Spring 2017

LUMBERMEMO

PENNSYLVANIA LUMBERMENS MUTUAL INSURANCE COMPANY | INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY

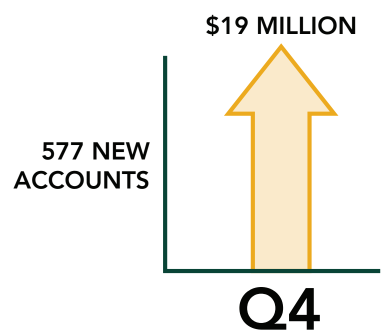
THE ANNUAL GROWTH REVIEW

John K. Smith, *President & CEO*

At our January board meeting, we announced to our Board of Directors that in 2016 PLM achieved an underwriting profit for the first time in a number of years. When combined with strong investment income, this fueled a surge in our policyholder surplus, which increased by over 9% to approximately $135 million. Our total admitted assets finished the year comfortably north of $500 million. Perhaps just as importantly, our independent actuaries verified that we continue to maintain a comfortable claims reserve position. We ended 2016 with a loss ratio of approximately 64% and an expense ratio of around 32%, giving us a combined ratio just over 96%.

Our investment income was solid in spite of PLM reducing investment risk early in 2016. We made the decision to change the balance of our investment portfolio to a more conservative approach by increasing the mix of fixed income instruments and reducing our marked-to-market holding while rebalancing our Master Limited Partnership portfolio to a more long-term view. This was the right decision because we were unsure of where the US economy, the presidential election and our underwriting result might end up. Unfortunately, we missed the strong rebound that occurred in the energy sector that fueled MLP growth during the latter part of the year, but we felt this was an appropriate strategy to implement due to uncertainty in the marketplace. We also took steps to slow our ever-shortening bond portfolio by buying longer term bonds. These actions reduced the overall risk of our investment portfolio and we saw a drop in investment income as a result.

Premium production was below expectations, with the company finishing the year down about 4% to just over $219 million. Policyholder "retention" in the retail/wholesale and light manufacturing classes approached 90% while heavy manufacturing was below 80%. Yet even with the slide in production for this class, we continue to be one of the largest underwriters of sawmill, pallet and other heavy wood manufacturing accounts in the United States today! New business surged in the final quarter of the year as we wrote 577 new accounts that generated around $19 million in new business.



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IN THIS ISSUE

With that said about last year, let's now look toward the future. We renewed our reinsurance program without any trouble this past January 1, and are pleased that we continue to have a a strong set of reinsurers standing behind our promise to you. January was a strong production month for PLM and we fully expect to be over target for February as well.

We are off and running at trade shows and busy visiting current and potential clients in an effort to support our desire to grow the organization this coming year. We have seen an increase in submission activity in the heavy manufacturing segment (sawmills, pallets, et al.) as some of the companies that jumped into the marketplace are repricing business or getting out. The new claims system we implemented on November 1 is running well. Over time this system will assist us in providing more detailed loss information for both our underwriting and loss control teams as well as to your brokers and you.

In addition, we are putting the final touches on a data breach coverage that we hope to roll out by the second quarter and we are pleased to announce that our loss control department is once again fully staffed. At the same time, we are finalizing a number of changes to improve our ability to track loss control recommendations. We signed a deal to put the last piece of our systems overhaul in place and believe that by the end of the year we will have shut down the last of our COBOL-based systems and will have moved most of our servers to the cloud.

All of this means we have another busy year ahead in our ongoing effort to make PLM the company of choice for insureds that operate in the wood and building material niche.

I continue to seek your feedback, so if you have comments please either give me a call at 267-825-9246 or email me at jsmith@plmilm.com.

THE DOVETAIL: JOINING SAFETY WITH OPERATIONS

BREAKROOM APPLIANCES: HIDDEN FIRE HAZARDS

Have you considered the use and types of appliances you have in your break room as being a fire hazard to your operation? Many break rooms have non-commercial low-end appliances that most of us wouldn't consider having in our homes. To complicate the matter, these low-end appliances are often used much more frequently in the workplace than theywould be in a home. Overloaded outlets, light duty extension cords, inadequate overcurrent protection, dusty environments and poor housekeeping are several of the major causes of fires in company break rooms.

We at PLM have seen a number of losses across our book of business that were the result of fire in break rooms. These losses ranged from small insignificant fires to large total loss fires. To avoid break room fires, we recommend you consider the following:

- *Only use commercial or industrial-grade appliances that are UL listed.*
- *Remove all hot plates, toaster ovens, toasters or any appliance that has an open flame. Place signs in the breakroom restricting their use.*
- *Plug all appliances directly into outlets that have the proper overcurrent protections (breakers, GFCI, etc.)*
- *Never plug appliances into extension cords.*
- *Provide all break rooms with smoke/heat detection devices that are monitored by a central station.*
- *Keep all appliances and outlets free from dirt and debris accumulation.*

Evaluate your break room utilizing the tips listed above and take the appropriate action. A little forethought could save your business from having a fire, keeping your employees safe and comfortable in an updated break room.

THE FINANCE CORNER

HOW DO YOU FINANCE YOUR INSURANCE PREMIUMS?

Do you pay your annual property, auto and liability insurance policy premiums in one annual amount? Probably not. Most commercial insurance policyholders seek to manage their cash flows by spreading premiums over several monthly installments. While many of our policyholders take advantage of our premium installment options, we find it surprising that some continue to use premium finance companies.

Why does that surprise us? Insurance premium finance company contracts require sizable down payments, offer amortization periods that are relatively short compared to the financed policy terms and contain an interest charge.

We invite you to consider our best premium installment plan, Electronic Funds Transfer (EFT). You agree to let our bank debit your bank account once per month and in turn enjoy these benefits:

- *No down payment*
- *No interest*
- *No service fees*
- *No checks to write*
- *Up to nine monthly payments on annual polices and 18 monthly payments on two-year policies*

Would you prefer not to enroll in our EFT program? We also offer installment plans wherein you will receive regular statements of the amount to be paid by a future date. There is a small service fee for each installment, which is waived if you pay us by e-check via our website rather than mailing in a paper check. We do not charge interest. For more information on EFT, please contact our Customer Service Department at 800-752-1895.

PLUMB SAFETY

EMBRACE SAFETY… IT'S GOOD FOR YOUR BUSINESS!

Steve Firko, *Senior VP – Underwriting*

Over the last several years, we have heightened our focus on loss prevention and have become very diligent in the issuance of and follow up on formal loss control recommendations to our customers. We have seen a substantial improvement in this area with the number of visits to clients and the number of recommendations increasing each year. We further tightened our position on non-compliance with loss control and have moved decisively to take action against certain policyholders who refuse to implement our repeated safety and loss control recommendations.

I am always disappointed when we are forced to issue cancellations. We are not in the business of canceling policies; we are in the business of helping our policyholders operate more safely and protect their assets. However, if they do not feel the need to comply, we feel we have no choice. As a mutual insurance company, we believe this protects the long-term health and interest of our safety-conscious policyholders and PLM. **Visit www.plmilm.com/lm-embrace-safety/ to read the full article.**

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TIMBER TRENDS

EPLI CLAIM UPDATE

In our litigious society, frivolous litigation and groundless claims rack up astronomical defense costs for employers and their insurance companies. While hacking and cyber liability have been getting all the recent press, Employment Practices Liability (EPL) claims quietly continue their upward trajectory.

It seems employment laws in the U.S. often favor the employee. Current employees, ex-employees and even rejected job applicants may file actions against employers. A few contemporary EPL claim drivers include:

- ***Social Media***
- ***Mobile Devices***
- ***Marijuana Legalization***
- ***Telecommuting/job-sharing***
- ***Pregnancy Accommodation***
- ***Defense of Marriage Act***

Visit www.plmilm.com/lm-epli-claims/ to read the full article.

POLICYHOLDER PERSPECTIVE

"We, GRK Manufacturing Co, have had the privilege of being insured by Pennsylvania Lumbermens Mutual Insurance Company for the past several years.

Their service has been outstanding. They stood beside us when we had a fire loss, and they have been beside us to provide coaching on how to minimize our risk.

We have benefited from their knowledge of the industry and their knowledge of what we can do to aid ourselves: "keep those electric boxes closed," "reduce the combustible load by better storage," "remove potential combustible sources from the exterior of out building," and "minimize the sawdust in the building." All of this seems obvious, but it helps us greatly when dealing with our employees – to have their recommendations to aid us in fire prevention education.

I recommend them to everyone."

Gary Kilday,
President, GRK MFG