. Our BDRs and Loss Control Reps along with our entire underwriting staff are willing to work with you to enhance your risk management capabilities in the auto arena.

I would caution that even healthy accounts that are enjoying profitability and are adhering to and employing many of the programs outlined above will potentially see rate increases going forward. We, like many other carriers, are working on this problem from every angle, but the reality is pricing increases will be involved in returning this area to profitability whether you are insured with PLM or any of our competitors.

How bad is it? Well, think about this. If we were to eliminate those losses where our insureds' drivers were operating heavy vehicles *under the influence of a drug or alcohol*, our loss ratio would improve significantly. What that means is that every day many of our insureds' drivers are on the road when they shouldn't be. Before you say 'not at my yard', think again!

I would encourage you to recognize this issue as the crisis it is becoming. Even if you are enjoying profitability, if you are not spending a substantial amount of your time (and making a substantial investment) working on improving your business in the areas outlined above, you or your fleet manager need to reconsider what you are doing and what you could be doing

better. PLM's talented loss control team is ready, willing and able to assist you in this endeavor. And, to be quite frank, even if your autos are not insured by PLM, I think you would find a welcoming ear from your current carrier if you would open a conversation with them about this issue.

## A LOOK AT SAWMILL, PALLET AND HEAVY MANUFACTURING LOSSES

The second area I would like to focus on is the spiraling losses that have once again emerged in the sawmill, pallet, and heavy manufacturing arena. **While PLM has avoided most of them**, the fact is that pallet, sawmills and other heavy wood manufacturing businesses are burning down with a frequency that I cannot recall in my tenure with PLM. With values enhanced due to automation in many of these accounts, the size of loss that the insurance industry is absorbing from this class of business is at record levels.

When the severity of losses increases and the frequency of severe losses increases with it, it doesn't take long for the industry to react. I had an underwriter from Lloyd's in our office recently talking about this very topic. His position and that of the reinsurance marketplace in general is that there are two troubled lines in the industry today – transportation (auto as outlined above) and lumber. I was shocked that an organization as significant and deep as Lloyd's of London that offers so many broad-based solutions to so many classes of business would recognize the problems of a relatively small niche when you consider the worldwide insurance marketplace.

To underscore this, I recently received a brief from one of the largest reinsurers in the world (which is not part of Lloyd's) written by a technician in Cologne, Germany who was bemoaning the losses being generated by European sawmills. To be honest, he painted a picture that was fairly bleak.

In the last 10 months a major carrier has withdrawn from the niche that will eventually drop 200 sizeable mills into the marketplace. In the Midwest, a major player is non-renewing pallet shops. Another company in the Pacific Northwest is getting out of all property associated with wood risks and one in New England is non-renewing any frame unprotected mills.

My point here is this: There are fewer and fewer companies that are willing to entertain a heavy manufacturing risk. Prices are increasing and reinsurance is becoming scarce, although there are still a variety of layered programs available. Meanwhile, PLM continues to offer a market to insureds that meets our underwriting standards. Operators of these businesses need to be aware that an impending crisis is in the offing in this segment of the niche. In response, I envision companies employing stricter underwriting guidelines, more demanding terms and conditions and substantially increased pricing. For business owners, the solution here is to take the steps now in your business to control and reduce your loss exposures. Once again, we stand ready, willing and able to work with you.

On that note, I hope the remainder of your summer is as enjoyable for you, your colleagues and your families.



# THE FINANCE CORNER

## OUR LARGEST DIVIDEND PAYOUT IN HISTORY

One of the benefits we offer our customers is enrollment in a Safety Group Dividend Program. PLM currently has 11 programs with different trade associations and buying groups. The dividend programs not only help support the associations in the lumber and wood industry, but also reward our customers for positive loss history while encouraging a culture of loss prevention and risk management.

This will be the largest dividend payout in PLM history with six groups earning dividends! We are happy to recognize the following groups for their successful year: IBSA, IHLA, LBM Advantage, LMC, NCFA and WPMA. Dividend checks were sent out to the participating members of all the programs at the end of June. **Visit [www.plmins.com/lm-finance-corner-summer18/](http://www.plmins.com/lm-finance-corner-summer18/) for the full article.**



## THE DOVETAIL: JOINING SAFETY WITH OPERATIONS



### IBHS: RISK MANAGEMENT IN A DISASTER-FILLED TIME

Businesses face a diverse set of risk exposures today, from data breaches to slip and fall lawsuits. Yet sometimes their most serious exposures stem not from people, but Mother Nature. No matter the size or location of a business, the threat of a disaster looms large year-round. Insurance Institute for Business & Home Safety (IBHS) offers several important services that can help you prepare for and mitigate damage caused by these disasters.

**Visit [www.plmins.com/lm-dovetail-summer18/](http://www.plmins.com/lm-dovetail-summer18/) for the full article.**



## PLUMB SAFETY

### SAFE.... PARKING? *Jeff Hendershot, Loss Control Manager*

If you were asked what types of auto collisions are most common, most of us would correctly guess rear-enders, intersection and backing incidents. There is another type of collision that those of us who work in the insurance industry, either processing claims or working to prevent them (e.g. Loss/Risk Control), see fairly regularly that might surprise you. The types of claims to which I am referring are parking incidents, many having to do with parking illegally or unsafely.

#### THE PARKING PROBLEM

Businesses often struggle with allocating parking spots to employees and customers. When meeting with customers, I often find there are no parking spots available at their business. The temptation is to park as close as possible in a space that is not marked as a parking space, or alongside the street/road

immediately outside of the business.

The problem with parking in a non-marked parking space is that trucks that are used to coming in/out of the business for deliveries often become accustomed to using the same route. If that route includes the space in which a vehicle is now parked "illegally", the driver may not see the vehicle (especially if the area is crowded or obscured by a building corner). Incidents like these cause a significant number of claims.

#### SOLUTIONS

So what can be done to reduce the risk of illegal parking?

**Visit [www.plmins.com/lm-plum-safety-summer18/](http://www.plmins.com/lm-plum-safety-summer18/) for the full article.**



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# SPOTLIGHT ON

## **Pennsylvania Lumbermens Mutual CEO John Smith to Receive Leadership Award at Independence Gala**

The Insurance Society of Philadelphia (ISOP) has announced that Pennsylvania Lumbermens Mutual Insurance Company's (PLM) CEO John K. Smith, will be this year's recipient of the Distinguished Leadership Award. The ceremony will take place at their Independence Gala on Wednesday, November 14 at the Kimmel Center for the Performing Arts.

John has been CEO of PLM since 2004, and under his leadership PLM has grown to be the largest mutual wood insurer in the country. His dedication to PLM, the insurance and wood industries and his community are just a few of the reasons why our CEO deserves this honor.

He has served on a number of Board of Directors including the National Association of Mutual Insurance Companies (NAMIC), the Insurance Society of Philadelphia (ISOP), the Board of the Western Hardwood Association (WHA) and the Board of the Firemen's Hall Museum in Philadelphia. **Visit [www.plmins.com/lm-spotlight-on-summer18/](http://www.plmins.com/lm-spotlight-on-summer18/) for the full article.**

## **Customer Service: How May We Help You?**

*Traci Barber, Assistant VP – Customer Service*

The Customer Service Department at PLM is staffed with Customer Service Representatives (CSRs) with over 20 years of experience in the insurance industry. Our experts work tirelessly to provide optimal service to our customers and brokers across a wide variety of disciplines. Our CSRs can assist with the following:

- **Producer Portal:** We provide one-on-one tutorials for any brokers that require registration assistance.
- **Billing:** We can help with payment receipt verification, electronic fund transfer (EFT) payment plan signups, e-payments, payment information and general billing inquiries.
- **Claims:** We are able to help report new claims, provide claim numbers and adjuster contact information and give verification of claim payments.

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