



# BrokerBULLETIN

Pennsylvania Lumbermens Mutual Insurance Company

May/June 2006

## COMMENTARY - State of the "CAT" Market

John K. Smith, President & CEO

The year continues to develop very nicely for PLM. It appears that we are growing at a healthy pace as an organization with our renewal retention running just over 90% and our new business premium running at all time highs. We are a bit behind when we consider the number of new accounts that we are writing, but we seem to be closing the gap in this area. Growth in the Midwest is exceeding our expectation as more brokers begin to take advantage of PLM as a marketplace.

Profitability appears excellent with our combined ratio once again under 100%. This is leading to continued surplus growth which we believe will result in us breaking the \$100 million mark by year end. This could occur even earlier in the year if we get a positive bump on the investment side. Achieving this milestone will eliminate the need for cut-through endorsements that arise every once in a while.

I would like to comment briefly on the unfolding problems in the catastrophe reinsurance marketplace. Many of you are aware that just about all of the catastrophe models are being reworked based on the storm activity of 2005. At midterm,

many companies are being confronted with the need to secure additional catastrophe coverage. The price of this coverage is skyrocketing, and in some cases companies are experiencing difficulty in finding enough capacity to fill their program needs at any price.



We at PLM have always purchased deep coverage in the catastrophe area. Normally we have purchased enough to cover our exposure at the 250 year level. In late 2005, we made the strategic decision to buy even deeper coverage to just under the 500 year level. Due to this decision, we are not facing the problems that many companies are currently facing.

Further, we got out early with a windstorm program that many felt was overly conservative but we felt was appropriate due to our exposures. To be honest, we expect many companies, particularly those that are renewing their CAT programs this spring, to be faced with very difficult decisions particularly when they begin running the new CAT models come June.

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## NJLDA Earns Dividend for the Second Consecutive Year

We are pleased to announce for the second consecutive year, members of the New Jersey Lumber Dealers Association have received a dividend based on their earned premium for the plan year 10/1/04 through 9/30/05. The PLM Board of Directors approved a 7.5% dividend payment to all program participants based on their earned premium for the year.



The PLM/NJLDA Safety Group Dividend Plan ended the plan year with a 12.37% loss ratio. With a loss ratio in this range, the participants were entitled to a check equaling 7.5% of their earned premium for the year October 1, 2004 through September 30, 2005. The insured checks were mailed in late March, as were letters to their brokers.

The New Jersey Lumber Dealers Association was established in 1884 and is a New Jersey trade association representing the retail building material industry. Its purposes are to promote the industry, exchange information, monitor and interpret legislation and to broaden public understanding of the function of retail building material distributors in the marketplace.

PLM currently has ten safety group dividend programs throughout the country. To find out more, simply log-on to our website at [www.palumbermens.com](http://www.palumbermens.com). Look under "Industry Resources". There under "Special Programs", you will find all of our current plans, along with links to the associations. Many of the associations will accept new members so it's worth checking out.

If you have a client that may be eligible for this or any of PLM's Safety Group Programs, please contact Ellen McGurrin at 800.752.1895 x680 or via e-mail at [emcgurrin@palumbermens.com](mailto:emcgurrin@palumbermens.com).

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# Two Longtime Board Members Retire

Two of PLM's longest tenured board members, J. Robert Herd and Walter R. Milbourne, Esq. recently retired from the PLM Board of Directors after 28 and 34 years of service, respectively.

J. Robert Herd was in his 28th year as a director for PLM. He served as a member of PLM's Executive and Audit/Nominating Committees. He recently retired from Zalesne & Herd Realtors, a prominent Philadelphia firm he co-founded in 1972. Bob's clientele included lumber dealers, PECO Energy, AAA, Scott Paper, banks, law firms, and various foundations. He is the Past President of the Industrial Realtors Association.



Bob graduated from Amherst College in 1955. Prior to entering real estate, he flew fighter jets for the US Air Force. Bob is a strong financial and personal supporter of the Wetlands Institute. Bob and his wife Sally reside in Radnor, Pennsylvania and are part-time residents of Amelia Island, Florida. They have three children.

Walter R. Milbourne, our longest tenured director, has been on PLM's Board since 1972. Walter was the Chairman of PLM's Audit/Nominating Committee, as well as a member of the Executive Committee.

Walter graduated from Princeton University in 1955 and went on to obtain his law degree from Harvard Law School. He was a partner, and is now *of counsel* with Saul Ewing, L.L.P. in Philadelphia. His chosen specialty was as defense counsel for insurance cases. He is a member of the American, Pennsylvania and Philadelphia Bar Associations, as well as a Fellow of the American College of Trial Lawyers. Walter resides in Strafford, Pennsylvania with his wife Sue. They have three children.



On April 24th, PLM held a dinner to pay tribute to their dedication and numerous contributions. They were honored for their many years of service to the company, our employees and most importantly, our policyholders. They helped to guide us through some difficult times and have led us into the best of times.

All of us at PLM wish Bob and Walter a long, happy and healthy retirement.

## Pallet Manufacturing Program

Bill Johnson, Assistant VP of Underwriting



The wood pallet has been around for more than a half century. It was developed to work in conjunction with the mechanized forklifts that efficiently lift the pallet and its load. For the most part, pallets were once considered waste because of their low cost.

Pallet handling began to change as more solid waste disposal restrictions have been enacted and as companies looked for ways to operate more efficiently. As time goes on, pallets are becoming a vital commodity and are being reused more often than ever before, being replaced when broken and at times, being recycled. Another event that has forced companies to pay more attention to their pallets and how they use them has been the increase in wood prices.

Having said this, PLM has developed a "Pallet Manufacturing Program" with this customer in mind. A supplemental application has been designed to provide our brokers with underwriting selection guidelines, by line of business. This supplemental application will also serve as a checklist to measure the quality control procedures that are in place in order to control the hazards associated with new pallet manufacturing, new pallet manufacturing with recycling operations or pallet

manufacturing with 100% recycling operations. The program includes Property, General Liability, Inland Marine, Commercial Automobile and Umbrella lines of coverage.

Should you have any questions or desire further information, please contact your respective Field Representative, Underwriter or feel free to contact me at 800.752.1895 x560 or via email at [wjohnson@palumbermens.com](mailto:wjohnson@palumbermens.com).

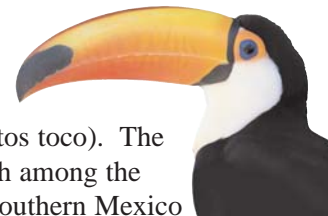
On April 4th, 2006 PLM was honored to receive a plaque with the following inscription:

The National Lumber & Building Material Dealers Association  
recognizes  
**Pennsylvania Lumbermens Mutual Insurance Company**

For its commitment to accident prevention and support of association programs that enhance employee safety in the lumber and building material dealer industry

## Toco Toucan cost: \$6,000.00

## Equipment Breakdown Bird cost: \$45,171.96



A perusal of the internet finds one of the most expensive birds to purchase is the toco toucan (*Ramphastos toco*). The exotic bird can cost as much as \$6,000. The toco toucans are beautiful rain forest dwellers that live high among the treetops; some as high as 9,000 feet. Toucans are indigenous to tropical America; found ranging from southern Mexico throughout South America and its neighboring islands. Approximately forty (40) known species of Toucan exist. Known for their distinctive calls, toucans are a noisy bird. Their colorfulness, intelligence, and entertaining qualities make toucans amusing species of birds.

In comparison, the Equipment Breakdown bird coverage territory is The United States of America (including its territories and possessions), Puerto Rico, and Canada. The Equipment Breakdown bird has a nearly unlimited amount of species. These birds have an affinity to electrical equipment, hence their high costs. For example, in a recent insurance claim at a wood treatment plant in Florida, an Equipment Breakdown bird landed on a pad mounted transformer, supplying a means for a short circuit of the transformer. The transformer suffered arcing damage that required its replacement as follows:

Initial visit - phase burnt off overhead transformer	\$1,639.83
Installed disconnects, conduit & wire for new pad mounted transformer	\$29,926.46
Installed 1000-watt fixtures in back parking lot & treatment plant	\$3,795.93
Transformer repair at Plant	\$2,026.84
Installed 120-volt coil in agitator starter	\$177.80
<b>Property Damage Total</b>	<b>\$37,566.86</b>

The poor bird was killed instantly and unlike its toucan cousin, had no property value.

If the costs were limited to the property damage only, we would be discussing the \$37,566.86 Equipment Breakdown bird -- but the bird also caused indirect costs as well. The plant rented a generator to supply electrical power transformer replacement to avert business interruption. This extra expense monthly cost was:

Rental generator cost: \$7,605.10

As illustrated above, the Equipment Breakdown bird can be quite expensive -- in this case \$45,171.96.

How does one address this type of exposure? The answer is Equipment Breakdown coverage from Pennsylvania Lumbermens Mutual Insurance Company.

The Equipment Breakdown coverage not only helps with birds, but also for the following direct physical loss, that causes damage to covered equipment and necessitates its repair or replacement:

- (1) *Failure of pressure or vacuum equipment;*
- (2) *Mechanical failure including rupture or bursting caused by centrifugal force; or*

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## New Claims Activity Email Procedure

Ray Rodgers, Claims Examiner

PLM recognizes that you, our brokers, need the most current and up-to-date information on open claims, reserves and payments. This enables you to better service your clients and provide them with the most recent information and activity on their claims. We receive numerous calls in our Claims Department from brokers' offices looking for the status on their clients' claims.

As a result of always looking to improve our service, PLM has implemented a new program that prompts us to email a status letter to you when a claim payment has been issued or the file has been closed with no payment. This will keep your files up to date on any changes without the need to place individual telephone calls to claims personnel.

These letters will address loss types, status (opened or closed), subrogation potential, reserve, amount of paid loss and our diary recommendation. The letter will be emailed promptly after any activity on the claim occurs.

We have already received some positive feedback from numerous brokers on the new program. We hope you find this new procedure helpful.

*"I can't tell you how helpful the emailed acknowledgments and closing notices are to our office. This is GREAT!... This is an awesome procedure. It frees us up from having to phone the adjusters and helps them out too. Great idea."*

*Judy M. Jurgan  
Roehrs & Co.  
Exton, PA*



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PERMIT NO. 1779

**wood is all we do.**

*Pennsylvania Lumbermens Mutual Insurance Company specializes in Property and Casualty insurance services for the lumber, woodworking and building material industries.*

**Toco Toucan cost: \$6,000.00 - Equipment Breakdown Bird cost: \$45,171.96**

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(3) *Electrical failure including arcing.*

Covered Equipment means and includes any equipment built to operate under internal pressure or vacuum other than weight of contents and electrical or mechanical equipment that is used in the generation, transmission or utilization of energy.

Since this insured's Broker included Equipment Breakdown coverage on their policy, the Equipment Breakdown bird was a covered event and the bird only cost the insured the deductible. If an insured has electrical equipment, in an area where birds and other rodents cohabit, then the exposure requires addressing. Ask your underwriter to include Equipment Breakdown on every risk you write. After all, if a toucan then you can too! ■

*The description of policy provisions provides a broad overview of coverages only. All coverages are subject to conditions, coverage limits, limits of liability, limitations and exclusions as contained in the policy. See the policy itself for*

*an exact description of the coverage provided.*

*Article provided by George Ingram, Vice President of Zurich Equipment Breakdown Reinsurance.*

**COMMENTARY: State of the "CAT" Market** ...continued from page 1

Recently one of our competitors was forced to announce that they were downsizing their book of wind-exposed business. We expect that the property market in our niche will be impacted quite dramatically by late summer or early fall due to continued upheaval in the CAT marketplace, particularly if a major storm hits the continental United States. Because we were out early, we do not envision changes in our position at this juncture.

We at PLM continue to be committed to providing you a stable, consistent marketplace for your profitable wood business. We appreciate your continued support. ■

**BrokerBULLETIN**

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