



Fall 2008

Pennsylvania Lumbermens Mutual Insurance Company

LumberMemo

COMMENTARY: *Financial Strength in this Critical Time*

John K. Smith, President & CEO



I would like to devote my comments in this issue to the economy and the impact it has had on Pennsylvania Lumbermens' financial strength. When you make a decision to purchase your insurance from PLM we recognize that you are putting your faith and confidence in our ability to respond to claims *as they arise*. While many people think about the fact that the property policy needs to respond for the next twelve or twenty four months depending upon your policy length, the general liability and commercial auto policy need to respond for many years to come depending upon the statute of limitations and the type of claims that arise from the coverage period, and when they arise. Therefore, the company's **long-term** financial viability is more than just important. It is simply critical.

We have seen within the past sixty days one of the insurance industry's giants come under deep pressure and be forced to borrow heavily from the Federal Government in order to survive. It is clear that if this firm survives, it will do so in a form that is much different than the one that exists today. It is not that long ago where one of the lumber niche's largest insurers succumbed to bankruptcy. So, many of our customers have an understanding that financial strength is critical.

As was discussed in a recent LumberMemo, as a mutual insurance company our fiduciary responsibilities are to our policyholders as contrasted with a stock company's responsibilities to their shareholders. We at Pennsylvania Lumbermens have always maintained what we believe to be a conservative investment strategy. We have balanced the investment risk with the underwriting risk on a continual basis. When times are positive on the underwriting side, we allow the risk to rise from an investment standpoint and when times are less than positive from an underwriting perspective, we leverage down the risk from an investment standpoint. This is just common sense from our viewpoint and probably yours as well.

Our investments have always been rather vanilla in nature. Our portfolio has never included any credit default swaps (such as the ones that have caused problems for many large financial institutions), hedge funds, or other exotic investment vehicles. We have, within the past three years, shed all of our equity positions in Fannie Mae and Freddie Mac. At the same time, we transitioned our fixed income portfolio away from corporate bonds to more conservative government bond holdings.

The intent of our direction was to insulate ourselves from dramatic swings in our investment results that Continued on page 2...

Improving through PLM Surveys



Within the past couple years PLM has focused on how to offer better service to our customers. We have evaluated what the issues were and developed solutions to better serve our insureds. Through the creation of the Operations and Customer Service Division, the enforcement of the PLM Insured's Bill of Rights, and the improvements made in our endorsement processing, we have improved the quality and service from all the departments within PLM.

PLM's focus continues to remain on improving our service standards to our customers. Whether it is in our new business procedures or in our claims service, we are committed to providing superior service in a professional and fair manner. The best way to do this is to hear from our customers directly on how we are doing.

We have added a survey on our website to allow our customers to provide feedback on their experiences with PLM. We hope to use this to better serve you and address any issues that need improvement. With your help, we can offer the "World Class Customer Service" that we feel all our policyholders are entitled to.

The link to the survey can be found on the homepage of our website, www.plmins.com. It can also be accessed directly at www.plmins.com/survey. There are currently two types of surveys available: Claims Survey and Customer Service & Billing Survey. Each survey has only a few questions and there are sections to type any extensive comments/feedback you may have. Please take the time to let us know what you think. Thank you for your help!

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Teacher Forestry Tour

PLM is a strong supporter of education. One of the ways we support education is through a program available through the Temperate Forest Foundation. They have developed a comprehensive three-day woods and mill tour for 3rd - 8th grade science teachers throughout North America. Teachers are sponsored by various local businesses that pay for their expenses. They attend a tour in a specific region of North America. This year, the Teacher Forestry Tours were held in Starkville, Missouri; Portland, Oregon; Escanaba, Michigan and Catskills, New York.

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education

COMMENTARY: *Financial Strength...*

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might be caused by either major movement in interest rates or volatility in the equity markets. Unfortunately, we did not foresee what has happened in the fixed income and equity markets over the past two or three months. Even with a great deal of diversification, we have suffered very poor results, as has just about everyone else, from an investment standpoint. Keeping in mind that we mark to market all of our equities every day, our individual stock holdings and our Exchange Traded Funds been suffered (even though we withdrew from EFTs a month ago). With the credit crunch, drop in the price of oil and the overall lack of consumer confidence in the investment marketplace, our REITs and MLPs did not fare better. Even the interest rate on the huge cash holdings that we have built up as we liquidated equities and equity related holdings is poor. I know I am not telling you anything that you probably don't already know or that your financial advisor has not been telling you.

The result is a large but manageable investment loss during the past few months. We do not believe that our loss threatens our viability in any way. We painstakingly built a *huge* financial cushion these past ten years in order to withstand unforeseen events that have occurred. Many might be surprised at this statement, but *understanding risk and protecting yourself from the unforeseen* is what the insurance business is all about. We at Pennsylvania Lumbermens understand the management of risk factors and we have practiced what we have preached. In spite of the recent underwriting and investment losses, we continue to maintain our conservative strategy in both areas. This includes our loss reserving practices which continue to be conservative both on an individual case basis as well as from the bulk reserve perspective, as confirmed by our recent independent annual review.

We have hit something larger than a bump in the road, but as expected, we absorbed it and are moving on. Our "premium to surplus ratio" will drop and our losses will be large, but we are fully capable of absorbing them and moving forward.

To be honest, our biggest concern is the impact this economy is having on our customers. We had hoped to see perhaps a slight improvement in housing in late 2009, to the benefit of our customer base (and eventually PLM). We believe the activities of the last three or four months have pushed that recovery off to sometime in 2010. We recognize that many customers are already stretched thin and were hoping for a speedier rebound in housing to drive sales.

So, it appears that we will all tighten our belt loop another notch, manage our expenses a little more aggressively, and spur our sales people forward in search of new opportunities while reminding our entire staff the importance of retaining our current customers.

Those that know me know that I am a fairly open person. We have worked hard to make PLM as transparent and open as possible so our customers can reach out and touch us easily, ask their questions and have them answered. With that said, if you have any questions or concerns, please do not hesitate to contact me directly at 267-825-9246 or jsmith@plmins.com.

Each tour consists of a historic overview of the area and visits to a variety of mills including paper, engineered wood, solid wood and treated wood. The teachers also visit numerous educational stops consisting of museums, state parks, experimental forests and learning centers. In the end, they return with a wealth of information to bring into their classrooms. This knowledge is passed on to their students in an effort to educate and raise hope about our ability to practice sustainable forestry. For more information on the Teacher Forestry Tour program, you may visit their website at www.forestinfo.org.

The following is an excerpt from a letter we received from the teacher PLM sponsored this year. Diane Nell attended the Northeast Teacher Forestry Tour in Catskill, NY this past August.

“ You can read about the lumber industry and see pictures of specifics, but nothing is more valuable and memorable than actually seeing and doing. Walking with the loggers through the mud, watching them don their safety gear, hearing the saw, feeling the ground thump as the tree fell, is what helps inspire the passion in my lessons that I can now share with my students in the classroom using my newly learned knowledge. Thank you from the bottom of my heart for this opportunity. It's opened my eyes to the vast world of the lumber industry and Best Management Practices with an emphasis on water quality. I would highly recommend this tour to other teachers. ”

- Diane Nell

Halting Rear-End Accidents

Larry Dornink & Carl Schalm, Technical Service Reps

Rear-end accidents are the second most frequent motor vehicle accidents, following backing accidents, according to DOT. When a large vehicle strikes another vehicle in the rear, its hefty weight and size usually causes significant damage to the other vehicle, as well as creates potential for serious bodily injury. Additionally, secondary chain reaction collisions often occur, leading to further damage and injury. To prevent rear-end accidents, the causes must first be understood. From this knowledge, company policies can be established to control rear-end accidents.

Studies have shown that factors, such as reading a map or using a cell phone, play a roll in rear-end accidents. However, a vast majority of rear-end accidents are caused by drivers following too close to the vehicle in front of them. Improper following distance was the main factor in 70 percent of the accidents studied by DOT in 2003. Generally, drivers should be able to deal with a few distractions and avoid rear-end accidents if they maintain a proper following distance. An easy way for a driver to determine following distance is to observe the vehicle in front of him as it passes a fixed point. Then, he should begin counting the seconds until passing the same object. If a driver counts to four before passing the object, the driver has adequate following distance. If not, he needs to reduce speed momentarily to increase the following distance.



Secondary causes of rear-end accidents, such as taking one's eyes off the road or improper scanning ahead, relate directly to following distance. Drivers who maintain an adequate following distance have time to look at signs or check mirrors and still avoid accidents. If drivers follow too closely, they do not allow time to scan ahead and spot potential problems.

Adverse road conditions account for about a third of the rear-end accidents. Drivers often fail to increase following time while driving on wet or snowy roads. Legitimate causes of brake system failure that cause rear-end accidents seem to be rare, contrary to what drivers may claim after an accident occurred.

Excessive speed also can play a role in rear-end accidents. To reduce the risk of rear-end accidents, fleets should take the necessary precautions.

Establish a written company fleet safety program. The program should include the following:

1. A company policy that requires all drivers to maintain a four second following distance under ideal driving conditions. Additional seconds should be added during inclement weather.
2. A company policy that prohibits or greatly limits behind the wheel activities that can cause driver distraction, such as eating, using cell phones and reading maps.
3. Establish a program to determine the preventability of each accident in which a driver is involved. This must be done in light of all the facts pertinent to the accident's occurrence. Determining these facts is sometimes difficult in practice, but it can be made easier by training drivers to completely and accurately report accidents in which they are involved. Complete accident investigation by management is equally necessary. Rear-end accidents are generally

considered preventable if:

- a. *The driver failed to maintain a safe following distance.*
 - b. *The driver failed to keep track of traffic conditions and note any slowdown.*
 - c. *The driver failed to ascertain whether the vehicle ahead was moving slowly or was stopped.*
 - d. *The driver misjudged the rate of overtaking the vehicle in front.*
 - e. *The driver came too close before pulling out to pass the vehicle in front.*
 - f. *The driver failed to wait for the vehicle in front to move ahead before starting up.*
4. Educate current and new drivers about proper long-distance scanning techniques.
 5. Frequently remind drivers of the importance of maintaining a safe following distance, avoiding behind the wheel distractions and doing long distance scanning.
 6. Make sure brakes are inspected, and adjusted if necessary, at least every two weeks.
 7. Make safety performance and safety policy compliance part of a driver's performance review and part of any safety incentive or bonus program.

References:

Wang, R. R. *Rear-End Crashes*. Washington, DC: National Highway Safety Administration.

Hooker, Bruce A. *Halting Rear-End Accidents*. Waste Age.

Sullivan, John M. and Michael J. Flannagan. The University of Michigan Transportation Research Institute.

NATLSCO, Managing A Fleet Safety Program.

PLM Increases Umbrella Capacity

PLM is proud to announce a new umbrella program offering an "in-house" capacity of \$20 million in limits. The ability to offer umbrella limits of this magnitude without having to rely on individual facultative reinsurance support is truly unique for a niche carrier. This enhanced product offering ensures you, our valued customer, consistency in both appetite and underwriting approach tailored to your individual needs. You can have peace of mind knowing that a wood specialist underwriter is handling your account for both primary and umbrella coverages. So give us a call -- as always we stand ready to lend our support.



**Pennsylvania Lumbermens
Mutual Insurance Company**
One Commerce Square
2005 Market Street, Suite 1200
Philadelphia, PA 19103-7008

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LumberMemo by Email!

PLM is now offering the option to receive the LumberMemo by email! With this change, we hope to more efficiently produce the LumberMemo and distribute it to you in a timelier manner. This will also allow you to distribute our newsletter to a wider audience in your place of business.

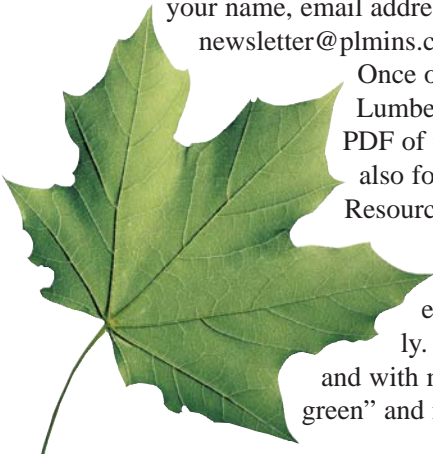


We currently print approximately 33,000 copies of the LumberMemo, four times a year. Changing to an electronic format will help to reduce paper printing. This is not only a costly operation, but will allow us to drastically reduce any paper waste.

To sign up for our electronic version of the LumberMemo, we ask that you provide us with your name, email address and company name. You can contact us at newsletter@plmins.com to request to be put on the LumberMemo email list.

Once on the email list, you will begin to receive the LumberMemo quarterly as a PDF attachment in an email. A PDF of the current LumberMemo as well as past issues can be also found on our website at www.plmins.com, under Industry Resources – Broker Bulletin and LumberMemo.

We will be slowly making this transition and hope to eventually make the newsletters available only electronically. By doing this, we can provide our newsletters quicker and with more convenience to you, our customers. Help us “go green” and move towards being paperless.



LumberMEMO

President & CEO John K. Smith

VP of Marketing Jerry Healy

Sr. Marketing Specialist Susan Cho

One Commerce Square
2005 Market Street, Suite 1200
Philadelphia, PA 19103-7008
MAIN 800.752.1895
FAX 215.625.9097
www.plmins.com
info@plmins.com

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