



LUMBERMEMO

PENNSYLVANIA LUMBERMENS MUTUAL INSURANCE COMPANY + INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY

COMMENTARY: THE INDIRECT COSTS OF CLAIMS

JOHN K. SMITH, PRESIDENT & CEO

With the first six months of 2016 behind us, it is becoming clearer that the efforts we extended over the last 30 months in loss control, risk selection and expense management have gained traction and are yielding their intended results. We are showing a slight underwriting profit and a combined ratio (an overall measure of profitability in the insurance industry) of slightly under 100%. In addition, our policyholder surplus is approaching record heights, increasing over \$12 million during the past two quarters. While we are behind target on our premium production, the second quarter reflected much improvement over the first in this area. Competition has slackened a bit as a number of carriers that entered the niche over the last couple of years have had difficulties establishing profitability and are either dramatically retrenching with significant price increases or non-renewing business.



Our property coverage results in the retail/wholesale lumber and building material dealer and light manufacturing segment of our business are very strong with new loss activity down and weather-related claims under control. We continue to work diligently on the general liability and automobile lines in this segment of our book of business where our profitability is not acceptable. We believe our loss control efforts are being received more favorably by insureds who recognize the need to improve their operations in both of these areas. They understand that a loss of this sort is at best a distraction for their leadership team and, in situations where the loss is significant, it can be very expensive! If you're reading this, it's probably because you have a couple of minutes to do so.

"I believe that many of our insureds have come to understand that while the insurance policy pays for direct costs associated with a claim, there are quite a bit of 'indirect costs' associated with any claim event that can be substantial in nature and in fact not covered by ANY insurance program (PLM/ILM or the competition)."

If the phone rang at this moment, and you were informed that a customer had been injured during a loading operation in your yard -- what would the rest of your day, or for that matter, this week look like? Get the point? More on this idea later in this article.

We are spending quite a bit of time these days talking with insureds, associations and just about anyone else who will listen about the need for insureds to closely review the contracts that they are being asked to sign and to understand the ramifications of those contracts. This is particularly true when they are being asked to name others as "additional insureds". It is shocking to hear how many insureds are not reading these agreements and to see how many losses that barely involve our insureds are being transferred to them (and us) as a result of the contracts that they have signed. These losses and the future premium charges that they bring with them, can indeed be

significant. Most automobile and general liability policies are "experience rated". That is why insurance carriers always look for loss runs for the last three to five years. Thus, losses that you assumed under a contract with another party will impact your future premium charges regardless of carrier.

In the auto area, we spent quite a bit of time focusing on distracted driving, loading and unloading and driver selection. Again, we are working closely with insureds to tighten down their programs in these areas.

I believe that many of our insureds have come to understand that while the insurance policy pays for direct costs associated with a claim, there are quite a bit of "indirect" costs associated with any claim event that can be substantial in nature and in fact not covered by ANY insurance program (PLM/ILM or the competition). I am talking about down time and the loss of staff productivity. I read a recent article that drove this point home. One of the large national worker's compensation carriers determined that the direct costs of the worker's comp claim which they were paying was only 25% to 50% of the total cost of a worker's compensation claim to an insured. Their study revealed that indirect costs were in many cases two to three times the claim cost not covered by the insurance contract and in most cases not considered by the insured.

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CYBERSECURITY

Dropbox: 68 million. Home Depot: 56 million. U.S. Office of Personnel Management: 21 million. Anthem: 80 million. LinkedIn: 117 million. Target: 40 million. This is a sampling of the records, credit card numbers, and/or passwords that have been stolen or hacked or breached in the last few years.

You hear a lot about cybersecurity, but it simply means staying safe online. Helping you remain safe in the digital world is why PLM/ILM has become an NCSAM Champion. National Cyber Security Awareness Month occurs annually in October, and is an effort by the government, organizations, and individuals to give people the resources they need to be cybersafe.

In the US, the average household has six computing devices; the sum of American home devices is over 500 million. Computing is not only part of our daily lives; it has become integral to them. It's not enough to teach IT professionals to properly configure firewalls, push out Windows updates, and monitor traffic. Every person, young and old, needs to know how they can keep themselves and their families safe in this new digital economy and how they can recover in the case of a breach.

Approximately 15 million US residents experience identity theft annually. If you bank online, then you have an online presence that needs to be protected. If you swipe a credit card or make travel arrangements online, your information is stored. If you're on Facebook or Twitter, what you post is, in some form or fashion, there forever. There's a whole lot of information out there, and online connectivity is part-and-parcel of how we work, play, and live.

PLM/ILM is working with and through NCSAM to provide you with the materials you need to get educated and stay informed about being safe when using a computer. This education is not about going to college or getting certified, nor does it cost anything but time. It's about learning to discern what's being done with your information, your data, your digital identity, and how to protect your privacy. We don't need to be afraid or worried -- we need to be informed and aware.

What's one way you can get started protecting your privacy? Go to <https://haveibeenpwned.com/> and enter one or more of your emails so that you can be made aware if you're part of a confirmed data breach.

To follow NCSAM activities on Twitter, use #CyberAware. To see activities that you, your family, your organization, or your school can do, go to: <https://staysafeonline.org/ncsam/get-involved>. Look for PLM/ILM at <https://staysafeonline.org/ncsam/champions/all-champion-organizations>.

Happy Computing!



BENEFITS OF WORKING WITH A BUSINESS DEVELOPMENT REPRESENTATIVE

PLM/ILM employs a team of 25 Business Development Representatives (BDRs) located throughout the United States; a position that is unique to the insurance industry. In most insurance company models the insurance agent or broker is your only connection to an insurance carrier. The relationship is linear in nature -- you talk to the broker or agent and they talk to the insurance company. You may, on occasion, come in contact with a company loss control representative, but depending on the size and location of your business, this will vary greatly. The PLM/ILM model is more triangular in nature, providing you multiple points of contact. You can talk to your broker or the PLM/ILM BDR, or both. It is entirely up to you!

The BDR's sole focus is on the lumber, woodworking and building materials industries in their respective geographical territories. They are your company "point of contact" in the field and can assist when issues arise. They will work across all PLM/ILM departments and with your insurance broker to resolve any issues or develop solutions for your business. They know and understand your business better than anyone in the industry today. Below are some of the services and benefits offered by your local BDR:

- As a mutual company, our main concern is our policyholders. The BDR continually strives to maintain personal relationships with our insured customers through periodic account visits and reviews.
- All BDRs possess insurance licenses in the states they service, with many holding additional professional designations. A BDR will work in conjunction with your local broker to tailor insurance coverages and solutions that are specific to your needs.

FLEET SAFETY

One of the largest exposures that a business faces is the potential for an accidental loss from their operation of company vehicles. These can be owned or leased vehicles, or vehicles owned by employees that are being operated for business purposes. A business auto loss has far reaching consequences that will affect all aspects of your business and can result in a direct loss from damage to vehicles, damage/loss to product, injury to employees and the public as well as business interruptions.

To control these exposures a company must develop and enforce a fleet safety program the includes the following:

- Management Safety Policy
- Hiring & Driver Selection
- Driver Training
- Enforcement Policy
- Vehicle Maintenance and Inspections
- Hazard Identification & Controls
- Accident Reporting & Investigation
- Personal Use & Cell Phone Safety

Management Safety Policy

A written management safety policy informs all supervisors, employees and drivers of the company's commitment to supporting a positive work environment and the ongoing enforcement of controlling fleet operations. It should communicate management's intentions and goals, become a fixture in company policy and be flexible enough to address specific exposures unique to your operations.

Hiring & Driver Selection

This is the most important part of the entire program. By selecting and hiring the best available drivers, losses involving vehicle operations can largely be avoided. Drivers that meet well established guidelines will generally be more productive and be safer drivers. Complete applications need to be filled out, personal interviews conducted, references checked and a MVR review completed prior to allowing a driver to operate a company vehicle. Job descriptions should be complete with detailed duties and expectations outlined. Any federal or state requirements must be followed that include written tests, physical exams, and road testing with qualified employees.

Driver Training

Carefully select driver trainers as they will have a significant influence on the performance of the trainee. All new or transferred employees need to be thoroughly trained in the vehicles they will operate prior to driving company vehicles. Evaluate the performance of all trainees and provide continuing training as needed. Only trained and authorized employees should be allowed to operate a company vehicle.

Enforcement Policy

Only authorized and trained drivers should be permitted to operate a company vehicle. Consider issuing a driver authorization license or card that is renewed on an annual basis and is signed by the company president or safety director.

Vehicle Maintenance & Inspections

A specific program needs to be established and enforced that spells out preventive maintenance provided at predetermined frequencies. A record of all maintenance for every vehicle should be maintained. The program should also include vehicles that are operating from remote facilities and trailers. A self inspection program needs to be established and completed by drivers on a daily basis.

Hazard Identification & Controls

A regular review of driving hazards should be conducted with all drivers to identify hazards that drivers are faced with on a daily basis. Items to review include hazards specific to routes traveled, cargo security, excessive speed, following too closely and backing of vehicles. Non-driving hazards include fire prevention, material handling and prevention of injuries from drivers entering and exiting vehicles and truck beds.

Accident Reporting & Investigation

Any accident involving a company owned/leased vehicle or personal vehicle operated for company business needs to be reported to your insurance company immediately. An investigation of circumstances surrounding the accident should begin immediately while details are fresh.

Personal Use & Cell Phone Safety

A company policy detailing the personal use of company vehicles needs to be established and enforced; this should describe any personal use that is permitted. Only the employee and possibly their spouse should be permitted to use a company vehicle for personal use on a limited basis, no friends or children should be permitted to use an employee's company assigned vehicle. This policy needs to be reviewed with employees and a signed statement outlining the company policy maintained in the employee file. If employees use their personal vehicle for company use then a review of this exposure needs to be conducted with your insurance agent to make sure that adequate coverage is in place. Cell phone use while operating a company vehicle needs to be controlled as this dramatically increases the chances of being involved in an accident. State laws restricting the use of cell phones while driving are changing every day. Texting should NEVER be permitted.

The operation of company owned and leased vehicles present one of the largest potential areas of loss a business can face. These exposures can be controlled by developing and enforcing a fleet safety program. If you have any questions on fleet safety or would like more information, please contact Doug Hoyle, Loss Control Manager at PLM/ILM, at 267-825-9128 or at dhoyle@plmilm.com.

PARTNERS IN CLAIM HANDLING

If your business ever reports a loss to PLM/ILM, your claim will be managed by an experienced claim professional. Our Claim Examiners and Claim Representatives average well over 20 years' insurance industry experience. Most have over 10 years' experience working within the wood niche. You may also work with outside vendors with whom we often partner to provide local assistance in adjusting your loss. While the assigned PLM/ILM Claim Representative or Examiner coordinates the claim adjustment process and remains your primary point-person, our select group of outside partners usually play a critical role in bringing your claim to resolution. So who are these parties and how are they selected?



When your business property is damaged in a covered event, such as fire or severe weather, we typically rely on a nationwide network of independent adjusters with experience in wood-related industries to personally inspect your loss, assess damages and recommend payments. They are directed by us to quickly respond and order generous advance payments for clients who need immediate funds to continue operating. Depending on the nature of the loss, other local vendors may be needed to help determine the amount owed and potential recovery opportunities. Those carefully vetted experts may include structural engineers, forensic accountants, cause & origin firms and salvors. In larger losses, it's not uncommon to have a team of experts at your disposal to assure a prompt and accurate adjustment.

When your company is subject to claims made by third parties, we call upon a separate network of independent adjusters to investigate the facts of the loss and assist us in determining liability. We also maintain relationships with prestigious law firms around the country who will vigorously defend your company when litigation is unavoidable. The attorneys we retain on your behalf are highly regarded in their field and have attained the highest ratings from legal review institutions such as Martindale-Hubbe. They all understand the legal environment in your jurisdiction and the legal liabilities that commonly arise from doing business in wood-related industries.

If one of your covered company autos or mobile equipment is seriously damaged in a collision or other event, you will hear from an outside appraiser who will work with the body shop of your choice to arrive at a repair figure. If your covered vehicle or equipment is totaled, our appraiser and inside Claim Representative will work with you to establish fair market value and help dispose of salvage once a settlement is reached.

PLM/ILM's Claim Mission demands that we "only partner with outside experts who provide best-in-class capabilities." Throughout our 121-year history, our company and our insureds have enjoyed rewarding and long-standing relationships with a vast majority of the various vendors we work

with in resolving claims. At the same time, we understand that the buck stops here with regard to claim service. In the unlikely event you experience difficulty working with any of our assigned experts, please don't hesitate to let us know. Our Claim Representatives, Examiners and Management Team are here to answer any questions and troubleshoot when necessary. Let us know your experience.

TESTIMONIAL

So often you only hear of complaints and problems and I just wanted to take a moment and make you aware of our appreciation of a job well done.

During a recent walk thru inspection with Dan Braiman, a PLM Loss Control Services Representative, one of the topics we discussed was the capability and availability of a thermal imaging device to inspect electrical switches for safe operation. Dan explained the procedure which involved performing an infrared electrical survey. He promptly followed up with an appointment to do the inspection within a few days.

During the electrical survey an anomaly was found in one of the electrical shutoff switches on our main floor. The switch showed elevated temperatures that warranted closer inspection. Dan followed up the next day with a detailed report that included the thermal photos pinpointing the areas of concern. We took the shutoff switch out of service and upon closer examination found the switch mechanism itself was bad, causing the higher temperature. The switch was replaced and the problem was eliminated.

We are very appreciative that with Dan's assistance we were able to identify and remove a potential fire hazard. While I understand that is a part of his job (Loss Control), we are still very grateful for the assistance and prompt attention that we received and I wanted you to be aware of it.

**Ed Jenkins, Administrative Manager
E.M. Cummings Veneer**

DIVIDENDS, DIVIDENDS, DIVIDENDS!

We are happy to announce that PLM/ILM has paid dividends out to several of our Safety Group Dividend Plans.

NAWLA Safety Group Dividend Plan

At the end of June, PLM/ILM paid a 5% dividend to the participating members of the NAWLA Safety Group Dividend Plan. The group ended their plan year of January 1, 2015 to December 31, 2015 with a loss ratio of 27.46%, earning the group their 5% dividend.

OLA Safety Group Dividend Plan

Also paid out in June, the OLA Safety Group Dividend Plan ended their plan year of January 1, 2015 to December 31, 2015 with an impressive loss ratio of 9.6%, earning the group a 10% dividend.

MLBMA Safety Group Dividend Plan

PLM/ILM paid a 5% dividend to the members of the MLBMA Safety Group Dividend Plan. The group ended with a loss ratio of 38.31% for their plan year of January 1 to December 31, 2015. Checks were sent out to the participating members in June.

At the end of 2015, the MLBMA and ILBSA merged to form the Midwest Building Suppliers Association (MBSA). With the merger, PLM/ILM discontinued its dividend program with the MLBMA.

WPMA Safety Group Dividend Plan

The last group paid out in June was the WPMA Safety Group Dividend Plan. The group ended with a loss ratio of 34.49% for their plan year of January 1 to December 31, 2015, earning the group a 5% dividend for its members.

ABS Safety Group Dividend Plan

At the end of July, a 7.5% dividend was paid to the ABS Safety Group Dividend Plan. The group ended with a loss ratio of 11.25% for their plan year of February 1, 2015 to January 31, 2016.

A little over \$1 million was paid out to all of these groups.

For more information on the recent dividend payouts or on any of our thirteen 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/.

IT CAN HAPPEN TO YOU!

We have been talking a lot lately about loading/unloading safety. One of our BDRs shared another angle to think about when protecting your business in loading/unloading situations:

Here is a new take on the loading and unloading situation, at least to me. I just visited a building material dealer in Wisconsin. I was talking to the owner of the business discussing the importance of having a dedicated area for the drivers to come in and stay out of the way, or to stay in the cab of the truck. He told me that about a year ago they had a truck driver come in and start to unstrap the load on the trailer. The truck driver threw the straps over the load on the trailer and did not see that one of his employees was on the other side of the trailer. The buckle on the strap hit his employee in the head causing a concussion and more than 20 stitches in the employee's head. The employee was off work for almost a month. I just thought I'd pass this on because we always talk about the potential of the forklift driver severely injuring the truck driver, when in fact it could work both ways!

BENEFITS OF WORKING WITH A BDR

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- All new business opportunities are surveyed by a BDR prior to releasing a quote. This site visit ensures that we understand your business, that it meets our underwriting appetite, and that our quote is not subject to a future loss control inspection (and recommendations), which is a standard in the insurance industry.
- They understand your business and the loss trends associated with your industry. The BDR provides industry-specific best practices and loss control recommendations that address these trends as they arise.
- Local representation allows the BDR to attend local, state, and national industry trade shows and support the issues that are important to you. In some of your associations, they may serve on committees and boards.

Since 1895, we have understood the wood business better than anyone, and the unique hazards associated with the industries we insure. Our Business Development Representatives bring a value to the table in the form of knowledge, expertise and relationships that are not found elsewhere in the insurance market. Call your local Business Development Representative today to see how he/she can help you.

Locate your Business Development Representative at:
<http://www.plmilm.com/doing-business/locate/> ■



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COMMENTARY: THE INDIRECT COSTS OF CLAIMS

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While the worker's comp claim process is a lot different than the property, general liability or auto claims process, I think we all would agree that there are significant indirect costs that insureds bear but don't always consider when buying coverage. A quick look at any of our recent large property claims underscores this. One day the insured is operating a thriving business solely focused on producing quality products on a timely basis, expanding their customer base while taking care of their employees. The day after a claim occurs, they are dealing with a whole different set of priorities. Consider an auto accident where one of your drivers is seriously injured... or worse! Your insurance company responds, but it is this loss of focus that drives the indirect costs associated with any claim. Hence, we underscore the need for our insureds to control those costs by making an effort upfront to avoid or reduce their exposure to loss.

I am sure that any number of our competitors will take the above comments and twist them to suggest that their insurance program eliminates these indirect costs, but the fact of the matter is, this very argument demonstrates their lack of understanding of insurance and the claims process. The only thing that PLM/ILM or any insurance carrier can do to influence these costs is to help you avoid or minimize the loss and when one occurs, settle it in a timely, efficient and effective manner. Hence, the position that I have stressed many times in this column: the cost of your risk management program is not the cost of your insurance policies, but rather the total of these direct and indirect costs. Insureds and brokers that simply compare prices in determining with whom to place their coverage are failing to consider the total cost of the program and are not doing themselves or YOU, their client, any favors.

We continue to be excited about the future as the U.S. economy continues to move forward and our insureds continue to report improved financial results in their organizations.

I welcome your thoughts, comments and suggestions as always. ■

LUMBERMEMO

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