



PRODUCER UPDATE

PENNSYLVANIA LUMBERMENS MUTUAL INSURANCE COMPANY + INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY

COMMENTARY: A POSITIVE YEAR

JOHN K. SMITH, PRESIDENT & CEO

We were very pleased to inform our Board of Directors at our January meeting that PLM/ILM had generated an operating profit in 2015 -- our first operating profit since we consummated the affiliation. While we did not generate an underwriting profit from underwriting operations, we did substantially reduce our underwriting loss by almost 70%. This was primarily due to our investment income that covered the underwriting loss and led us to net income before and after taxes for the first time in several years. In addition, we managed to dramatically reduce our expense ratio. Unrealized losses on our investment portfolio contributed to a 4% decline in our policyholder surplus to just over \$121 million dollars. Our premium surged by over 5% to \$230 million in spite of some difficult underwriting actions we took earlier in the year in the heavy manufacturing arena.



Just under 450 new accounts joined the PLM/ILM family in 2015. These accounts generated over \$18 million of new premium. Our retention of current clients was lower than it has been in recent years due to the aforementioned underwriting actions that we were forced to take in the heavy manufacturing area. Retention of retail and wholesale lumberyards, as well as light manufacturing was excellent.

When we look more deeply into the numbers, it reveals a vast improvement in profitability of the heavy manufacturers that we continue to insure. This is due to several factors. We feel the primary reason is that our customers are focused on safety. Their willingness to work with us has dramatically reduced their loss exposure through their implementation and follow-up on hot work, housekeeping, electrical and machinery maintenance, and disaster planning programs. Second, and just as importantly, the pricing in this segment of the business has increased to more historic levels. The result of this change in rate levels has generated what appears to be a return to profitability. One year does not a trend make, but we are encouraged (and more importantly our reinsurers are encouraged) that we are on the right road.

We were successful in renewing our reinsurance program for 2016 with very acceptable terms. For the first time in a number of years, reinsurers seemed to embrace our approach to the market. We continue to be supported by an impressive array of high quality domestic and international reinsurance companies that we know we can depend on to rapidly respond to claims as they arise. The relationships, many of them personal as well as professional, that we have created over the last decade in this marketplace have paid off very well for PLM/ILM and our clients.

We rolled out an Employment Practices Liability coverage last fall and are very pleased with the response we have had to this coverage enhancement. Our underwriting team is now hard at work developing a cyber liability product to add to our coverage menu.

An area of deep focus this coming year will be in the General Liability and Commercial Auto areas. Over the last couple of years, we have seen a substantial increase in loss activity in these lines of business. We are rolling out a number of loss prevention programs including: distracted driving, driver selection and training, loading and unloading, slip and fall, and others. These guides will help your clients control their exposure to loss, and at the end of the day, their insurance costs. Our website has some great information on these topics. Greg Pianko (gpianko@plmilm.com, 317-875-3626), our VP of Loss Control, or Doug Hoyle (dhoyle@plmilm.com, 267-825-9128), our newly hired Loss Control Manager, as well as any of our Loss Control or Business Development Representatives can help you in this area.

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15% COMMISSION OFFER

For a limited time, PLM/ILM will be offering brokers a 15% commission on new accounts with effective dates of March 1 - July 1, 2016.

- **The 15% commission is for retail, wholesale and light manufacturing classes ONLY.**
- **This is a limited time program. Eligible for new accounts with effective dates of March 1st through July 1st, 2016.**
- **Commission will revert back to 10% on renewal.**

Applications can be emailed to newbiz@plmilm.com. For more information, contact us at 800.752.1895 or email us at cust-serv@plmilm.com.

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FREQUENTLY ASKED QUESTIONS

Below are several questions that we receive on a regular basis that we want to take a moment to answer.

What is your minimum premium? While our average account premium is in the range of \$20,000 and our largest is over \$2 million, we will write and WANT TO WRITE any wood account that generates at least \$1,500 dollars of premium. Even this is not a rule, but rather is a guideline. Our thought is a simple one and adheres to the old adage, "from little acorns, mighty oaks grow".

Why do you require a cosmetic roof endorsement? Roof surfacing is a part of the building that is particularly susceptible to deterioration over time, which continues to cause repeated losses, and must be periodically repaired and/or replaced in the normal course of building maintenance. PLM/ILM continues to be confronted with repairing/replacing a roof, on a replacement cost valuation (RCN), which was in poor condition prior to loss and/or has suffered cosmetic damage.

PLM/ILM has introduced an endorsement -- Coverage for Roof Surfacing. This endorsement is twofold, and only applies to the perils of wind and hail. It contains two schedules; the first schedule provides an option for covering roof surfaces on an actual cash value basis (ACV), while under the second schedule we will pay for an appearance allowance for cosmetic damage to roof surfacing caused by wind/and or hail not to exceed \$2,500 per occurrence .

There are situations when PLM/ILM will not make this endorsement part of the policy. If the real property (Building/ Structure) is currently written using a valuation of actual cash value (ACV) or when providing replacement (RCN) is acceptable (newer construction 10-15 years or major repairs were made to the roof within the last 10-15 years). Every building, per location, is taken into consideration whether to provide an actual cash value or replacement cost valuation.

For the purpose of this endorsement, cosmetic damage means that the wind and/or hail caused marring, pitting or other superficial damage that altered the appearance of the roof surfacing, but such damages does not prevent the roof from continuing to function as a barrier to entrance of the elements as it did before the cosmetic damage occurred.

What is your position regarding heavy manufacturing accounts? We define Heavy Manufacturing (Primary Manufacturing) as accounts that process and cut logs, such as pulp, lumber, plywood, veneer, excelsior, pellets, poles, posts, and mulch operations and chip mills. Pallet operations are also part of heavy manufacturing. If the account has a true commitment to loss prevention and demonstrates a good management attitude toward controlling loss exposures by implementing and actively following a hot work, electrical and machinery maintenance, thermo-imaging, housekeeping and disaster recovery program (all of which we can assist with), then we are very interested in writing this class of business at our price (a price that has increased dramatically over the past 4 or 5 years back to its historic norm). We have the ability to write any account in the marketplace with limits up to \$25 million at any one location. In other words, as long there are no locations with more than \$25m of values at that one location, we should be considered an interested market. IF A LOCATION IS LARGER THAN \$25m, we are willing to talk to a potential customer, but the conversation should occur between the potential customer and Richard Hall, our Senior VP of Underwriting and Loss Control, or with John

Smith, our President and CEO.

Are you interested in writing retail hardware stores? Yes! In fact, we are seeing an upswing in the number of retail hardware store accounts being submitted and have begun to write a number of them. We are still feeling our way around here, but we are interested in reviewing this class of business.

I am being quoted Business Income Insurance on an Actual Loss Sustained basis? Is this better coverage than what PLM/ILM is providing? We receive various inquiries from customers as well from the agent/ broker community requesting that we quote Business Income Insurance on an Actual Loss Sustained basis. For the most part, business income is one of the most difficult coverages to understand and the time to learn about it is not during a claim adjustment for a covered loss that you have had! The mindset is that an Actual Loss Sustained form eliminates worry about whether you have adequate coverage should a loss should occur. The real question: Is coverage on an Actual Loss Sustained better than what PLM/ILM can provide? This is a loaded question, and can't be answered simply as a yes or no. Let me explain.

Whether business income is written on an Actual Loss Sustained basis or for that matter on any other traditional business income form, a "**business income worksheet**" must be completed to determine the amount of insurance to purchase. Why you ask?

There is no limit shown in a policy when it is providing coverage on an Actual Loss Sustained basis. Basically, it is a gross earnings coverage form that pays for loss during the period of restoration and stops payment when the damaged property is restored to its former condition. **Please keep in mind that these coverage forms do not provide an unlimited amount of coverage for the loss**, if one should occur. The loss must still be proven and the proof will generally be the amount that will be paid based on review of your business records for the previous year to see what the loss actually is.

This exercise is completed whether the business income coverage is written on an Actual Loss Sustained basis or any other traditional business income form. In today's world where it is very difficult in some cases to gain appropriate permits or replacement equipment, you must also take into consideration that it might take quite a bit longer to rebuild a building/ structure than you expect. The question that must be asked is what if it takes longer to reopen your business once it is restored? Will your policy respond to cover extra expense, payroll and, more importantly your profits? An Actual Loss Sustained form normally provides coverage up to twelve months. What happens if it takes longer than that to restore your business?

PLM/ILM does not offer an Actual Loss Sustained business income form. Having said this, PLM/ILM has an array of coverage forms other than the standard Business Income and Extra

GROWING YOUR BOOK OF LUMBER BUSINESS

JOHN K. SMITH, PRESIDENT & CEO

In 2016, PLM/ILM will generate more than 2,500 submissions from which to pick and choose accounts that we will energetically pursue with the hope of securing a bind order.

Historically, we decline about 50% of those accounts submitted and successfully "hit" about 50% of those we quote. In other words, we will write in excess of approximately 600 new accounts in this new year. The average new account premium is usually over \$29,000, although our minimum new business premium on an account is just \$1,500. These are historic numbers that tend to vary a bit on a year-to-year basis. So, we estimate that will write about \$18,000,000 of new premium in 2016.

The question is not whether we will write that amount of premium (we will), but rather **which brokers will we write those new accounts with?** If you are interested, we wanted to share with you what you can do to successfully place wood business with PLM/ILM.

First off, TALK TO US as you are pursuing an account. We have a vast database on wood accounts including accounts we currently write, those we have written in the past, and those that we have come to know over the years for one reason or another.

When you are working on the submission, consider reviewing some of the following areas more deeply than you might if you were working on standard lines business. This is the wood niche after all, and wood tends to burn! We encourage you to review some of the great information on our website that can focus your line of questions with potential insureds.

While we need all the normal construction, occupancy, protection and exposure (COPE) information from a property standpoint, there are some critical areas that you need to really dig into.

- Housekeeping -- It is great that the place looks good when you are there, but find out what they do to maintain housekeeping when you are not. Do they have a written program in place and do they follow it?
- Electrical systems -- Many wood guys think they are electricians. While the electrical system in a retail operation does not offer any significant challenges, that is usually not the case in a light manufacturing operation and definitely not true in a heavy manufacturing system. Find out when the system was last updated and who maintains it. If it is the insured, ask when the last time they had a licensed electrician inspect the system. Think about the cost to replace the system. We see a lot of insureds that simply do not have adequate coverage in place due to the cost of the electrical system!
- Machinery maintenance -- Talk to the prospect about their machinery maintenance plan. They should be closely following manufacturers specification and recording and monitoring all machinery every day.
- Thermo-imaging -- On heavy manufacturing accounts please dig into the insureds thermo-imaging program that should cover both electrical equipment and all machinery.
- Welding -- If the insured is welding (and all heavy

manufacturers and some light ones do!) they have to have a detailed Hot Work program in place. This is an OSHA requirement as well. There is a large amount of information on our website regarding this issue. Keep in mind that if the insured outsources the welding, they need to do two things. First, they need to make sure the contractor follows the aforementioned hot work program to the letter. The second thing is that the insured needs to make sure that the contractor has General Liability coverages **with adequate limits!**

- Disaster planning -- This is an area where we could all use some help and these insureds are no different. The reality though is that while many standard lines insureds will never use their plan, a wood account has a higher probability that they will! This is an area where we can add some real value. We recommend that the insureds use the Institute for Business and Home Safety Disaster Planning kit (www.DisasterSafety.org) to build a plan. They should be working with the local fire department and doing annual meetings to familiarize the fire department with their site. In many rural areas the biggest fire that the local department is going to ever have to deal with is the lumberyard or wood manufacturing fire!

Further, and something that is simply crucial to understand is that we all too often find that brokers tend to focus more heavily on the property aspects of risk and don't delve more heavily into the casualty side, particularly in the automobile line.

From a commercial auto viewpoint, your knowledge of the standard lines approach is helpful, but be sure to look for and identify the boom or log trucks. The booms will add significant value to the vehicle and their operation significant liability. So, ask about operators and training. In many cases, both of these vehicle types will be operating on uneven and unpaved surfaces. Driver selection and training is critical, as is regular MVR review. The insureds should have a distracted driver policy in place. Many of these trucks will operate with a full load that needs to be strapped down. Drivers that do not supervise the loading should have full authority to not leave the premises if THEY do not feel the load is properly strapped down. Drivers need to check the load several miles down the road to confirm that it's tied down correctly. A strict loading and unloading policy needs to be in place and followed. Again, check out our website for information on this topic.

The general liability is fairly straightforward, and for the most part your standard lines back ground will hold you in good stead.

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JOHN AND JULIE SMITH ARE BRAVING THE SHAVE!



There's something amazing happening in our community and we need your support! It's the Brave the Shave event to benefit the St. Baldrick's Foundation which will be held on April 5, 2016 at the NAMIC CEO Roundtable in Scottsdale, Arizona. John Smith, President and CEO at PLM/ILM, along with his wife Julie, will be shaving their heads to show solidarity with children fighting cancer.

children fighting cancer.

The St. Baldrick's Foundation is a volunteer-driven charity committed to funding the most promising research to find cures for childhood cancers and giving survivors long, healthy lives. The St. Baldrick's Foundation has become the largest private funder of childhood cancer research, dedicating over \$178 million to the cause since the year 2000. This is a cause that is near and dear to our hearts.

- Worldwide, a child is diagnosed every three minutes. One in five will not survive.
- More children are lost to cancer in the U.S. than any other disease -- in fact, more than many other childhood diseases combined.
- Childhood cancers are different than adult cancers and therefore, must be treated differently.
- There are over a dozen types of childhood cancers, and countless subtypes, making it more challenging for

EASY PAYMENT OPTION

-- EFT

DON BLACKWELL, SENIOR VP - INVESTMENTS

Using Electronic Funds Transfer (EFT) to pay bills or receive payments is very common today. We want to make sure you are aware PLM/ILM offers this avenue for your clients to pay their policy premiums. It is the most convenient, accurate and lowest-cost option for them to make their premium installment payments.

Why is EFT the best way for your clients to pay premiums?

- There are no installment service fees.
- There is no down payment on a 12-month or 24-month policy premium.
- The customer can pick the number of equal installments they wish to make, up to 9 installments for their 12-month policies and 18 installments for their 24-month policies.
- No checks to write every month. This means no labor or postage to prepare and mail their payment, and no check-processing fee from their bank.
- Their payment will always be on time and right on the due date, not before.
- Their payment will be directly applied to the correct policy and term.

researchers to find cures for every kid.

- By the time survivors reach age 45, more than 95% will have chronic health problems and 80% will have severe or life-threatening conditions due to toxic treatments.
- With the National Cancer Institute (NCI) providing less than 4% of its budget to pediatric cancers, the bulk of responsibility lies with foundations to fund research.

Donations can be made to their team online at <https://www.stbaldricks.org/participants/johnsmith> or can be mailed to PLM/ILM, 2005 Market Street, Suite 1200, Philadelphia, PA 19103, payable to St. Baldrick's Foundation.

Please stop and consider what amount of money you wouldn't give to avoid receiving the devastating news of a childhood cancer diagnosis of someone you love. For those that have experienced this, they know that there is no limit. Every dollar donated goes towards the funding of much needed cancer research.

Together, we're better. Together, we're Conquering Childhood Cancers.

FREQUENTLY ASKED QUESTIONS

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Expense form that will provide extensive coverage to fit the individual needs of you the customer, which will provide a comfort level with your purchase of business income insurance. These forms include: Maximum Period of Indemnity; Monthly Limit of Insurance; Valued Business Income Coverage; and Profits Insurance.

I shop my insurance every year to get the best price possible, and I have recently been told that PLM/ILM is not interested in quoting my coverage any longer. Why? There is a lot more to insurance coverage than price. In our minds, someone who shops their coverage every year does not understand the value of and difference between the various companies that offer coverage and the coverage they offer to insureds in the niche. We provide broad based coverage and loss control services that is backed up by world-class claims service that our customers recognize as a tremendous value received in return for premium paid. The time to determine whether or not you got a good deal on your insurance is not based on the price you pay but rather the services provided to assist you in controlling or eliminating exposures to loss, and when or if a claim arises, the insurance carrier's ability to handle the claim fairly, efficiently and effectively. We recommend that you shop your coverage every 3 to 4 years, as we at PLM/ILM do with our own insurance program. If you want to do it every year, that choice is yours, but we simply feel that we would rather not participate in that process.

If there are any additional questions you may have that are not addressed here, you can always contact our Customer Service Department at 800-752-1895 or at custserv@plmilm.com. ■

CHANGES TO OUR SENIOR LEADERSHIP

It was recently announced that there will be some changes to the PLM/ILM senior leadership team. Effective February 8, 2016, Steve Firko, Senior Vice President of Field Operations/Marketing, and Chris Crucitt, Vice President of Underwriting, will be switching positions with Steve assuming a leadership role in the Underwriting Department reporting to Rich Hall and Chris assuming a leadership role in Field Operations, reporting directly to John Smith. Both gentlemen will maintain their current titles of Senior Vice President and Vice President respectively. All contact information will remain unchanged. For the moment, all marketing operations will report to Craig Myers, Vice President.

These individuals have contributed mightily to our organization over the years and have helped us successfully navigate the turbulent times since the great recession of 2008, which changed the landscape in which we operate. Both individuals have, over time, performed at levels that exceeded expectations and it is because of their capability and the capability of the people that will be reporting to them in their new roles, that we are able to make this change and strengthen our future.

The lifeblood of any organization is the qualities and talents of its people at every level that make up that organization. A diversified understanding of our business at the leadership level of our organization is critical to both its short and long term success.

We believe that both Steve and Chris will continue to flourish professionally in their new roles. This change will help us as an organization accelerate more smoothly into the future, while taking advantage of all that the future has to offer.

Steve Firko, Senior VP - Underwriting
sfirko@plmilm.com, 267-825-9184

Chris Crucitt, VP - Field Operations
ccrucitt@plmilm.com, 267-825-9316

EASY PAYMENT OPTION -- EFT

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All we need from your client is a signed authorization agreement giving PLM/ILM permission to transfer one premium payment per month directly from their bank account to ours. Any changes to their policy premium from endorsements, either up or down, will be automatically distributed equally over the remaining installments in their policy term.

If your accounts with PLM/ILM are not already enrolled in our EFT program, we ask that you explain to them the benefits of EFT and encourage them to give it a try. Please contact our Customer Service Team before their next policy anniversary to ask about the program and sign up! You will also find more information on PLM/ILM's payment options at www.plmilm.com. ■

GROWING YOUR BOOK OF LUMBER BUSINESS

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Use your local BDR to assist you or talk to one of our underwriters as you review and prepare the account for submission. Let's be honest, when an account is outside of the basic criteria we are looking for, the likelihood of us providing a quotation or doing so on a competitive basis drops dramatically. The more complete the submission, the higher the hit ratio. The submission that includes information on all the above will also improve our ability to compete and improve your hit ratio!

Let's look at the various segments of the wood niche as we define them. There are generally different segments: Retail and Wholesale Building Material Dealers (aka Lumberyards), which over the last 18 months or so has grown to include hardware stores, is our largest segment and makes up over 50% of our insureds and approximately 55% of our premium. Light wood manufacturers include any risks that are manufacturing wherein the basic material used is wood that we do not identify as a Heavy Manufacturing operation. This light wood manufacturing type of account represents around 30% of our premium. You can see a full listing of the different types of businesses we write on our website at www.plmilm.com/products-services/what-we-write/.

Finally, we are a market for heavy wood manufacturers and we want to write this business but we want to write it PROFITABLY. We define Heavy Manufacturing (Primary Manufacturing) as accounts that process and cut logs, such as pulp, lumber, plywood, veneer, excelsior, pellets, poles, posts, and mulch operations and chip mills. Pallet operations are also part of heavy manufacturing.

Some have asked about our appetite for small accounts. WE LOVE SMALL ACCOUNTS! Our smallest account pays us around \$1,500 in annual premium while our largest pays us over \$3 million. We designed the 2-year policy program to support the small account business we write. It reduces our handling cost as well as yours, and positively impacts renewal retention. Even better, our insureds love the 2-year program because they don't have to shop their insurance every year!

With regards to values, we have the following capabilities internally:

Property (Maximum value **at any one location**)

Retail / Wholesale Building Material Dealers & Light Manufacturing-\$60 million

Heavy Manufacturing - \$25m

Casualty to \$20M

If you would like to discuss this topic further, please do not hesitate to give me a call at 267-825-9246 or at jsmith@plmilm.com. ■



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DIVIDENDS PAID OUT TO THREE GROUPS

We are pleased to announce that we paid out dividends to three of our Safety Group Dividend Plans at the end of 2015.

IHLA Safety Group Dividend Plan -- In early November, PLM/ILM paid out a 2% dividend to the participating members of the IHLA Safety Group Dividend Plan. The group ended their plan year of January 1, 2014 to December 31, 2014 with a loss ratio of 35.43% earning the group their 2% dividend. This was the last year of the plan that included only ILM accounts. As of January 1, 2015, the IHLA Safety Group Dividend Plan includes all eligible ILM and PLM customers.

WBMA Safety Group Dividend Plan -- Also paid out in November, the WBMA Safety Group Dividend Plan ended their plan year of January 1, 2014 to December 31, 2014 with a loss ratio of 30.35% earning the group their 2% dividend. Similarly, this was the last year of the plan to include only ILM accounts.

NEMEON Safety Group Dividend Plan -- In December, PLM/ILM paid out a 5% dividend to the members of the NEMEON Safety Group Dividend Plan. The group ended with a loss ratio of 30.52% for their plan year July 1, 2014 to June 30, 2015 earning the group their 5% dividend.

For more information on the recent dividend payouts or on any of our twelve dividend plans, you can 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/.

COMMENTARY: A POSITIVE YEAR

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Once again it is show season! This affords our senior leadership team and myself the opportunity to visit with many of our customers and brokers. We truly look forward to seeing you, catching up on your business and talking about our relationship. Look for us at any of the over 80 shows we will do this year, and stop by to say hello! If you have any questions with regards to PLM/ILM, please do not hesitate to contact me at jsmith@plmilm.com or 267-825-9246. ■

PRODUCER UPDATE

PRESIDENT & CEO JOHN K. SMITH
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