Broker BULLETIN
Pennsylvania Lumbermens Mutual Insurance Company
FALL 2010

COMMENTARY: *Increased Risk in this Economy*

John K. Smith, President & CEO

Recent studies and analyses performed by The Council of Insurance Brokers seem to indicate that the soft market continues and that there is no change in sight. Curiously, Towers Watson also performed an analysis of P/C pricing called CLLPs. The CLLP survey would seem to indicate that pricing is stabilizing and has been virtually flat from a base rate perspective over the past year.

So we have two different studies done by two different organizations providing two different results. There is an immediate tendency to lean towards the Council of Insurance Brokers study, which is more well known. On the other hand, one might ask "why does Towers Watson's study indicate one thing and why does The Council of Insurance Brokers study seem to indicate something else? Which one is right, or are they both wrong? zCould they both be right?

In analyzing both studies it has come to our attention that the source of the raw data appears to be the explanation for the differences. The Council of Insurance Brokers study relies heavily on feedback from brokers while Towers Watson is pulling their information directly from insurance companies. It's possible that the companies, who supply the information on a blind basis to Towers, probably have the capability of providing more specific and accurate detail for the CLLPs survey based on their system capabilities that most major insurance companies have today.

Even a smaller company like PLM can dissect our base rates down to a line of business basis monthly, and further, to specific underwriting and field representative desks. We can actually break it down to major class of business and coverage levels. In addition, we have the ability to break out the changes in exposures that impact premium and separate that information from the actual change in base rate associated with an individual account.

Conversely, from what we can gather, broker directed surveys appear to be looking at renewal premium versus expiring premium and may not be getting to the heart of the matter, the actual base rates. We believe they may not be giving enough consideration to the impact of exposure reductions on renewal premiums.

There have been few economies where exposures have dropped like they have during the past several years. We have all seen payrolls sag, and sag dramatically. What else could be expected with unemployment running close to 10%? They have to be unemployed from someplace and they are likely unemployed from businesses that we insure, aren't they? We all know sales are off. That is why people are being laid off. They don't have the sales revenue necessary to support larger staffs. In the lumber business we have seen our customers reporting sales down 20% to 40% over last year's number which was down 20% to 40% over the year before that. For the first time in my 30 years in the business, we have actually seen property exposures fall in spite of having a great program in place to ensure proper property values are carried. We all know that insureds are taking buildings off schedules, selling locations, reducing inventory levels, reducing or eliminating business income coverage, and the list goes on. We have seen increases in deductibles in an effort to reduce costs. We have seen vehicles laid up, reduced liability limits and a host of other steps designed to control costs. Many of these actions are appropriate, however, some may result in unintended consequences.

The fact of the matter is that some of these actions are reducing costs while leveraging up **risk** significantly. We believe that poses a difficult problem for brokers.

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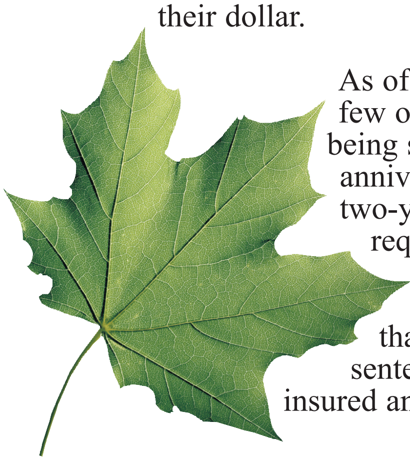
In many cases, brokers are simply responding to directions from their insureds. The question that begs to be asked is, are you taking appropriate steps to protect yourself from a professional liability exposure? We recommend, and we believe most brokers are already doing so, taking steps to protect yourself when asked by one of your clients to reduce or eliminate coverages. We want to take a moment to underscore that when approached by your insureds to take these type of actions, that you not only carefully explain the potential consequences, but you do so in writing with the insured's sign off on that explanation. We have experienced situations involving claims recently where the insured did not recollect a conversation that was supposed to have taken place with their broker regarding a reduction in coverage.

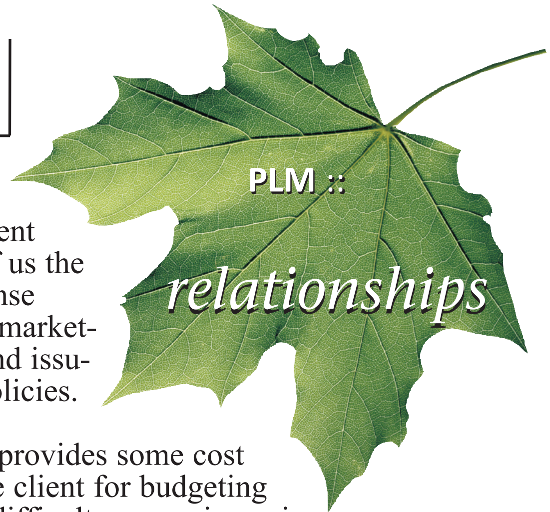
Further, while we are on the topic, we also noticed a number of other actions that have been taken recently by insureds and/or their brokers that we find difficult to understand. We have seen some brokers who are under some financial pressure themselves due to falling premiums, and therefore commissions, move accounts from PLM to one of our competitors in an effort to offset some of the policy premium reductions with higher commission rates. Interestingly, when we follow up with the insureds, which we do directly, we have learned that the client may not know that they are moving to a carrier with less than an "A" rating.

In addition, many brokers haven't advised the client that they are moving from a wood specialty carrier that understands their business to a carrier that is a "generalist" and may not have the same understanding of the lumber industry as PLM does. We know this because of our conversations with insureds and in response to specific questions that we ask those insureds who have left us. In many cases the insured simply mentions that they know nothing other than they have gotten a cheaper price.

Rarely has anyone explained to them any value proposition, rather it was all about price. We recognize that in some cases, due to their own economic pressures, price may be all that matters at this time to some clients. However, we believe that most still look for value for their dollar.



As of late, we have also seen a few of our two-year policies being shopped at the first anniversary. PLM rolled out its two-year concept in response to requests from both brokers and insureds alike. We recognized from the start that long-term policies presented all of us (broker, insured and underwriter) with an opportunity to enter into a longer agreement and save all of us the time and expense involved with marketing, quoting and issuing renewal policies. The two-year approach also provides some cost certainty to the client for budgeting purposes in a difficult economic environment. We recognize that during changing market conditions the insurance company would be somewhat disadvantaged as rates increased while the insured would be somewhat disadvantaged as rates decreased. We felt, keeping in mind the mutual form of ownership that we enjoy, that the trade off would be acceptable and that our customers would honor the two-year commitment. We recently started to find accounts being shopped mid-term and moved. While this action is totally within the confines of the insurance contract, we feel that it is not in the spirit of the agreement or our approach to doing business.



That being the case, you should be aware that in the event of a mid-term cancellation of a two year agreement, short-rate penalties will be applied and we would have to seriously re-consider whether to offer the insured or broker future two-year policies.

We fully understand an insured making a decision to move their business if they fully understand the potential consequences of that decision. To that end we feel it appropriate for us to take the necessary steps to ensure that the client does understand the potential consequences. In addition to your communication with the insured we will also do so ourselves through our own field representatives.

We at PLM have worked hard to provide brokers a unique distribution system, open brokerage, and the opportunity to place wood business with us. In doing so we have provided a broad market to a wide range of businesses throughout the contiguous forty-eight states and the District of Columbia to all sized wood accounts in line with the stewardship of the company laid down by our founders. The triangular relationship I have talked about in many of my past communications between brokers and insureds and the company is designed solely to ensure that our customer, the insured, has the best possible opportunity to recognize value for their insurance dollar. We have an obligation to our policyholders to ensure that they do.

As always I appreciate your thoughts and feedback at jsmith@plmins.com. ■

FAQs - PLM Safety Group Dividend Plans

Susan Cho, Sr. Marketing Specialist

One of the benefits we provide for our insureds are Safety Group Dividend Programs with specific associations and buying co-operatives. If an insured is a member of one of these groups, they are eligible to be enrolled into the dividend program and gain potential dividends based on their earned premiums. Over the years, PLM has paid out over $19 million in dividends to our customers.

Below are some of the frequently asked questions that have come up from our brokers in regards to our dividend plans:

How do I enroll my client into a dividend plan? This is one of the most common questions we receive from our brokers. Too often, this question comes up following a recent dividend paid to one of our Safety Group Plans where their client may have missed out on the dividend.

There are only two conditions to be eligible for our plans: (1) They must be a current member of the association or buying group related to the plan, (2) They must be a current insured of PLM.

Based on those two conditions, the enrollment process is as follows. We need to be notified of an insured's membership to a Safety Group Plan Association and need to verify it with the Association. Most importantly, we need a signed Dividend Election Form from the insured requesting their enrollment into the plan. Once both items are completed, we can then enroll them into the plan.

Can my client be enrolled in more than one dividend plan? No. The insured must choose which plan they would like to join. On the Dividend Election Form, they must specify which association dividend plan they are joining. If they would like to move to a different association's dividend plan, a new dividend election form must be submitted for the different group.

Does my client need to send in a dividend election form at each renewal? No. Once an insured is enrolled into the plan they will remain in the dividend plan unless they drop their membership with the corresponding association/buying group or if they are no longer insured by PLM. If your client renews with PLM, their enrollment to the dividend plan remains in place.

Can I receive a history of the dividend paid for a specific group? Yes. You can contact your local field representative and he/she can provide the dividend history for each association or buying group, or you can also contact me directly at scho@plmins.com.

Where can I find more information on the different group dividend plans? Information on each group can be found on our website at www.plmins.com under Industry Resources – Special Programs. Along with a description of each group, there are links to their websites and brochures that you can download. We have also added a copy of the Dividend Election Form on that page. You can download a copy and use it to ensure your clients are enrolled in one of our plans. Please make sure you specify which group plan the insured would like to enroll in.

Will my client still receive a dividend for a past plan year even if they do not renew insurance with PLM? Yes. Even if your client is no longer insured by PLM, but they were a current insured and enrolled in the dividend plan during the plan year that the group is receiving a dividend, they will still receive their dividend check.

Are dividend checks mailed to the broker or directly to the insured? We have agreements with the different associations/buying groups to send checks directly to their members. We will send a notice to all brokers with a list of their clients who are receiving dividends and for what amounts. The checks themselves are mailed directly to the customer.

I hope that we have answered some of your questions in regards to our dividend plans. If you have any additional questions or comments, please feel free to contact me. You can reach me directly at 267-825-9350 or at scho@plmins.com. We hope with your cooperation, we can ensure all our customers and your clients who are eligible for a dividend plan are enrolled and that they do not miss out on any potential dividends.

PLM Safety Group Dividend Plans

Allied Building Stores, Inc. (ABS)

Construction Suppliers Association (CSA)

Eastern Building Material Dealers Association (EBMDA)

ENAP, Inc.

Independent Builders Supply Association (IBSA)

Kentucky Building Materials Association (KBMA)

Lumbermens Merchandising Corporation (LMC)

NEMEON

NJ Building Materials Dealers Association (NJBMDA)

North American Wholesale Lumber Association (NAWLA)

North Carolina Forestry Association (NCFA)

Oklahoma Lumbermen's Association (OLA)

Progressive Affiliated Lumber Cooperative (PAL)

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wood is all we do.

Longtime Field Rep Retires

After 28 years, Eddie Barham, our Senior Field Representative for parts of the North Carolina and Virginia areas, has retired from PLM.

Eddie joined PLM in 1982 as a Field Representative for North Carolina. Eddie has brought his many years of knowledge and experience in the lumber niche along with his dedication to the company, to our employees, our brokers and most importantly to our policyholders. We feel honored to have had his many years of service.

Please join us in congratulating Eddie and wishing him all the best in his retirement!

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

*Broker***BULLETIN**

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