



Broker BULLETIN

Pennsylvania Lumbermens Mutual Insurance Company

SPRING 2011

COMMENTARY: Finding the Best Market For Your Clients

John K. Smith, President & CEO

We are all too familiar with the Council of Insurance Broker (CIB) survey that regularly reflects the trends associated with commercial lines pricing, but what many are probably less familiar with is the CLIPS survey produced by Towers Watson. This is also a reflection of commercial lines pricing in the marketplace. Both surveys are done by independent organizations.

Although they serve the same purpose, which is an attempt to trend commercial pricing, both surveys can't seem to agree. The CIB survey clearly indicates that pricing continues to deteriorate but the rate of decline has slowed. The CLIPS survey seems to indicate that pricing is actually improving. A true dilemma to ponder.

“Our belief is that insureds in the lumber and wood industry are best served by a market that focuses exclusively on the wood niche.”

My own belief regarding this dilemma is the issue of “perspective” and the source of information. The Towers Watson

survey information is gathered from better than two dozen large property and casualty insurance companies. It focuses exclusively on the “base rate” that the underwriters in those companies are starting with in the rating process and then measures change in base rate on a year-over-year basis. It takes out of the equation any exposure changes and, I believe, changes in flexible rating plans. The CIB survey, as I understand it, gains its information from brokers and agents throughout the country. I suspect that the data gets a bit muddy as brokers review premiums on a year-over-year basis in an attempt to unwind base rate impact.



Which is right and which is wrong? My position is that they are probably both right to some degree. This is particularly true when you attempt to understand what is going on with pricing in the wood niche where rates have tended to harden before the standard lines market and remain hard well after the market began to soften. This is caused by non-wood writers jumping into and out of the niche.

Many of you have heard me say over the years that one of our strengths, from a sales standpoint, is that we have a

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EBMDA Dividend Plan Receives a 5% Dividend



The PLM/EBMDA Safety Group Dividend Plan results have been calculated. We are pleased to announce that the Pennsylvania Lumbermens Mutual Insurance Company's Board of Directors have approved a 5% dividend to all participating Eastern Building Material Dealers Association members. The calculation was based on their earned premium for the plan year of October 1, 2009 through September 30, 2010. The adjusted loss ratio of the group was 33.62% giving the

plan participants a 5% dividend. Dividend checks were mailed directly to the participants at the end of March.

The Eastern Building Material Dealers Association (EBMDA) has endorsed PLM as their Property/Casualty Underwriter for their membership since 1986. The association is based in Lancaster, Pennsylvania and is comprised of building material dealers in the states of New Jersey, Pennsylvania, Maryland and Delaware. The EBMDA welcomes new members and more information can be found on their website at www.ebmda.org.

If you have a client who is a current member of EBMDA and would like more information on having them join the PLM/EBMDA Safety Group Dividend Plan, please contact Susan Cho at 267.825.9350 or at scho@plmins.com. You may also visit our website at www.plmins.com under Industry Resources then Special Programs for information on all thirteen Safety Group Dividend Plans offered by PLM.

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Lightning Protection

Reprinted article from Spring 2009 LumberMEMO issue

Lightning-related losses for PLM customers have increased and have been noted to be the fourth highest frequency loss type experienced. Lightning-related losses although unpredictable in nature are one of the easiest forms of natural loss exposures to address with specific controls. Presented in this bulletin is some historical background and control strategies that have been developed for you to offer to your clients in an effort to help them control this type of loss.

Why You Need Lightning Protection

Lightning protection systems have changed drastically since Benjamin Franklin first invented lightning rods in 1752.

Today's systems have evolved and protect modern appliances, electrical systems and buildings. Lightning protection systems should be installed to keep up with changing requirements and methods of building construction and business technology.

Each year, thousands of buildings and properties are damaged or destroyed by lightning. It accounts for more than a quarter billion dollars in property damage annually in the United States. Lightning is responsible for more deaths and property loss than tornadoes, hurricanes and floods combined, but of these violent forces of nature, lightning is the only one we can economically afford to protect against.

Lightning can strike anywhere on earth – even at the poles! In any U.S. geographical location, lightning storms occur as few as five times or as many as 100 times per year. The Northeast United States has the most violent thunderstorms in the country because of the area's extremely high earth resistivity. High earth resistivity (the earth's resistance to conduct current) increases the potential of a lightning strike. If struck, structures in these areas will generally sustain more damage when there is no lightning protection system present.

Some properties have a higher risk of lightning damage due to location and building construction features. The installation of a lightning protection system on a building is one way in which this natural loss occurrence can be controlled. When considering installation of a lightning protection system, your clients need to specifically assess a number of the following risk factors.

How a Lightning Protection System Works

Lightning is the visible discharge of static electricity within

a cloud, between clouds, or between the earth and a cloud. Scientists still do not fully understand what causes lightning, but most experts believe that different kinds of ice interact in a cloud.

A lightning protection system provides a means by which this discharge may enter or leave earth without passing through and damaging non-conducting parts of a structure, such as those made of wood, metal, brick, or concrete. A lightning protection system does not prevent lightning from striking; it provides a means for controlling it and preventing damage by providing a low resistance path for the discharge of lightning energy.



How Your Client Can Protect Their Building

Encourage them to install a lightning protection system that complies with current nationally recognized codes. Lightning protection systems consist of air terminals (lightning rods) and associated fittings connected by heavy cables to grounding equipment, providing a path for lightning current to travel safely to ground.

Parts of structures most likely to be struck by lightning are those that project above surrounding parts, such as chimneys, ventilators, dust collectors, cooling towers, water tanks, conveyor systems, railings, gables, ridges, and parapets. The edges and corners of flat or gently sloping roof areas are the parts most likely to be struck by lightning.

Any lightning protection system should include consideration for all of the following elements which work together to prevent lightning damage.

- Air Terminals (lightning rods)
- A network of conductors (cable)
- Bonding with metallic bodies
- Ground Terminations
- Surge Arresters

General guidelines for the installation of lightning protection systems for commercial/industrial buildings are outlined as follows:

1. Air terminals spaced 20-feet apart around the perimeter of the building.
2. Interconnected down conductors.
3. Grounding rods at least 10-feet deep.
4. Air handling units bonded to system (may need air terminals mounted on unit/s).
5. Air terminals mounted within two feet of outside roof corners.
6. Mid-roof conductor and air terminals at maximum 50-foot spacing.
7. Grounded metal bodies bonded into system.

detailed understanding of our competitors' risk appetite and their pricing strategies compiled over the years. We understand that if we segment the wood niche into three general areas (lumberyards, primary sawmill manufacturing, secondary wood manufacturing) then segment it again by region, there are different competitors that we need to confront and compete against. Sometimes this segmentation can get down to understanding what a competitor's branch or regional office is doing to wood accounts in their territory. For instance, we see a large national carrier that does not have a wood appetite currently competing for sawmills in a certain geographic area, but nowhere else in the country! We believe that we have a pretty good understanding of who is doing what and what they will do to write a piece of business. This information helps us eliminate "phantom" competition. If you are unfamiliar with this label, this is the term that we use when we are confronted with a broker that indicates there is competition for a renewal or a piece of new business but cannot identify who it is! Surprisingly, this happens more than you would think.

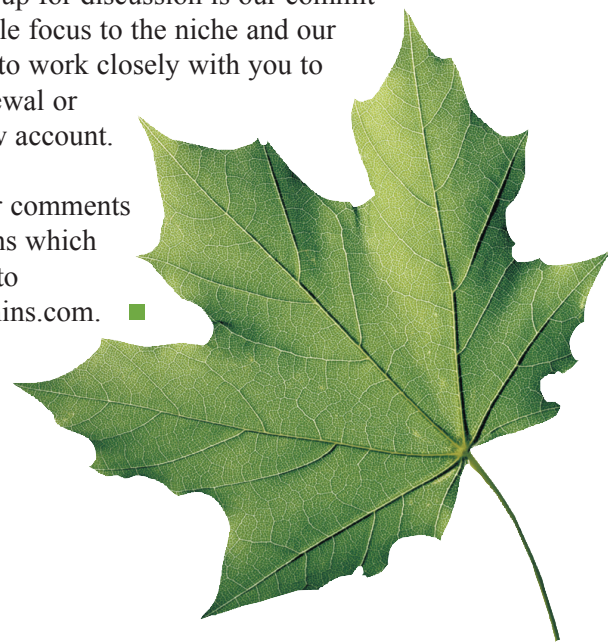
Our belief is that insureds in the lumber and wood industry are best served by a carrier that focuses exclusively on the wood niche. One with appropriate financial strength (some type of "A" rating from A.M. Best) and that has underwriters, loss control professionals and claims personnel that understand the business they are servicing better than anyone. A market that can help an insured get back into the business quickly, effectively and efficiently should a loss occur is crucial. This is truly the determinant of the value of a price quote. The carrier must be able to analyze the individual exposures associated with each risk and provide appropriate coverage for those exposures and not just throw everything at the account from a coverage standpoint.

Perhaps most importantly, we believe that a market has to have staying power. The carrier has to be willing to renew the account after a loss occurs and not run from the account and the niche, wondering how they got on the risk to begin with. We see this happen all the time.

So back to pricing, it seems we have entered a time of change. Rates are starting to firm no matter which survey you choose to follow, whether it's the CIB survey that indicates rate decreases are decelerating or the Towers Watson survey that indicates rates are actually increasing. This is particularly true on small and mid-size accounts. Yes, the big ones are still sought out by the market and yes, that end of the market is still soft, but things are starting to change. Where it will go from here is anyone's guess; however, I would point out that many competitors are faced with falling investment returns, underwriting results supported by reserve reductions, and a reinsurance market that IS changing. Sooner or later they will not be able to avoid the issue.

What is not up for discussion is our commitment and sole focus to the niche and our willingness to work closely with you to retain a renewal or obtain a new account.

I invite your comments and questions which can be sent to jsmith@plmins.com. ■



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8. Surge arresters installed at main electrical panels.
9. Transient voltage surge suppressors installed in receptacles.

Electronic Protection

Modern buildings are especially vulnerable to the havoc that lightning can wreak on sensitive electronic equipment. To assure the highest level of protection, surge arresters should be installed on electrical service panels and other incoming lines. Arresters are the first line of defense against harmful electrical surges that can enter a structure through power lines. Installing surge arresters at service and telephone equipment will prevent surges from entering building power or telephone lines. Surges that are protected against are diverted to ground, and both wiring and appliances are protected.

Items to Consider When Planning Protection

The best time to design a lightning protection system for a structure is during the structure's design phase, and the best time to install the system can be during construction. System components can be built in so as to be protected from mechanical displacement and environmental effects. In addition, aesthetic advantages can be gained by such concealment. Generally, it is less expensive to meet lightning protection requirements during construction.

Conductors should be installed to offer the least impedance to the passage of stroke current between the air terminal devices and earth. The most direct path, without sharp bends or narrow loops, is best. There should be at least two paths



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Lightning Protection

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to ground and more, if practicable, from each air terminal device. The number of paths is increased and the impedance decreased by connecting the conductors to form a cage enclosing the building.

Inspection and Maintenance of Lightning Protection Systems

It has been shown, in cases where damage has occurred to a protected structure, that the damage was due to additions or repairs to the building or to deterioration or mechanical damage that was allowed to go undetected and unrepaired, or both. Therefore, it is recommended that an annual visual inspection be made and that the system be thoroughly inspected every five years.

Lighting-Related Loss Control

Lightning-related losses are on the rise. As part of an ongoing effort to identify and offer suggestions for control of predictable loss types, PLM has developed this informational bulletin to help your clients assess the likelihood of lightning affecting their business operations. There are specific control strategies associated with lightning-related losses that can be implemented for protection of your clients' ongoing business operations. The Technical Services Department at PLM is available for consultation regarding the installation of a lightning protection system for their business operation. ■

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