



## COMMENTARY: Value for Your Insurance Dollar

John K. Smith, President & CEO

Business is tougher today than it has been in an awful long time. Whether you are an insurance company, wood-related business, or anything else, for the most part you are managing your costs closely.



I have met with many insureds recently through the President's Dinners that I host or the trade shows that I have attended. One thing that seems to be lacking in most of my conversations is optimism. Perhaps it is reflective of the malaise that seems to have settled into our leadership (or lack of it) in Washington, the political pundits from both sides of the aisle or the financial news that is spread all over the papers and in the news media. Personally, I am getting a little tired of it all and as I reflect on it I come to realize that perhaps I have been more a part of the problem than part of the solution.

In my mind, for years we at PLM have managed our business in accordance with our mission statement. Part of that mission statement focuses on our financial results, part of it on what we should be to our customers (you), and part of it on the relationship and leadership we want to provide our employees. I realize, in reviewing our mission statement that we have been largely successful in fulfilling our goals as noted in parts one and three, but I ponder about part two. Our policy retention is in the area of 87%, and the number of new accounts we are writing seem to suggest that we are accomplishing the goals that are important to our customers. Still, I am not sure that we have done as well as we could.

There are some disturbing trends that I would like to focus on for a moment, but first I would like to comment on our financial position and our employees. Financially PLM is extremely conservatively managed and has deep financial strength, with over \$100 million surplus and no debt on our balance sheet. We enjoy a remarkably strong cash flow and in any other economy we would think about leveraging up our financial risk by deploying the cash that we are sitting on into the equity markets. I guess the fact that we are sitting on a large cash balance speaks to my thoughts with regards to the importance of liquidity and financial strength. These cash balances create very little investment income yet the funds remain in cash simply because of the risk associated with placing those funds into the equity market and jeopardizing the principal. With the bond returns being what they are, I don't believe we are being rewarded adequately for our exposure, hence we have not deployed much cash in that arena recently. KPMG, our actuaries, review our reserves on a semiannual basis, and the most recent reserve study which was completed in July of 2010 indicates that we are conservatively reserved. *This is just what you want in your insurance company.* While our current year results are not what we would like to see, the last two months have been more positive than earlier in the year. While I do not expect us to rebound as strongly as we did in 2009, I do believe we will continue to improve and produce an operating profit again this year.

Something that does not show up in our financial statements but which are nonetheless important is the financial strength of our reinsurance partners. We transfer significant amounts of risk to our reinsurers worldwide and in fact spend better than \$50 million a year for the protection that these reinsurers provide us. At the end of the day, we at PLM spend more on insurance in the form of reinsurance by far, than any of our customers, or I daresay most businesses that operate in the wood niche today. We recognize the importance of creating a long-term relationship with reinsurers. *We recognize the importance of buying reinsurance from only financially secure and sound reinsurance companies.* We do quite a bit of due diligence to ensure that these companies will be around when we need them to pay us so we can pay you. We look at the services that they provide, and what they can do to help us mitigate the risk that comes from insuring business in the wood niche. We are not looking for someone to simply pay claims. We are looking for someone to help us be better at what we do, to lend us their expertise, to train us, to work closely with us in understanding the risk profile of our book of business and in some cases, when insureds are big enough, individual insureds themselves. And yes, at the end of the day we pay for this value. We pay premiums that are probably higher than we could otherwise pay if we simply bought

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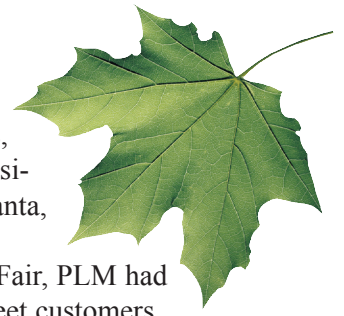
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FALL 2010

Pennsylvania Lumbermens Mutual Insurance Company

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based on a pricing decision driven by the cheapest price. There are cheaper reinsurers out there that we could save considerable dollars by utilizing, but the fact of the matter is I would be uncomfortable on having to rely on these reinsurers and to be able to fulfill PLM's promise to you. I would not sleep well at night.

So in spite of the company producing an underwriting loss, and in spite of the fact that we could reduce that underwriting loss by paying less for reinsurance, we recognize that premium is only part of the equation that enters into the decision making process of buying; in our case reinsurance and in your case insurance with PLM.

So the question is, why don't I buy based on price and price alone? The simple answer is I look at the value of the product I am buying and the organization I am buying it from. I want excellent value, consequently I require a reinsurance company with a strong balance sheet, excellent expertise, a host of value-added services that help me reduce risk, timely claims payments, and one that will be there when I need them. I want a relationship with the company and its key players to help smooth over any rough spots that might arise. I cannot afford to buy based on price alone.

“ We at PLM never promised to provide the cheapest price on the street, nor are we ever the most expensive. What we did promise is to offer excellent value for your insurance dollar. ”

So my question is, if I really understand the insurance business and I can't do it... how can you **afford** to? And the answer is... you can't. You get what you pay for. When you cut the price in the insurance business, you usually increase the risk, and that is simply not acceptable in these difficult economic times. Remember this: “Reducing costs without reducing value is a noble goal. Reducing costs while reducing value equates to an increasing risk”. Can you really afford to take on additional risk in today's economic environment?

We believe we have developed a staff that is unparalleled when considered with what is available in the insurance industry from companies that are interested in writing wood-related businesses. Simply put, we have gathered together a group of seasoned veterans that understand the insurance business as well as, if not better than, many professionals in the industry today. Yes, we have sprinkled in some young people, but we have made it our business to develop their skills and expertise so the next generation of leadership at PLM is already growing in our organization today. We have immersed these people in the wood industry. They have

attended shows, visited insureds, studied videos on the lumber business. At the recent show in Atlanta, The International Woodworking Machinery & Furniture Supply Fair, PLM had a booth to not only meet and greet customers, but we also sent people to take time to explore the show floor, see the machinery and to talk to the suppliers that are out there to further develop their expertise in the wood niche. We encourage our people to continue their education working to develop their expertise on an ongoing basis, because that is part of the value that you pay for when you pay a premium to PLM. The result is a staff that you can rely on to understand your business and to work with you as you expand your business in new areas, i.e. to review contracts, to talk to you about potential new operations and the risks involved. We built a loss control and technical services operation whose exclusive focus on wood-related businesses has valuable expertise in consulting on the safety of your plants and operations.

Our field staff personnel can do light loss control and assist you in your business with PLM. We provide accessibility to key players of our leadership team including me, the President and Chief Executive Officer. I challenge any of our insureds or prospects to pick up the phone and call the president of the company that they are currently doing business with (if you know his or her name) or the president of a carrier that you are considering a quote from. Call them, and at the same time call me. See who returns the call first and in person and see who understands your business (the wood business) better. Then ask yourself who you want to be doing business with at the time of a claim!

In closing, I would simply comment that right now the insurance marketplace is rather soft and there are a lot of folks competing for your business. We at PLM never promised to provide the cheapest price on the street, nor are we ever the most expensive. What we did promise is to offer excellent value for your insurance dollar. So today it is easy to find a cheaper price and many brokers, who by the way are your representative that you are paying in the form of commission, are more than glad to recommend another carrier at a cheaper price. Keep in mind, that *the price is cheaper because the value is lower.*

Perhaps the most important business lesson that I learned was on the knees of my grandmother and mother. They told me that you get what you pay for and when a deal looks too good to be true, it usually is. These difficult economic times have forced many of us to refocus on price, when in fact we need to be focused on value.

Finally a comment on our two-year policy program. We rolled this program out broadly across our book of business

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## Improving through PLM Surveys

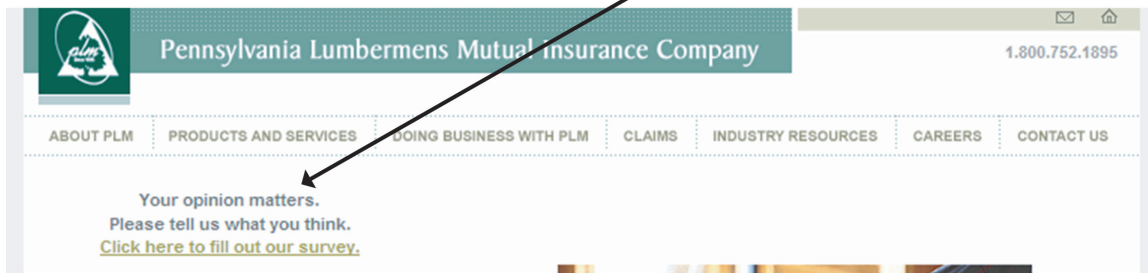
Thomas Supplee, VP-Operations & Customer Service

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 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](http://www.plmins.com). It can also be accessed directly at [www.plmins.com/survey](http://www.plmins.com/survey).



### PLM MISSION

*We will consistently strive to produce an underwriting profit and increase our surplus while achieving premium and expense objectives.*

*Our customers will recognize our stability in the marketplace, superior service, professionalism and quality products as the hallmarks of PLM.*

*Our employees will consider us as the employer of choice where their expertise and commitment are recognized and with whom they are pleased to invest their careers.*

## 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 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.



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in the belief that insureds are interested in wrapping up their insurance program for two years. It has become clear to us over the years that buying insurance is not anyone's favorite pastime. We knew when we rolled the program out that during the inevitable pricing cycles in the insurance marketplace we would find ourselves behind the pricing curve by at least a year on half of our book of business. What this meant was that as the market changed either from softening to hardening or from hardening to softening, either the insured or PLM would fall behind the curve and pay a little more for their insurance or a little less depending on which way the market was moving. Nonetheless, we rolled the program out and we have made commitments to insureds to honor the pricing and terms and conditions of their policies for two years.

I find it somewhat surprising that there are some insureds that decided to remarket their business at the end of the first year in an effort to save money. While you are perfectly free to do so, it is important to recognize that in doing so you might be taking advantage of a softening insurance marketplace, but you are also taking advantage of PLM. PLM will not at the other end of the cycle be increasing the price of insureds that are on two-year programs midterm as the market begins to harden as it inevitably will. Not only is this activity not permissible under our contract, but more importantly it is ethically not in the spirit of the concept that we have rolled out. At the end of the day we want to make sure that we are complying not only with the intent of, but also the spirit of, the relationship that exists between us.

Things will get better. The economy will rebound and the strong will survive and prosper. I truly believe that while the road is rocky and the climb is steep we will eventually get to the mountain top and good as well as great times will once again prevail for both your business and ours. I welcome your comments and suggestions. ■

**LumberMEMO**

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