



Broker **BULLETIN**

Pennsylvania Lumbermens Mutual Insurance Company

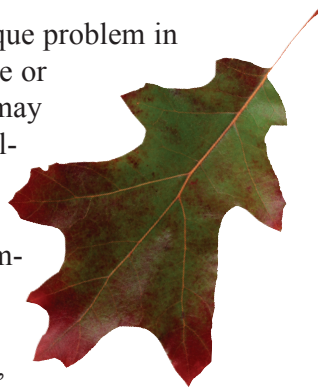
FALL 2011

COMMENTARY: *Understanding the Wood Niche*

John K. Smith, President & CEO

One of the basic fundamentals of a good sales technique is to make sure that you understand a client's fundamental business, what they do and how they do it. Being able to speak the client's language puts them more at ease. It makes them more comfortable that the seller understands the nuances of their business and shows that they understand the opportunities and challenges that confront them.

For many brokers this presents a unique problem in that most are associated with only one or two-wood related businesses. They may have a difficult time developing familiarity with a potential insured's operation. The broker is put at a disadvantage if they are not the incumbent broker. You and I both know that when you quote a risk in a business sector that you are familiar with, your hit ratios are higher.



This lack of wood expertise that many brokers are confronted with (some of which they may or may not like to admit) is where PLM can help. As specialists in the wood niche, we can provide deep expertise that we are more than willing to share with you to prepare for that first

meeting with a prospective insured or a renewal meeting with a current one.

Whether it is helping you to identify key exposures that are associated with wood risks that you need to focus on, familiarizing you with the common terminology of the industry or keeping you abreast of current events, we can help you prepare for the new business or renewal closing.



We strongly encourage that brokers involve us in meetings with prospective and current insureds. Our loss control, claims, field reps and underwriters can deliver expertise regarding the insured's business. Many brokers simply don't have time to develop or the need to develop this knowledge unless they choose to build a book of wood business. Whether it is the frontline people outlined above or people in senior management (up to and including myself), we are available to consult with you or interact directly with the insured during the closing process.

The expertise that we exhibit not only deals with the insured's own business, but also deals with the insurance marketplace for wood-related business. We are aware of who the competition is and what they are doing. While *Continued on page 3...*

Dividends Paid Out to Four Groups

PLM is pleased to announce that four of our safety group dividend plans received dividends the past couple months. Below are the details on our plans and the dividend payouts.

CONSTRUCTION SUPPLIERS ASSOCIATION



CONSTRUCTION
SUPPLIERS
ASSOCIATION

At the end of June, the final calculations for the CSA/PLM Safety Group Dividend Plan for the 2010 plan year were made. Unfortunately we had to inform the CSA that despite a very favorable loss ratio of 12%, the members of CSA did not qualify for a dividend because the group had just narrowly missed reaching its earned premium threshold of \$1 million.

A decision was made to send a recommendation to PLM's Board of Directors requesting they consider approving a 3.75% dividend for the eligible members of the PLM/CSA Safety Group Dividend Program. We thought it was important to recognize CSA's favorable loss history over the last two years when making this decision and took into consideration that missing the premium threshold by such a small margin was in large part due to the unprecedented economic downturn.

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Dividends Paid out to Four Groups ...continued from page 1

We were pleased to announce that the recommendation for the 3.75% dividend was approved by the Board. This is only the second time in over 20 years that such an exception has been made. However, the PLM Board and Management team felt that given these difficult economic times, this was the right thing to do for our policyholders who are members of the CSA Safety Group Dividend Program.

The CSA is a trade association that serves the building material dealers and suppliers in Georgia and Alabama. As of 2009, PLM has been endorsed by CSA as the recommended Property & Casualty carrier for their membership and has offered its membership a Safety Group Dividend Program.

ALLIED BUILDING STORES, INC.



PLM is pleased to announce that the PLM Board of Directors has approved a 5% dividend to the participating members of the PLM/ABS Safety Group Dividend Plan. The final calculation resulted with

an adjusted group loss ratio of 30.67% giving the plan participants a 5% dividend for the plan year of February 1, 2010 through January 31, 2011. Dividend checks were mailed to the participants at the end of July.

PLM is endorsed by the Allied Building Stores, Inc. The plan is open to dealer members of this wholesaler of lumber and building materials. They are 100% owned by their dealer members. They operate in the following twelve states: Alabama, Arkansas, Florida, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee and Texas.

NORTH CAROLINA FORESTRY ASSOCIATION

Also paid out at the end of July was the dividend for the PLM/NCFA Safety Group Dividend



Plan. The PLM Board of Directors approved a 5% dividend to the participating members of the dividend program. The final calculation resulted with an adjusted group loss ratio of 38.78% giving the plan participants a 5% dividend for the plan year of February 1, 2010 through January 31, 2011.

PLM has been the endorsed Property/Casualty Underwriter for the North Carolina Forestry Association since 1988. The plan is open to manufacturing members of this forestry association. This is one of PLM's oldest and most successful programs.

PROGRESSIVE AFFILIATED LUMBERMEN COOPERATIVE

In September, PLM was pleased to pay out a 5% dividend to the participating members of the PLM/PAL Safety Group

Dividend Plan. The group ended their plan year of April 1, 2010 through March 31, 2011 with a loss ratio of 21.63% making them eligible for the 5% dividend return.



PAL is a member-owned buying group headquartered in Grand Rapids, Michigan. Its membership is comprised of independent lumber and building material retailers located in sixteen states, with a concentration in the Midwest.

If any of your clients are members of one of these associations and you would like to get more information on how to get them enrolled in a PLM Dividend Program, please contact Susan Cho at scho@plmins.com or at 267-825-9350. You can also find information on our different dividend plans on our website at www.plmins.com under Industry Resources - Special Programs.

Below is the list of groups that we currently have dividend plans with:

Allied Building Stores (ABS)

Construction Suppliers Association (CSA)

Eastern Building Material Dealers Association (EBMDA)

ENAP, Inc.

Independent Builders Supply Association (IBSA)

Kentucky Forest Industries Association (KFIA)

Lumbermens Merchandising Corporation (LMC)

NEMEON

New Jersey Building Materials Dealers Association (NJBMDA)

North American Wholesale Lumber Association (NAWLA)

North Carolina Forestry Association (NCFA)

Oklahoma Lumbermen's Association (OLA)

Progressive Affiliated Lumbermen Cooperative (PAL)

we still get surprised occasionally by someone wandering into the niche or a niche competitor viewing a risk from a totally different vantage point, for the most part the surprises are few and far between.

It is important you understand that the wood niche is different than the standard commercial lines marketplace. Terms and condition changes in the wood niche are usually a precursor to a hardening market in the standard lines business. Within the niche we tend to harden terms and conditions earlier in the market cycle, enjoy the benefits of a hard market longer during the cycle, and soften later than the standard lines market.

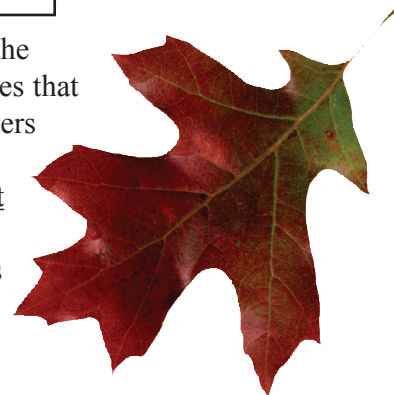
The question that you should be asking at this point and time is: "Why?" The answer is relatively simple. The wood business is a severity-based business. Underwriting policies, terms and conditions are set to reflect the severity nature of our niche.

It is not unusual to look at an account that has been loss free for many years and when comparing the experience to the premium and other terms and conditions being set, you scratch your head and ask why. It looks like a great deal at half the price you say to yourself. The attractiveness is particularly exciting during the height of a soft market when carriers are most desperate for business.

In the depths of the soft market the number of nontraditional competitors emerging and competing for wood business soars. However, it does not take them long to find out that if you are going to underwrite wood, you are going to get popped with a BIG loss. At that point and time, our competitors' management start asking what frontline underwriters are putting on the books. Soon thereafter the competitor departs the niche.

Think about this for a second. I spent the vast majority of my career running branch offices for national and multinational insurance companies. Before coming to Pennsylvania Lumbermens, I was responsible for almost \$1 billion in premium and literally hundreds of thousands of policies. Yet in my pre-PLM career of over 20 years, I

could count on one hand the number of \$1 million losses that occurred in the profit centers that I was responsible for! In the lumber niche I can't count on one hand the number of \$1 million plus losses that have occurred this year!



The point being, in the soft market, competitors jump in driving down terms and conditions. When results deteriorate, they leave -- six months to a year before the standard lines market begins to harden. On the other side of the "cycle", those competitors will not wander back into the niche until the market has softened dramatically, and has been soft for quite some time.

While the standard lines market is showing little if any signs of hardening from either a price or terms and conditions viewpoint, the same cannot be said for the wood market. We are seeing competitors leave the market, increase price and tighten other terms and conditions as well as underwriting standards.

I am sure that this statement will surprise many of you. By now some of you are saying that might be the case elsewhere, but not the case in my area.

The fact of the matter is that the trends we are seeing are virtually across the board in almost every geographic area. So far this year, better than 75% of our insureds have been quoted a modest price increase on renewal and we retained the account. In fact, our retention is rising and has been rising since the first of the year. In spite of increased pricing and more restrictive terms and conditions, insureds are still favoring us with a renewal order.

Our new business pricing is up on a year-over-year basis. Again, this is an indication of what is going on in the marketplace. The point to ponder is that while you are the specialist in the standard lines business and understand that marketplace, we are the experts when it comes to wood. We ask that you place your faith and confidence with our area of expertise.

It is also important to understand that insureds in this niche are doing better financially and economically than they were even just a year ago. I have spent time with literally hundreds of insureds since the first of the year. I can tell you that as a group they are more positive, even if that positive outlook is simply because they feel like they

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wood is all we do.

COMMENTARY: Understanding the Wood Niche ...continued from page 3

have hit the bottom, survived and are clawing their way back.

While this statement is impacted to some degree by geographic location, it is also impacted by the segment of the niche. Retail lumber dealers are probably the toughest and hardest hit segment of the niche at this point and time because so much of their business is driven by new home construction. On the other end of the scale, if you are a primary hardwood sawmill, you are finding a tremendous demand for your product internationally. Last year, the National Hardwood Lumber Association reported that just over 7 billion feet of hardwood was produced in the United States. Fifty percent was shipped overseas and through the first nine months of 2011 export of hardwood lumber has increased by 13%. Even primary softwood mills are beginning to see demand for logs and lumber in the export world with China and Japan leading the charge here.

I certainly wouldn't suggest that these are robust times for our insureds and customers. I do see, however, that they are beginning to add equipment, put more vehicles on the road, and in many cases, we show an increase in sales reported on renewal applications and premium audits. Hopefully this is the beginning of a trend that will benefit all of us in the months and years to come.

In closing, I want to thank you for your business and support. I encourage you to utilize the expertise and understanding that we as a company, and our people as insurance professionals, have to assist you in pursuing and writing new and retaining renewal business. ■

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