



Broker BULLETIN

Pennsylvania Lumbermens Mutual Insurance Company

Spring 2008

COMMENTARY: *First Quarter Results*

John K. Smith, President & CEO

The first quarter is behind us, and for the first time in many years, I find myself reporting to you that we at PLM had results that were quite a bit worse than we are used to. While we had exceptionally good new business months in January and February, we saw a deep drop in our submission levels in March. Our Retention Ratio remained solid during the first quarter from an item count standpoint, but we are reducing our pricing to achieve that goal. We feel pretty good about our ability to retain items and in fact are running slightly ahead of our target in that area. While our production is up 3% for the first quarter, in fact it is the multiyear policies that are carrying us from a production standpoint.

Loss-wise, the February tornadoes in the Kentucky and Tennessee area that caused such awful damage to so many families and businesses impacted PLM as well. With a gross loss of over \$3 million on CAT 26, our net loss reached in excess of \$1.6 million. While our loss frequency appears to be flat at the end of the first quarter, on a year over year basis, we unfortunately suffered a multitude of large losses that did not pierce our retentions from a reinsurance perspective. Consequently, we find ourselves

with a rather substantial underwriting loss at the end of the first quarter.

This was then amplified by, as we are all aware, a simply lousy investment environment that negatively impacted our marked to market security portfolio with the result being a drop in surplus.



Those that know the PLM leadership team know that we understand that from time to time a company can have a bad quarter. *Those that know us really well* also know that our expectation is that we will continuously out-perform the marketplace. We did not do that during the first quarter of 2008.

The westward expansion continues with field reps now in place in Phoenix, Colorado Springs, Las Vegas and Spokane. We are seeing a good flow of opportunities from these newly opened territories and were very pleased recently when the New Mexico insurance department finally approved our license to operate. We now hold licenses and have rates and forms filed and approved in 48

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Streamlining Billing/Collections Process

Jerry Healy, Vice President - Marketing



One of our missions is to provide to you and your clients the best service available in the industry. Recently, we have been hearing on a more frequent basis questions about our billing and collections procedures and the length of time it sometimes takes to resolve problems. Not only does this add costs to your operation and take away from your focus on producing more business, it does the same to us. After reviewing a number of specific cases brought to our attention it started to become clear that a major contributing factor to our inability to resolve problems more quickly was our organizational structure. Many of the questions and problems that were surfacing in our collections area actually had their roots in policy or endorsement processing. At the same time our premium collection process resided in our Finance Department while our billing operation resided in our Operations (policy/endorsement processing) area.

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In a structural change that should benefit you and your clients we have recently merged

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The Value of Your Field Representative

Craig Myers, Assistant Vice President - Field Operations



customer loyalty.

Our Field Representatives are responsible for personally visiting the account to determine if your customer fits PLM's niche. Since your Rep is more than just a salesperson, he/she will assist you in developing an insurance program tailored to meet the needs of your customer. This initial visit allows your Rep to evaluate the quality of the risk firsthand, which permits the best possible pricing of the exposures based on the customer's individual risk characteristics.

In addition, PLM Field Reps have property underwriting authority and work closely with their Underwriting team in the Home Office on the casualty lines. He/She plays a critical role in providing insight to his or her team members on all the casualty lines being quoted. Your Field Representative has the responsibility, authority and ability

Your PLM Field Representative is not only a knowledgeable insurance professional, but he or she is a specialist in the "wood niche". Field Representatives are a resource you can use to help you write new business and retain your wood accounts. He/She is committed to assisting you in developing and maintaining

to inspect, underwrite and bind coverage. When dealing with a PLM Rep, you are dealing with a decision-maker. This is an important distinction and differentiates PLM from other insurance companies.

Once a sale is made, it is the Rep's responsibility to continue to build relations with your client. So, in addition to your contact throughout the year, your Field Rep will visit the insured to determine if PLM is still meeting or exceeding your client's expectations. Obviously the size of the account will determine the frequency of visits by your Rep. You are welcome to accompany your Rep on these visits, including the initial inspection.



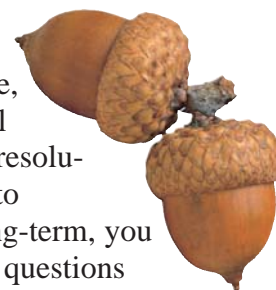
Since PLM is a member of all the local, state and national wood industry trade associations, it is very likely PLM will have additional touches with your wood clients at the various trade shows, association meetings, outings, etc. This just further demonstrates to your client PLM's support and commitment to the

wood niche.

The Field Rep's visits and PLM's high visibility within the wood industry associations can only enhance relationships and create customer loyalty. Our goal is to produce improved retention results, which is a "win/win" for you and PLM.

Streamlining Billing/Collections Process ...continued from page 1

our collections process into our Operations Department under the leadership of Mr. Tom Supplee, who was recently promoted to Vice President of Operations/Customer Service. This change will help us to align our billing and collections processes to provide for more efficient and effective resolution of issues that may develop. In the short-term, you should expect to see a quicker response to inquiries from you and your clients and more timely corrective actions if appropriate. In the long-term, you should expect to see a true merger of processes and systems which should reduce the amount of questions and problems that develop.



If you have any questions about our billing/collection procedures or any other customer service questions or ideas please contact Tom Supplee at 267-825-9328 or tsupplee@plmins.com.

If you have any questions, suggestions or ideas about how we may better serve you and your clients in any way please free to contact me at 267-825-9354 or jhealy@plmins.com.

Last, and most importantly, thank you for placing your business with PLM. ■

Machinery & Equipment/Equipment Breakdown

Richard Hall, Senior Vice President - Underwriting/Technical Services



Machinery & Equipment is one of the more misunderstood coverages within the Property Portfolio. Even the name is confusing! Many of us tenured underwriters refer to this product offering as Boiler & Machinery. Whatever your preference, our customers within the “wood niche” have an exposure to equipment failure/breakdown. One might ask why I need this coverage, as my operation does not consist of any boilers and/or any other high pressure vessel equipment. Simply stated, any customer that has an electrical switch/receptacle to power a generator or air conditioning unit has an exposure to an Equipment Breakdown loss.

Mechanical breakdown, mechanical failure/explosion to production equipment are not a covered peril under ISO’s Building and Personal Property Coverage Form. Production equipment is defined as equipment that powers machinery. For example, we will find production equipment in a sawmill operation where computerized equipment will provide energy to operate a planer or saw blades.

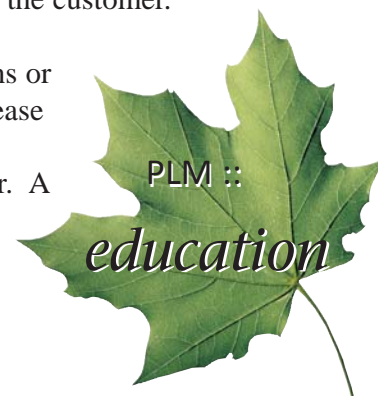
PLM provides such coverage under an Equipment Breakdown Coverage Form that follows the limits being provided under the Building and Personal Property Coverage Form and Business Interruption Coverage Form. In addition, there is coverage including but not limited to extra expense, data/media and transit. For those customers who traditionally prefer one carrier for

the Property and another carrier for the Machinery & Equipment, a Joint Insuring Agreement between the carriers is needed. Furthermore, in an event of a loss, determining which Coverage Form would respond could delay the adjustment of claim payment and increase the amount of down time the customer will experience. In certain situations the customer may also incur two deductibles.

Providing coverage under the PLM Commercial Package makes it a seamless transaction. A Joint Insuring Agreement is not necessary because PLM would be providing both Property and Equipment Breakdown coverage, which would not delay any claim payment in event of a loss.

PLM maintains a partnership with Zurich Insurance, not only to provide reinsurance protection, but to conduct the mandatory jurisdictional machinery/equipment inspections where required by the governing state in order to provide the necessary certifications to the customer.

Should you have any questions or desire further information, please contact your respective Field Representative or Underwriter. A detailed listing of our local Field Representatives can be found at our website www.plmins.com.



PLM will be exhibiting at the following upcoming Agent & Broker shows.

Utah Association of Independent Insurance Agents Convention	Midway, UT	June 5-7
Vermont Insurance Agents Association Annual Convention	Vergennes, VT	June 5-7
PIANI/PIANY Joint Annual Conference	Atlantic City, NJ	June 8-10
Delaware Association of Insurance Agents/Brokers Convention	Rehobeth Beach, DE	June 10-12
Professional Insurance Agents of Arkansas Convention	Branson, MO	June 11-13
Independent Insurance Agents of Georgia Annual Convention	Amelia Island, GA	June 11-15
Alabama Independent Agents Association Convention	Sandestin, FL	June 19-21
PIA Washington/Alaska Annual Convention	Cle Elum, WA	June 20-22
Nevada Independent Insurance Agents Annual Convention	San Diego, CA	June 21-24
PIA of Virginia/DC Annual Convention	Virginia Beach, VA	June 22-24
Independent Insurance Agents of Arkansas Convention	Hot Springs, AR	June 25-27



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states. While we are not actively pursuing primary locations in Texas and California, we have obtained licenses and form and rate approvals in those states in order to handle secondary locations that may be in those states.

The softness in the commercial lines marketplace is something that we are paying very close attention to. While we are attempting to exhibit some flexibility from a pricing standpoint and response to the ongoing changes in the marketplace, we are being a bit more conservative with regards to modifying other terms and conditions. This is particularly true with regards to windstorm deductibles in coastal areas. We have implemented a program that involves both underwriters and field reps contacting brokers and insureds more frequently during the renewal or new business process. We do believe that we are positively impacting our hit ratio on new business and the retention of our renewal business.

As always, I stand personally ready, as does any member of the leadership team here at PLM, to assist you in either retaining an account with us or writing a new piece of business.

Finally, we have worked very hard over the past six months to improve our processing turnaround times and quality. We feel we are making good progress. If you disagree, or if I can be of any assistance, please do not hesitate to contact me personally at jsmith@plmins.com. ■

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