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PENNSYLVANIA LUMBERMENS MUTUAL INSURANCE COMPANY

SPECIAL ISSUE: RELATIONSHIP ENHANCEMENT PROGRAM



John K. Smith, President & CEO

During my career at PLM, I have made it routine to frequently review our accounts to ensure that we are continually providing the best products and services to our insureds. About six months ago, as I was reviewing some new accounts, I began to question whether we were spending enough time with our existing insureds. My concern was that our relationships, especially with our long-term customers, were growing a bit too distant. I also started to recognize patterns in our Underwriting files that suggested that if we were to physically visit every location that we insure throughout the United States, and do more loss control work with our customers, we could improve the quality of our insureds' operations (and, as a byproduct, our results).

With the buy-in of our executive team, we made the decision to refocus our business development efforts for the first half of 2019, and to concentrate our energy on enhancing our loss control and risk management services for insureds, which has also granted us the opportunity to update and verify our underwriting information.

If you have received this publication for any length of time, you know that I frequently mention that the competitiveness and quality of an insurance program *isn't determined by the price paid to the insurance company, but rather the value that the hard earned premium payments produce*. In other words, what are your clients getting in return for their premium dollars? Is it just coverage? All too often price is the only thing that many insureds consider and, to be honest, they don't do a very good job in comparing coverages. Their insurance review turns into more of a price comparison based on the belief that the coverages and services (risk management, customer service and claims) from two competing insurance companies are similar in nature. Nothing could be further from the truth.

Even here at PLM, the small committee responsible for buying reinsurance coverage can spend better than \$50 million dollars each year doing so. Do we look at price? Yes. Do we make a

decision with whom to place our reinsurance based solely on price review? NO! We look at what services the reinsurance broker and companies provide, their financial viability, and whether or not they understand the lumber industry and our insureds. In short, we are looking at the entire deal and trying to create long-term, mutually beneficial relationships.

For nearly 125 years, Pennsylvania Lumbermens has always made it our priority to provide value well past what any simple premium comparison will show. We have always felt that it has been about our business development and loss control representatives' ability to assist you and your clients in basic risk management techniques. It is our expertise in the niche and our understanding of their business that allow us to help them determine how they can choose to assume risk with which they're comfortable, reduce risk with which they're uncomfortable, or avoid risks that cannot be managed. Though this has always been our goal, we recognize the need to formalize this program and this process. If we are going to visit our insureds, we must ensure that we visit all of our insureds at each of their locations. With this concept in mind, the plan we call *The Relationship Enhancement Program* took root.

In January, we unveiled the program to our Underwriters, Business Development Representatives and Loss Control Representatives

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for implementation. We placed an added emphasis on general liability and auto risks that our insureds face. To date, we have surveyed more than 5,000 insured locations and over half our accounts. We have issued 2,500 loss control recommendations for improvement – most of which have been gratefully accepted and complied with by our insureds.

Feedback from our customers has been very positive regarding our efforts. As a result of these surveys, we have been able to identify areas where an insured's coverages can be amended to fit their needs, risk management can improve safety on premises and on the road, and education can help support the goals of our valued customers. We have supported our insureds in their efforts to focus on improving their auto exposures by providing educational sessions on-site, assisting in the signup for MVR

monitoring, and making other training tools available.

We are more than half-way through our Relationship Enhancement Program, which we are expecting to complete by July. While we love to help educate our insureds and offer them valuable resources, this is an opportunity for us as well, to meet with all of our customers on a personal level and let them know that our relationships are the most important part of this business. Following this program, we expect to ramp up the AmTrust renewal rights transfer that we recently announced. If you have not yet heard, we are picking up that company's business as they make an orderly exit from the lumber niche. Should you have any questions about this matter, please do not hesitate to contact me accordingly.

PLM'S RELATIONSHIP ENHANCEMENT PROGRAM

The Relationship Enhancement Program (REP) was developed at the beginning of 2019 to address several needs following years of tremendous growth at PLM. At the core of our principles remains our desire to develop and maintain direct relationships with our insureds with the purpose of helping them mitigate losses specific to the lumber, woodworking and forest products industries. Along with top-line premium growth comes increased claims activity. As new claim trends develop within our niche we've implemented appropriate measures to address these exposures with our customers. Through consultative visits, Business Development Representatives (BDRs) and Loss Control Representatives (LCRs) educate and assist our insureds to improve their current safety programs. Through their expertise in the wood niche, they are able to provide industry-specific recommendations and services to help our insureds establish programs to operate safer businesses.

With our representatives visiting locations throughout the United States, we wanted to share some of our findings and the areas of concern where there is a need for better risk management focus.

PROPERTY

- **Fire:** Accounts for only 10% of our loss frequency, but 2/3 of our total claims costs. Critical areas of concern include uncontrolled hot work, electrical shorts, weak hydraulic lines, heating systems, dust collection systems and housekeeping (including smoking controls).
- **Weather-related (wind, hail, water):** 40% of our loss frequency. Assessment of roofs and structures. There is a need for preventative maintenance and other best practices related to this loss type.
- **Theft/security:** 10% of loss frequency.
- **Vacant buildings:** A common concern due to the lack of constant supervision and observation of building conditions. Vacant buildings pose a greater risk to the above loss types.

GENERAL LIABILITY

- **Forklift safety:** Involved in almost a quarter of General Liability loss frequency. All of these losses are preventable through training, preventative maintenance, and pre-planning.
- **Loading/unloading:** Nearly 20% of loss types, typically involving trucks and load securement. Having policies and procedures with a systematic process, training, and proper equipment is critical.
- **Slip/falls:** 15% of loss frequency, but even more impactful due to the severity (costs). These too are largely preventable. As simple as it sounds, comprehensive preventative maintenance and housekeeping programs will largely address most exposures. Surface types (e.g. friction) are important as well. Visit www.plmins.com/pu-relationship-spring19/ to read the full article.

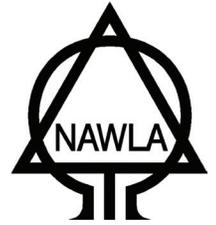


DIVIDENDS PAID TO NAWLA MEMBERS

We have talked a lot about developing and maintaining relationships with our customers in this issue. One of the ways we achieve this is through our involvement and dedication to the industry. PLM is an active member in numerous trade associations throughout the country. Our people attend industry events, we support association events through sponsorships and we have several endorsed safety programs with some of these trade associations.

One of these programs is with the North American Wholesale Lumber Association (NAWLA). PLM has provided a safety group dividend program for NAWLA since 2000. PLM customers who are NAWLA members can enroll in this program to earn potential dividends.

We are pleased to announce that the group earned a 2% dividend for their 2018 plan year. The final calculation resulted in a group loss ratio of 46.07%, giving the participating NAWLA members a 2% dividend. All checks were distributed in April.



WHY RECOMMENDATIONS?

As part of our Relationship Enhancement Program, our Business Development and Loss Control Representatives have been carefully reviewing our customers' premises and operations to identify any potential areas of risk, ways to improve safety, and prevent future losses. Due to this closer look, there has been a significant increase in the number of recommendations we have issued to our insureds.

Many of our customers are already familiar with the recommendation process. Following a visit from a PLM representative, they may have received a notice itemizing two types of recommendations. Those classified as "Important" are all the suggested solutions. The other is "Imperative" which denotes that a serious injury or loss has a certainty of occurring. It is only a matter of time. All these recommendations are based on the Loss Control Representative's (LCR) or Business Development Representative's (BDR) risk management survey of the business and are part of the value-added services we provide to our customers.

When a LCR or BDR performs a survey, the intent is for the benefit of all stakeholders. From an insurer perspective, companies like PLM save money through paying fewer claims and/or reducing the severity (cost) of a claim. From a customer perspective, loss/injury exposures that are identified during surveys save money as well, even after investing in the recommended solutions to reduce or eliminate the exposure. Losses are an indication that a production process is not performing optimally. A loss that is paid through the insurance claims process is but the "tip of the iceberg". **Visit www.plmins.com/pu-recommendations-spring19/ to read the full article.**



PLM representatives not only attend trade associations' events and meetings but are also involved in the association on a board level. We have several people who serve on boards and committees for various wood-related associations throughout the U.S. Our President & CEO, John Smith, currently serves on the board of the Hardwood Federation and the investment committee of the National Lumber and Building Material Dealers Association (NLBMDA). Tricia Kilrain, Assistant VP of Field Operations, is on the board of the Western Hardwood Association (WHA). Bob McSorley, our other Assistant VP of Field Operations, is on the board of the Eastern Building Material Dealers Association (EBMDA) and Rick Zorman, Senior Underwriter, serves as the financial chairman on the board of the Indiana Hardwood Lumbermen's Association (IHLA).

We are also extremely proud that our people receive recognition for their dedication to the industry from these groups. Our Business Development Representative, Herman Sanchez, was recently awarded 2018 Associate of the Year from the Lumbermen's Association of Texas (LAT). "The associate award is based on the level of service to LAT's dealer members and dedication to and engagement with LAT for the betterment of the industry." It is one thing to exhibit and attend industry events, but knowing that our people go beyond this by developing relationships with the people in the wood community and serving the industry gives us great pride.



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POLICYHOLDER PERSPECTIVE

“Last year, our business was significantly impacted by Hurricane Florence. The claims team at PLM did an excellent job handling our claim. They were very approachable, timely and fair. What impressed us the most though was that we received a call from PLM’s customer service before Florence hit the area. PLM was there for us even before we needed them. As a result, we knew exactly what we needed to do to file a claim when the time came. This was a traumatic time for us. Not only was our business affected, but there was damage to our homes, the area was without power for two weeks, and many of our employees lost everything. PLM’s proactive customer service was very helpful to making this recovery process a little easier.”

- Elise Hollingsworth, Co-owner of Hollingsworth Cabinets & Interiors, Inc.

EXPANDING OUR TEAM



We are pleased to introduce a new member to the PLM team, John Kennealy, Vice President of Claims. An industry veteran, John brings years of experience in insurance claims and risk management to the PLM claims team. In his new position, John will be responsible for the overall management of the claims operation, including handling complicated

litigation, analyzing insurance contracts, and developing new strategies for keeping loss adjustment expenses down.

Prior to joining PLM, John served as director of the major litigation unit for commercial claims at CNA Insurance Company. As such, he worked with a team on high-severity losses, partnering with claims managers and other claims professionals in setting reserves, determining claims strategy, and settlement negotiation. His time in management roles, including at CNA and ACE, which has since merged with Chubb, has given John extensive leadership experience in the industry.