



LUMBERMEMO

PENNSYLVANIA LUMBERMENS MUTUAL INSURANCE COMPANY + INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY

COMMENTARY: NINE MONTH RESULTS

JOHN K. SMITH, PRESIDENT & CEO

I am very pleased to inform you that our profitability has continued to rebound, and to do so in a dramatic fashion during the first three quarters of 2016. While we did not produce an underwriting profit, we have developed strong operating and net income in the past nine months. Our assets pushed above \$500 million while adding over \$5 million to our surplus.



While growth is running behind target on a bottom line basis, our results from the light manufacturing and retail/wholesale dealer segment are very good with more than 87% of our current customers renewing their coverage. Additionally, we have written just over \$12 million of new business this year as a result of 350 wood-related businesses joining the PLM/ILM family. We are determined to only insure the best primary/heavy manufacturers (sawmill, pallet, et al.) in the business that comply with the loss control program that we require (which many of the best operators in the industry already have in place). We also want to be able to charge an adequate price. It is interesting to note that a number of new entrants into this end of the wood niche view this business differently than PLM. They have a much more relaxed underwriting approach and are willing to cut pricing. What is important to note about this is that clearly we have been here before. We have watched companies, and in some cases, long-term players in the primary/heavy manufacturing business, cease to exist from a lack of underwriting dedication and appropriate pricing. Do the "new guys" think they have found a better way? Does this sound familiar? Don't you see the same thing in your business?

We have received very positive feedback from our insureds regarding our direct bill system, particularly the Electronic Funds Transfer (EFT) aspect that is now handling 20% of our total book of business. We believe that EFT is the way of the future and in fact are waiving many of the fees assigned with installments when insureds choose to move in this direction. If you are interested in converting to EFT simply call Customer Service (800-752-1895) and they will assist you accordingly.

Our Employee Practices Liability (EPLI) product has now been approved in all states and we are in the process of completing the rollout of this product to all of our insureds. Feedback has been very good. Please remember if you have purchased a stand-alone EPLI product, you should non-renew it after your next PLM renewal.

There continues to be confusion in the wording and the usage of the various Additional Insured Endorsements. As a result, we are often asked to provide various "old" AI endorsements to our policy. Our "blanket" additional insured endorsement is broader than most others in the marketplace, but some brokers and risk managers prefer other AI endorsement forms. The area of additional insureds is a misunderstood and complex topic that requires a deep understanding from all parties involved. We have several very capable people on staff in Philadelphia that can walk you through this topic to help clear up any uncertainty. We invite you to read Bill Johnson's accompanying article and to contact him at 267-825-9280 or at wjohnson@plmilm.com to discuss this matter at your convenience.

I would be remiss if I did not mention the continued problems that PLM and the insurance industry is having regarding

commercial auto losses. I saw an article recently that indicated that auto deaths were up dramatically in the last year in the US. Whether it is distracted driving, increased utilization, driver identification and training issues, poor equipment maintenance or a host of other loss triggers, this problem is becoming significantly larger with each passing day. If you have even a small fleet, you should be spending more time in this area from a risk management viewpoint. If you need assistance in working your way through an auto risk management program, please feel free to reach out to Doug Hoyle, Loss Control Manager, at 267-825-9128 or at dhoyle@plmilm.com.

In this issue of the *LumberMemo*, we talk about the transition that is occurring on our Board of Directors. I would also like to note that a number of our senior officers have announced their desire to retire over the next 12 to 18 months. In many of those cases, we have a number of internal candidates that we will consider for those positions as we begin to transition Pennsylvania Lumbermens to a younger generation of insurance professionals.

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CYBER ATTACK -- INFORMATION YOU SHOULD KNOW

JODI CORDES, CIC, CRM, VICE PRESIDENT, PIA OF WISCONSIN

Republished with permission from the August 2016 issue of Wisconsin Professional Agent.

According to a recent Cyber & Data Security Risk survey report completed by Marsh & McLennan 50% of all small to midsize companies reported being the target of a cyber attack. Even more important is that 60% of all cyber attacks last year struck small to medium sized businesses.

This stuff is really happening in the big cities, and the small towns in Wisconsin. Recently, our City of Lake Geneva put together an education session on Cyber Security for local business operators. The speaker was an agent from the FBI's Internet Crime unit in Milwaukee. From those couple hours, I learned a lot of frightening information; good information for us agents to share with our customers when talking about Cyber Liability (which I am sure you are all discussing with clients along with hired/non-owned auto liability and EPLI coverage, right?)



The first part of the conversation should be education or **identifying** what the potential risk is. A crazy fact is that most of the cyber attacks are probably coming from outside of our country. Korea, China, Russia and Iran are where many of the attacks originate. They are not just after the large corporations either. Hackers are finding it easier to attack the small to middle sized business because they typically do not have full time IT department, or have securities/procedures in place to stop an attack.

The #1 threat is *spear phishing* which is specific to a person. The attacker makes contact with employees and gains their trust (often by simply offering an innocent looking link in an email. Once the employee clicks on it, a RAT (Remote Administration Tool) is now in their computer. The hacker can access customer files, company data, pictures, web cam to take pictures of you, access your microphone to hear you even off line, screen shots to see what sites you go to, get passwords, and even take over your computer. This is some really frightening stuff. Think about if this happened to a computer of a bookkeeper or the president of the company.

The second part of your conversation should be to **analyze** where your client may have a threat and discuss ways to control the threat. Here are some recommendations to help minimize an attack.

- Install Microsoft EMET software. There is a free version.
- Turn on Auto Updates so antivirus softwares are automatically updated.
- Never open suspicious attachments/hyperlinks (xcel, doc, jpeg, etc.)
- Look for spelling errors. (Since many attacks come from overseas they tend to have many spelling errors translating into English language.)
- Look at who the email is from. If it doesn't make sense with the subject manner, delete without opening.
- Hover over hyperlinks prior to opening. Verify the website address makes sense with subject manner.

- Never click on pop ups.
- Be aware of "watering hole attacks" these are sites that are less protected that hackers prey on. They infect the site and when you go there it attaches malware to your computer and they start watching everything you do on your computer.

Portable Devices

- Beware of malicious apps.
- Beware of foreign "updates".
- "Man in the Middle" attacks are fake wi-fi hot spots.
- Disable geo tagging photos, especially when uploading to social media. These include the longitude/latitude of exactly where you are, where your kids are, where your house is, etc.
- Disable Bluetooth when not in use.
- Use a different phone when traveling out of the country (FBI says especially China)
- If foreign officials ask for your device, assume your hard drive has just been copied.

Obviously these lists can go on and on forever. But I found these to probably be the quickest, easiest things that many of us don't even think about.

After you scare the client from ever using their computer or mobile device again, then you can have the conversation of how there are insurance tools to help them in the event that they are attacked. Many of these cyber insurance carriers also have resources to help the insured **implement** additional safety precautions to minimize the threat.

Lastly, once you have identified, analyzed, addressed control measures and implemented a company policy, then **monitor** the program. Hire a reputable pen tester at least once a year to find weaknesses in the system.

IN MEMORY OF J. WILLIAM LEE

It is with great sadness that we announce the passing of PLM/ILM's Chairman of the Board, J. William Lee. Bill first joined Pennsylvania Lumbermens Mutual Insurance Company in 1987 as Executive Vice President and soon became President and COO in 1988. The following year, he was promoted to President and CEO and served in that position until April 2003 when he became Chairman of the Board for PLM.

Bill graduated from Georgia Institute of Technology with a Bachelor of Science in Industrial Management degree. He was an officer in the U.S. Army before joining the insurance industry more than five decades ago. He started his career working with INA (CIGNA), and then Reliance before coming to PLM.

Over the years, Bill further served the industry by participating on various boards of industry organizations including IRM (where he was Chairman), the Insurance Society of Philadelphia, and the National Association of Mutual Insurance Companies (NAMIC).

He was a devoted husband for 33 years to Mary Kenny Lee, cherished father of Jennifer Showers and Michael (Nancy) Lee, loving Pops of Kelly, Jennifer, Ali and Michelle, brother of Carol Sonenshein, brother-in-law of Danny (Peg) Kenny and Kathleen Kenny Lepchak, uncle of Mark, Patricia, Erin, Kathleen, Meg and many great nieces and nephews

To his family at PLM, he was known as the much beloved "Mr. Lee". He quietly built the company and gracefully lead it through a difficult period in our company's history. Those who had the honor of working with him, knew him for his cheerful, helpful nature, but above all, for his genuine kindness.



J. William Lee

November 20, 1937 - September 3, 2016

C. RICHARD PETERSON IS APPOINTED AS NEW CHAIRMAN OF THE BOARD



Pennsylvania & Indiana Lumbermens Mutual Insurance Companies announced that the Board of Directors unanimously appointed C. Richard Peterson as Chairman of the Board for both PLM and ILM. He will serve the unexpired term of J. William Lee, PLM's long time Chairman who passed away recently. Mr. Peterson has been a member of the PLM Board for over 15 years and has served on the Executive Compensation Committee as well as the Executive Committee.

A graduate of Colby College, Richard completed a Program for Leadership Development at Harvard Business School and received his master's degree in Organizational Dynamics from The University of Pennsylvania. He is 40-year veteran of the insurance industry and is currently the Executive Director of Commercial Deposit Insurance Corporation (CDI). Before becoming an insurance entrepreneur (CDI), he was Vice Chairman of Minet Group, the sixth largest insurance brokerage firm in the world, which was acquired by Aon Group in 2003. Prior to Minet, Richard was EVP of Sedgwick Group, the third largest firm in the world, before it was acquired by Marsh & McLennan in 1996. Both Minet and Sedgwick Group specialized in corporate risk management

programs and financial services and were headquartered in London.

On the recent announcement, PLM/ILM President & CEO John Smith said, "Replacing an industry veteran like J. William Lee is not an easy task. His wisdom, guidance, and commitment to PLM is legendary. For many years, Dick has been a valuable resource of knowledge and expertise on the Board. We are truly fortunate to have him take on this new role. Through his commitment and depth of experience, he has served this company and its policyholders as well as provide me with great support and guidance."

Richard will immediately begin serving as Chairman of the Board.

FAQs ABOUT EQUIPMENT BREAKDOWN

QUESTION 1: Why do I need Equipment Breakdown coverage? What if I have no boilers?

RESPONSE 1: Equipment breakdown insurance provides coverage for the following causes of loss typically excluded by property policies:

- Electrical arcing (artificially generated electrical current)
- Mechanical breakdown (rupture) or busting caused by centrifugal force
- Explosion of steam boilers, steam pipes, steam engines or steam turbines

Over 60% of equipment breakdown claims are due to electrical breakdown/failure. Even if you have no boilers, you may still have Equipment Breakdown exposures to the following:

- Business and computer equipment
- Heating, air conditioning and refrigeration equipment
- Electrical equipment
- Mechanical equipment
- Production/process equipment
- Pressure vessels

In addition to coverage for direct loss or damage, time element exposures such as Business Income, Extra Expense and Utility Interruption coverage on the property policy extend to Equipment Breakdown losses.

QUESTION 2: Why do I need spoilage coverage?

RESPONSE 2: Spoilage coverage pays for damaged product whenever a breakdown (covered loss) occurs that prevents the insured from maintaining the controlled environment needed to preserve that product.

Here are a few examples:

- A boiler failure or control failure leads to the malfunction of a kiln where lumber is drying. The lumber does not cure properly and the whole batch, or a percentage of the batch, is ruined and cannot be sold. If the failure that led to the kiln malfunction is determined to be a covered loss, spoilage coverage would pay for the ruined lumber.
- A pump supplying water to spray nozzles in the yard of a veneer mill fails during the hot, dry summer. Logs stored in the yard cannot be kept moist and they begin to crack and split. Many of the split logs can either not be used or will have a reduced yield. If the failure of the pump is determined to be a covered loss, spoilage coverage would pay for the split logs.

QUESTION 3: Does covered equipment include overhead transmission lines under Utility Interruption?

RESPONSE 3: Yes. If there is a “Breakdown” to “Covered Equipment” that directly results in an interruption of utility services, including the transmission of electricity or communication services via overhead lines, there is coverage under Utility Interruption that extends from Business Income, Extra Expense and Spoilage Damage coverages.

The “Covered Equipment” must supply electric power, communication services, air conditioning, heating, gas, sewer, water or steam to the Insured premises and must be owned, operated or controlled by the local private or public utility or distributor that directly generates, transmits, distributes or provides utility services.

Here’s an example:

- Utility transmission line (off-premises) arcs or shorts and as a result, power is interrupted to the insured’s premises. The insured could have coverage for any loss of business income, extra expense and/or spoilage due to the loss of utility services.

WHO IS YOUR SUPPLIER?

FRANCIS SANTORO, VP - CLAIMS

Let's say your company is a retailer or a distributor that sells a product. The product fails and causes property damage or injury to another party. The injured party files suit against your company. You report the claim to PLM/ILM.

In Product Liability cases, we often see allegations of Strict Liability. Strict Liability does not require that a plaintiff prove a specific negligent act but merely that the defendant -- your company in this case -- put the defective product into the stream of commerce and that the defective product caused the plaintiff's injury. Strict Liability lawsuits offer few viable defenses.

However, if you have not changed the product in any way, we can pass the liability on to the supplier in most states, **BUT ONLY WHEN WE CAN IDENTIFY THE SUPPLIER.** In some states, Retailer's Immunity is a legal defense to such claims. In other states, we can file a third party complaint on your behalf against the supplier. However, we can only shift the liability to the suppliers, when we know who they are.

For instance, when you do not know from where you purchased the wood for the trusses, scaffold, etc., you are the final link in the chain of commerce. If you obtained the wood from multiple companies and have no way to identify from whom you purchased the specific wood for the allegedly defective product in question, then you are still the target defendant for the plaintiff's damages, instead the supplier of the defective wood.

The lesson to be learned: Track your inventory and keep accurate records of your suppliers, so in the event of a lawsuit we can pass liability on to the truly responsible party. In addition, you will want to verify that your supplier has adequate general liability coverage. When we are defending you in a product's liability lawsuit, we need all the evidence we can get our hands on to mount the most effective defense and avoid liability.

THE EVOLUTION OF THE I.S.O. ADDITIONAL INSURED COVERAGE ENDORSEMENT

WILLIAM JOHNSON, VICE PRESIDENT - UNDERWRITING

PLM/ILM continues to get requests to add a General Contractor, Home Builder, Commercial Landlord, Project Manager or some other Person or Organization as an additional insured for work being performed by our insured on behalf of the additional insured (A.I.). When such a request is made, we prefer to use our proprietary Broad Form Additional Insured endorsement (LUM-145). We use LUM-145 because that provides not only blanket coverage, but it also fills in some of the gaps left open by the standard I.S.O. endorsements. (I.S.O. is short for the Insurance Service Office which is a private company that performs a wide variety of services for the insurance industry, such as, preparing form documents.)

Over the years the I.S.O. form A.I. endorsements have been changed in response to court decisions, interpretations from legal counsel, and requests from trade and industry organizations seeking additional insured status, for ongoing operations and the completed operations hazard. In fact, the A.I. wording issue goes back as far as 1985 when I.S.O. introduced an additional insured coverage endorsement (CG 20 10 11 85) containing coverage for liability "arising out of your work." The form also extended additional insured status to the scheduled entity not only during the operations but even after operations were completed.

In 1993, I.S.O. form CG 20 10 10 93 limited coverage to "ongoing operations" and removed completed operations. The next change, in 2001 (Form CG 20 10 10 01) limited liability to losses from your "ongoing operations", but reinstated completed operations coverage by introducing a separate form, titled CG 20 37 10 01 - Additional Insured - Owners - Lessees or Contractors - Completed Operations.

In 2004, I.S.O. form CG 20 10 07 04 replaced the "arising out of" language with "caused in whole or part", and excluded completed operations. Again the separate CG 20 37 07 04 endorsement (2004 edition) included completed operations coverage.

The CG 20 10 04 13 (2013 edition), is the current I.S.O. form. It contains the same language as the CG 20 10 07 04 edition, but it adds language which limits the maximum amount payable on behalf of the A.I. to the amount of insurance required by the contract or the policy limits as shown in the Declarations, whichever is less. Also, the insurance afforded to the additional insured only applies to the extent permitted by law. This is significant as several states have passed 'anti-indemnification' statutes to limit the ability of owners, developers and general contractors to shift their own liability onto the sub-contractors and suppliers.

PLM/ILM uses the current edition of the Additional Insured coverage (CG 20 10 04 13) and the Additional Insured - Completed Operations (CG 20 37 04 13) endorsements when requested to provide additional insured status for the performance of **your ongoing operations and for completed operations**.

While most owners, general contractors, or other scheduled persons accept the 2013 edition of the A.I. coverage and Completed Operations endorsements we still, from time-to-time, get resistance from the contracting community. Major concerns include:

- We always use the 01 or 04 edition because we understand the language;
- Our lawyers tell us not to accept any other editions until they get a chance to review, costing additional dollars for legal advice; and

- We do not have a comfort level with the changes.

We have a proprietary Broad Form Additional Insured endorsement (LUM-145) that is attached to the Commercial General Liability Coverage Form that provides not only blanket coverage, but also fills the gaps of the I.S.O. endorsements. Many of you are familiar with this endorsement and find it acceptable, while others still have concerns with the language and revert back to the I.S.O. series of additional insured endorsements. **The LUM-145 will satisfy just about any entity requesting additional insured status if required by written contract or agreement.** To help you fully understand, let's compare the key issues among the forms.

We talked about I.S.O. removing the wording "arising out of" and replacing it with "cause in whole or in part." The LUM-145 provides coverage for "bodily injury," "property damage" or "personal and advertising injury" **arising out of or caused, in whole or in part by your work.**

Under the I.S.O. ongoing operations forms, insurance afforded to the additional insured(s) does not apply to "bodily injury" or "property damage" occurring after:

- All work, including materials, parts, or equipment furnished in connection with such work, on the project to be performed by or on behalf of the additional insured(s) at the location of the covered operations has been completed; or
- The portion of "your work" out of which the injury or damage arises has been put to its intended use.

The LUM-145 states the status as an additional insured under this endorsement ends:

- **When your operations for that additional insured are completed; or**
- **When the written contract or agreement with such person or organization is terminated or expires.**

When using the I.S.O. endorsements one must add the CG 20 37 endorsement to obtain coverage for the completed operation hazard. Conversely, **the LUM-145 will apply to "bodily injury" or "property damage" included within the completed operations hazard as long as such coverage is required by a written contract or agreement between you and the additional insured.**

Under the I.S.O. series of endorsements, there is a premium charge for every endorsement that is added. On larger accounts this could equate to having to endorse the policy 20-25 times during the policy term, whereas under the Broad Form Additional Insured endorsement (LUM-145) there is only one premium charge during the entire term of the policy.



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COMMENTARY: NINE MONTH RESULTS

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I have had a number of people ask me about my own future with the organization. I have just turned 61 and I look forward, assuming the Board will have me, to another five or six more years with PLM.

I invite your comments and questions. You can reach me at jsmith@plmilm.com or at 267-825-9246. ■

THE EVOLUTION OF THE ISO ADDITIONAL INSURED COVERAGE ENDORSEMENT

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In addition, the LUM-145 states that the insurance afforded to any additional insured will be primary and non-contributory, if required by a written contract or agreement. Lastly, the LUM-145 provides a waiver of rights of recovery by written contract or agreement. There are I.S.O. endorsements to provide such coverage, but again, there are additional premium charges associated with these endorsements.

In summary, the Broad Form Additional Insured endorsement (LUM-145) is broader in scope and should address the major concerns within the market place, without requiring numerous additional premium charges. I also need to mention that the Broad Form Additional Insured endorsement for the state of New York is titled as GU-207 not LUM-145; otherwise, the forms are identical.

If you would like to have a further discussion on this topic, please contact me at 267-825-9280 or at wjohnson@plmilm.com. ■

Please be advised that all coverage determinations are performed on a case by case basis and reflect the application of appropriate state law as it exists at the time the determination is made.

LUMBERMEMO

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