



LUMBERMEMO

PENNSYLVANIA LUMBERMENS MUTUAL INSURANCE COMPANY + INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY

COMMENTARY: WHERE WE ARE TODAY

JOHN K. SMITH, PRESIDENT & CEO



We have just announced our September year-to-date results to our Board of Directors so I feel it is appropriate that I provide you some insight on how and where we find ourselves financially as an organization at this point in time.

While we have not generated an underwriting profit, we have clearly turned the corner on losses and continue in that direction recording a loss ratio of 72.8% and an expense ratio of 34.1% through nine months. Our underwriting loss has been reduced by over 60% during this period and represents a material improvement in our underwriting results on a year-over-year basis. Looking at our results after investment income, we are generating a small operating profit which is a significant improvement over last year.

We have worked hard during the year to maintain our investment income. This is truly a challenging accomplishment in today's investment marketplace. The changes we made in our investment portfolio earlier in the year which reduced our holdings in energy-related investments (Master Limited Partnerships), paid off to some extent in that this segment of the market was drafted downward by the fall in energy prices. While I won't say that we were not impacted, the downsizing of our holdings this year insulated us nicely. We still feel that these investments -- which we continue to hold and enjoy a significant unrealized gain on -- will provide us with solid returns over the long term.

From a premium standpoint, we are slightly over budget and are pleased with our renewal retention and new business activity. Our retention is reaching new highs and approaching 90% in classes that have been historically profitable to us such as retail and wholesale building material dealers, small accounts and light manufacturing.

In the heavy manufacturing arena where we have suffered a significant underwriting loss over our recent history, our retention is much lower. Surprisingly, retention in the pallet class not only stabilized but is actually improving as competitors that jumped into the class over the last couple of years have not had any profitable success and are now exiting. I guess they found out something we have long known; the grass is not truly greener on the other side of the fence! Market conditions in the sawmill segment continue to evolve with new players continuing to exit or raise prices (in some cases dramatically while reducing coverage). The result is the market seeking equilibrium for these risks and finding it at a much higher, but nonetheless traditional, pricing when viewed over the long-term. Insureds in the heavy manufacturing segment have commented time and time again that while they don't like the price increases, they recognize pricing is returning to a level where it was eight or ten years ago.

We rolled out our new Employment Practices Liability coverage (EPL) which has now been approved in 44 states and will be automatically added to all renewals effective 10/1/15. The feedback from our insureds and brokers has been extremely positive regarding this action. In fact, we have had numerous requests to add the coverage midterm to existing policies, which caught us off guard! Because of this demand, we are now allowing for this coverage midterm. We are also working with state regulators in the four states that have not approved our filing, which unfortunately include some of our larger states. We expect their approval within the next 90 to 120 days and will begin coverage in those states as well.

Our new claims officer, Mike Lent (mlent@plmilm.com, 267-825-9400) has relocated his family to the Philadelphia area and they seem to be settling in nicely. During his tenure he has developed an overall strategic plan for the claims organization which he is beginning to implement. We have moved forward in purchasing a new claim system, as I commented we would in the past. There is a separate article by Mike which provides some of his thoughts on the direction he sees us going in this *LumberMemo*.

Kathleen Dalton and Traci Barber, who manage our customer service operations department, report continued progress on all fronts with our customer service team handling more routine

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calls from brokers, insureds and claimants. Policy and quotation processing appears to be moving forward on a more timely basis and they are working hard to insure we provide a higher level of service than in the past.

We have almost completed the transfer of Indiana Lumbermens' policies to Pennsylvania Lumbermens'. In January 2016, we will be reviewing that business with an eye toward moving a high percentage of it to two-year policies as we have previously suggested.

We are getting very positive reviews on our new billing system and are investigating whether or not we can implement it midterm on existing two-year business.

With summer behind us, many of our trade associations are gearing up with fall trade shows. Once again PLM/ILM will be at most, if not all, of them. I hope to be at more than a few myself. I look forward to the opportunity to chat with insureds and prospects accordingly.

Ours is truly a people's business; one where relationships are critical to the mutually beneficial long-term success of PLM/ILM, our brokers and our customers. We welcome your thoughts, ideas and concerns. While we can't promise that we will always agree (and there will be some rough spots), I have found that when a relationship exists between two parties, working our way through those rough spots and disagreements is a whole lot easier, particularly on complex, insurance-related issues. Frankly, I don't think our business is all that different than yours from this perspective. That is why over the years we have tried to keep our organizational structure flat with our key leadership team out front. We remain very visible and available to you to discuss any insurance concern you may have.

We look forward to a strong closing in 2015 and I personally look forward to seeing many of you this fall and winter at trade shows. ■

PRESERVING HISTORY IN WILLIAMSBURG

JOHN K. SMITH, PRESIDENT & CEO

This past summer, one of the associations that we are members of met at Colonial Williamsburg for their annual meeting. Their annual meeting has always been somewhat of a family affair (as are many other wood-related groups that meet in the summer). It was wonderful to see so many of their members and suppliers in Williamsburg with their spouses, children and in some cases, grandchildren.



If you have ever been to Colonial Williamsburg, you will know that a big part of the experience is touring various shops, homes and government facilities where reenactors demonstrate what life was like in colonial Virginia in the 17th and 18th century. There is the dress shop, the silversmith, the apothecary, the baker, the brickyard, the cabinet maker, the cooperage, and a host of other sites to visit.

What is not represented is any lumberyard or sawmill operation!

In fact, Colonial Williamsburg prides itself on manufacturing the construction materials used in much of its historic preservation work. The bricks made in the brickyard actually end up in historic renovations in both historic Williamsburg and Jamestown.

It seems a shame that so many "wood guys" didn't have the opportunity to show their children and grandchildren what role wood played in colonial America. If you are familiar with American history, you are probably aware that lumber was a significant export commodity in colonial times.

Williamsburg is looking for donations to recreate a saw house, saw pit and lumberyard, or what they refer to as the "Carpenter's Framing Yard". We solicited donations at the meeting I attended to accomplish this goal and are soliciting other interested wood businesses that want to support this project as well. **PLM/ILM will be matching all donations.**

If you are interested in supporting this project, we are interested in partnering with you. Please send your tax deductible donation to Cheryl Zoog, Executive Assistant (267-825-9244, czoog@plmilm.com) at PLM/ILM, One Commerce Square, 2005 Market Street #1200, Philadelphia, PA 19103.

PLM/ILM will be happy to match your donation and forward it to the Colonial Williamsburg Foundation. Your check should be made out to "Colonial Williamsburg Foundation". Also, please identify the project name, the Carpenter's Framing Yard, in the memo line of the check.

With a little luck, the next time a wood group chooses Williamsburg for its annual meeting, you can take your children and/or grandchildren to the sawing operation and lumberyard, as opposed to the brickyard!

PLM/ILM hopes to rectify that. It just so happens that Colonial

SERVICE CENTER - How Can We Assist You?

KATHLEEN DALTON, SERVICE CENTER MANAGER

The Service Center of Pennsylvania and Indiana Lumbermens Mutual Insurance Companies is here to help you. You may ask, "Who are we and what do we do?"

The Service Center is comprised of Customer Service Representatives, Customer Service Support, and Policy Service Technicians. All employees of the Service Center hold their Property and Casualty Insurance License. Our goal and vision is to be the primary point of contact for our policyholders, producers, and internal departments. We strive to exceed expectations!

Our Customer Service Representatives handle multi-faceted tasks on a daily basis whether on our Customer Service telephone line or via email. What kinds of inquiries do we receive? The Customer Service Representatives handle inquiries regarding billing invoices (how much/when is payment due), setting up EFT payments, commission questions, first notice of loss, adjuster assignment, claim payments, loss run requests, auto ID cards, setting up new business, motor carrier filings, and the Producer Portal...just to name a few.

Our Customer Service Support team handles incoming and outgoing mail, MVRs, supply ordering, as well as preparing the Underwriting file with the appropriate documentation necessary to evaluate the risk. The Customer Service Support team is also involved with our Loss Control Department. They are responsible for sending out DVDs and Hot Work Permits when requested.

Our Policy Service Technicians assist in rating both new business and renewals. They are involved in all aspects of the rating process after intake up to and including policy issuance. There is also a dedicated group of Policy Service Technicians that solely handle endorsements. Their goal is to process endorsements with a ten day turnaround time or less.

Now that you know a little bit about us and what we do, let us help you.

Please call and email us with your inquiries.

CUSTOMER SERVICE: (800) 752-1895
EMAIL: Custserv@plmilm.com
NEW BUSINESS: newbiz@plmilm.com
ENDORSEMENTS: endorsements@plmilm.com

TRACI BARBER - Service Center Manager
(317) 875-3790
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KATHLEEN DALTON - Service Center Manager
(267) 825-9302
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PAL RECEIVES A 5% DIVIDEND



We are pleased to announce that the PLM/ILM Board of Directors have approved a 5% dividend for the participating members of the PAL Safety Group Dividend Plan. This is the third consecutive year that the group has received a dividend.

The PAL Safety Group Dividend Plan ended their plan year with a loss ratio of 36.62% earning the group their 5% dividend. Dividend checks were mailed to members at the end of September.

The PAL Safety Group Dividend Plan is open to dealer members of PAL who are insured by PLM/ILM. For more information on the PAL Safety Group Dividend Plan or on any of our other fifteen dividend plans, you can visit our website at www.plmilm.com/dividend-programs/.

WHAT WILL HAPPEN WITH THE PAL SAFETY GROUP DIVIDEND PLAN DUE TO THE PAL AND ENAP MERGER?

PLM/ILM currently has a Safety Group Dividend Plan with both the PAL and ENAP associations. Due to the expected merger of the two associations on January 1, 2016, we have decided on the following steps to ensure the continuation of our dividend programs with the association members.

- The ENAP Safety Group Dividend Plan runs on a calendar year. We will let the current plan year for ENAP run its course out to the end of the year, 12/31/15. As of 1/1/16, all participating ENAP members will roll into the new LBM Advantage Safety Group Dividend Plan.
- The PAL Safety Group Dividend Plan runs from 4/1 - 3/31. We will let the current plan year for PAL run its course out to the end of the plan year, 3/31/16. As of 4/1/16, all participating PAL members will be rolled into the new LBM Advantage Safety Group Dividend Plan.

Please feel free to contact Susan Cho at 267-825-9350 or at scho@plmilm.com if you have any questions with the merging of the dividend programs.

PLM/ILM'S NEW EPL COVERAGE

Pennsylvania & Indiana Lumbermens Mutual Insurance Companies is now offering an important new coverage for all new and renewal policies beginning October 1, 2015 that can help you prevent or defend against employment claims that allege age, gender or race discrimination, sexual harassment, wrongful termination or other wrongful employment acts. This is a claims-made, duty to defend coverage, with protection for full priors act.

Employment Practices Liability (EPL) insurance protects your business from employees' claims alleging discrimination, wrongful termination, or harassment, including sexual harassment. EPL coverage pays for liability damages and defense costs within the limits due to these charges brought by full-time, part-time, temporary, seasonal employees, applicants or volunteers, even leased employees or independent contractors as defined. Our tailored EPL program also includes third party coverage for claims of discrimination or sexual harassment brought by customers and vendors.

Even employment charges found to be groundless may require legal defense and these costs can be significant -- often \$10,000 or more. Most charges are filed against small to medium-sized businesses, so this is valuable protection from these types of claims.

This coverage is specially designed for businesses like yours. It is an easy and affordable way to protect your company against employment charges and lawsuits that could devastate your business.

Protecting your business from employment charges is more important than ever. Employment-related claims have been growing at an alarming rate and laws continue to expand favoring the employee over the employer. No matter how careful you are in managing your employees, you never know when an employee, customer, or vendor might make a claim.

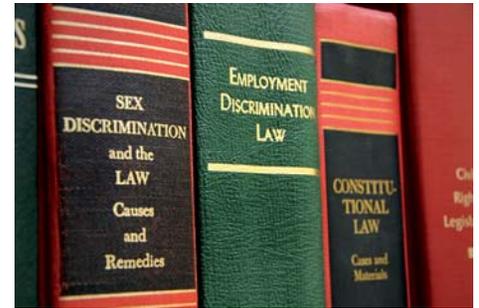
PLM/ILM's EPL coverage includes:

- Broad protection against Employment Practices Liability charges
- Substantial limits
- No separate underwriting process or complicated application for standard options
- An online loss prevention program
- Access to experienced employment law firms
- Access to a toll-free legal advice line

HOW DOES THIS COVERAGE COMPARE TO OTHERS IN THE MARKETPLACE?

We are excited about our new EPL program. It has many advantages that are not found in other EPL programs. When you review your current EPL coverage, ask yourself if your current program provides this level of protection and services.

- Our EPL coverage is Claims Made & Reported. Our competitor is Claims Made.
- Our form provides Full Prior Acts back to the Date of Organization of the Named Insured. Per our competitor's declarations, they use a specific date.



- Our competitor does not specifically address a Named Insured being a Trust.
- Our competitor does not provide for "Domestic Partner" coverage in the base form. Coverage may be added with a state amendatory endorsement.
- PLM/ILM's program does not examine insureds' books or records, nor do we conduct inspections and surveys like our competitor. Both are potentially cumbersome and intrusive to the insured.
- Our program's definition of Claim explicitly mentions an EEOC action. Our competitor's definition does not.
- Our program's definition of Claim includes requests to toll or waive statutes. Our competitor's definition does not.
- Our definition of Employee includes independent contractors and leased employees. Their language does not include independent contractors or leased employees.
- Our definition of wrongful employment act(s) is broader. Our program covers retaliation; our competitor's does not.
- Our program does not define sexual harassment. Our competitor's does define it which may limit claims coverage.
- Our program does not define wrongful termination. Our competitor's does define it which may limit applicability in a claim situation.

If you have any questions about this new coverage, please contact your agent or contact us directly at (800) 752-1895 or at custserv@plmilm.com. You can also find more information on our EPL coverage at www.plmilm.com/epl.



We are happy to announce that the whole company is now under one domain name, PLMILM.COM. We will no longer be using the plmins.com or the ilmgroup.com domains. The old email addresses will still work, but we ask you to use plmilm.com.

Going forward all email addresses should be under this domain, i.e. info@plmilm.com.

THE NEW CLAIM MANAGEMENT TEAM

MIKE LENT, VP - CLAIMS

PLM/ILM's Claim Department continues to change and evolve in ways that are improving claim service and financial outcomes for our policyholders. While we forge ahead with our claim system replacement project and adopt uniform claim handling best practices, the most important changes in any organization are tied to its people. Last May, we announced the promotion of Robert Belt to Claim Manager - Property. We are now pleased to announce the addition of two new Claim Managers to our team.

Anthony Sciarrino, Esq., joined PLM/ILM in late September to lead our newly created Claim Litigation Team. Having practiced insurance defense law in Pennsylvania for over twenty years, Tony will leverage his vast legal knowledge and his team's expertise to ensure PLM/ILM insureds obtain the highest quality representation when they find themselves involved in litigation.

Ed Niewinski, CCCP, was recently promoted to Claim Manager - Casualty. Ed joined PLM/ILM in December 2012 as a Casualty Claim Consultant. Ed will lead our experienced team of Claim Examiners, Representatives and Technicians who handle non-litigated automobile and general liability claims for PLM/ILM insureds.

We're excited to have our new Claim Management Team in place and encourage you to open a line of communication. We look forward to assisting you with any claim issues facing your organization.

Here's updated contact information for PLM/ILM's Claim Management Team:

J. MICHAEL LENT, CPCU, AIC
Vice President - Claims
(267) 825-9400
mlent@plmilm.com

FRAN SANTORO, AAI
Vice President - Claims
(267) 825-9398
fsantoro@plmilm.com

ROBERT BELT
Claim Manager - Property
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ANTHONY SCIARINNO, Esq.
Claim Manager - Litigation
tsciarinno@plmilm.com

EDWARD NIEWINSKI, CCCP
Claim Manager - Casualty
(267) 825-9392
eniewinski@plmilm.com

TRANSIT LOSSES: MAKE SURE YOU'RE "COVERED"

RAY ROGERS, CLAIMS EXAMINER

I have noticed a trend on transit losses this year: shipments getting wet while in transit. I usually only see this once or twice a year, but I have gotten at least one or two a month in 2015. Please note that this is an issue whether it is our own customers doing their own hauling, or if they hire a company to do so.

On the losses where our customers hire a company to do the hauling, I have noticed that all of the shipping agreements state that the load must be covered/tarped off before leaving the premises. Yet, after the employees load the vehicles they leave the premises without being tarped off. The customers then attempt to pursue a claim against the transit company, that is usually declined, then is pursued through PLM/ILM. Unfortunately, there is no coverage for Transit Losses that simply get wet in transit. There must first be direct physical damage from a covered cause of loss that ends up in the material getting wet. Please read your Transit coverage endorsement to confirm as they vary.

The best advice I can give you to protect yourself, whether you are doing your own hauling or not, is to have whomever is in charge of your shipping make sure a tarp is placed over the shipment before it leaves the yard. This especially includes hired shipping companies. Don't make the mistake of falling back with the mentality of "I hired them to do a delivery, if it's damaged, they'll take care of it". That is rarely the case. You have the same odds of hitting the Powerball!

In closing, please help to protect yourself by making sure all loads are tarped off before they leave the premises. This will save you a lot of time from trying to pursue any losses against a transit company, and having an upset customer who receives a damaged shipment of material.

FACTS ABOUT DISTRACTED DRIVING

We wanted to pass on a few interesting facts that highlight the need for a strict cell phone policy at your business.

- 58% of drivers on the road will make a cell phone call
- 80% of all accidents involve a distracted driver; the majority related to distraction from a cell phone
- Hands free does not help. A study by Carnegie Mellon University indicates that brain activity is reduced by 37% just to answer a yes or no question. If you have to think about the answer it takes 54% of your brain (probably more for some of us).
- It takes 1.4 seconds for the average person's eye to focus enough to read a text on a smart phone and 2.9 seconds to read a text on an i-watch. That is not reading the text -- that is just to focus on your device.



PENNSYLVANIA LUMBERMENS MUTUAL INSURANCE COMPANY

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NEW VEHICLE UNLOADING SAFETY GUIDE

Truck unloading is a daily activity in many businesses. It is also a regular source of injuries to the driver, workers, and visitors. We have had numerous losses caused by improper unloading practices. Employers have a responsibility to ensure they maintain a safe working environment. Forklift operators are also responsible for the safety of others in the unloading area. Due to the number of claims we have seen related to truck drivers being injured at our insureds' operations, we have put together a safety guide and checklist.

You can find our Vehicle Unloading Safety Guide and checklist on the PLM/ILM website at www.plmilm.com/loss-control-guides/.

MAINTENANCE TIP

You have read a lot from us lately about preventive maintenance programs: electrical, machinery, heating equipment, etc. Do not forget about the protective safeguards that you have in place throughout your operation like sprinkler systems, dry chemical systems, smoke/heat detectors, fire doors, fire dampers, spark detection/spark suppression systems, abort gates, etc. All of these items require routine maintenance to ensure that they continue to work properly. This was highlighted in a recent large fire loss one of our customers suffered when their spark detection/spark suppression system on their dust collection unit failed. The bladder on their water pressure tank was not completely full and pressurized and the spray nozzles were clogged. You have invested a considerable amount of money in the protective safeguards you have installed throughout your operation; don't waste this money by cutting back on maintenance. Make sure that you are following the manufacturer's maintenance procedures and documenting the maintenance/service that you are performing on your equipment. Do not let the lack of maintenance (something that takes only a few minutes) cause a loss at your operation and take you out of business until you can get the equipment repaired or replaced.

LUMBERMEMO

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