plm Since 1895

Fall 2006

Lumber MEMO

Pennsylvania Lumbermens Mutual Insurance Company

Commentary: PLM's Progress in 2006

John K. Smith, President & CEO

Recently we were very pleased to announce that our policyholder surplus has exceeded 100 million dollars. This achievement of a meaningful milestone in our company's history is a testament to how a company that chooses to focus solely on the lumber niche and work closely with its policyholders can provide for their comprehensive insurance needs while providing stability for those insureds in the marketplace. I would be remiss if I did not recognize and thank the group of hardworking, dedicated employees that have strived to provide our policyholders with the service that they are entitled to and have come to expect from PLM.

An update of this year's progress is in order. In past columns I have commented on our westward expansion. We were recently pleased to receive our licenses to operate in both Arizona and Washington State. We are now in the process of responding to various other western insurance departments regarding our licensing applications and expect that as we come into the new year we will have received numerous other approvals. We still need to file rates and policy forms which can be a time consuming process. Nevertheless, we expect to be writing business in Arizona sometime in early 2007.

We are also delighted with the recent hiring of two new field representatives in the Midwest (one in Missouri and one in Illinois). As we expand westward, it's important we staff the positions necessary to service the business that we are writing.

We are through the hurricane season and have had an exceptionally quiet season after two terrible years. We are pleased that we have been able, with minor modification in deductibles, to maintain our presences in coastal areas for current insureds while cautiously writing some limited new business.

This year, we have paid dividends to four of our association groups. Once again we expect to pay out more than a million dollars in dividends this year and are delighted to be able to do so. I know there are many companies out there offering dividend programs, but I ask, how many of them are paying?

With premium volume growth of over 5% we are pleased to have written to date over 600 new accounts this year. Today we serve over 5200

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Dividends Paid to PLM Safety Groups

2005 ENAP Safety Group Dividend Plan Earns Dividend

ENAP, INC. Partnership with Traditional Values

A 5% dividend was declared for participating members of the PLM/ENAP Safety Group Dividend Plan. The plan year ran from January 1, 2005 through December 31, 2005. The adjusted earned premium totaled $5.9 million and the adjusted losses incurred totaled $1.4 million, with the group finishing the year with a 24.82% loss ratio. This entitled all participants to receive a dividend check totaling 5% of their earned premium for the year.

ENAP, Inc. is composed of independent retail lumber dealers located in the east coast and as far west as Colorado. They are governed by the Board of Directors consisting of stockholders, elected by their peers. All earnings are returned to the stockholders.

The PLM/ENAP Safety Group Dividend Plan began in 2001, with participants receiving a dividend in each of the five years, except one. Total dividends returned to members of ENAP over the five year period equal more than $1 million. This year 73 members received dividend checks mailed out in June.

LMC Members Earn 5% Dividend

LMC™

Lumbermens Merchandising Corporation members enrolled in the PLM Safety Group Dividend Plan have earned a 5% dividend for the plan year January 1, 2005 through December 31, 2005. The group finished the year with more than $7.1 million in earned premium. The total incurred losses for the year were $2.5 million and the group finished with a 35.6% loss ratio. That entitled the 83 plan participants to a 5% dividend check mailed in June.

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In this Issue:

Top 50 Property-Casualty Companies

Jeff Rieder, President, Ward Group

(This is a reprint of an article that appeared in the July 24th issue of the National Underwriter magazine)

Annually, Ward Group analyzes the financial performance of over 3,000 property-casualty insurance companies domiciled in the United States and identifies the top performing companies. This group is called the Ward's 50 for the year. Each Ward's 50 company has passed all safety and consistency screens and achieved superior performance over the five years analyzed. The Ward's 50 property-casualty insurance companies produced a 14.1% return on average equity from 2001-2005 compared to 6.3% for the property-casualty industry overall.

The insurance industry today faces tremendous challenges including market pressures, expense management, technology, rising claim costs, compliance, legislation and more. Top performing companies take these challenges in stride. The best companies often do things differently in order to set themselves apart from the competition. In particular, these companies maintain efficient operating models, meet the needs of customers and successfully execute their strategy. Results from the Ward Group Benchmarking Programs confirm these findings and identify best practices that set the top performing companies apart from the rest of the industry.

Operational Efficiency

Due to technological advances and changing market conditions, companies must now manage significant changes in workloads and workflow that affect all areas of the organization. Top performing companies have 19% fewer employees when measured to premiums written. Web-based technology, predictive modeling and enterprise content management have significantly influenced operating models. The ability to adapt to new technology provides significant expense savings and a more efficient workforce. For example, imaging and automated workflow enable companies to centralize back office operations while keeping the customer-facing activities in the field. They also tend to do many of the little things right. For example, top performers maintain a staff to management ratio of 6.8 to 1, compared to 5.3 to 1, on average. A flatter organization produces a more efficient operation and also reduces company wide staffing costs. The difference in staff to management translates into a savings of nearly $2,200 per employee, on average.

Customer Focus

With increasing demands by consumers, it is easy to get lost in the myriad of requests and even lose focus on your customers. Customer service has expanded to include more than just servicing the policyholder. Insurers recognize they have many customers to support, both external and internal. Top performers consciously service all customers, including policyholders, agents, employees and outside service partners. Superior customer service and ease of doing business significantly improve customer loyalty and retention.

Strategic Execution

In order to remain competitive, companies must clearly understand their core competencies to develop and execute corporate strategy. Top performing companies achieve superior results through combinations of effective distribution channels, technology, product focus and strong market knowledge within their geographic territories. Companies that capitalize quickly on these strengths gain a tremendous competitive edge.

2006 Ward's 50 Property-Casualty Companies

(listed alphabetically)

Accident Fund
Acuity
Allstate Insurance Company
American Modern Insurance Group
Amerisure Companies
ANPAC
Automobile Club of Southern California
Auto-Owners Insurance Group *
California State Automobile Association
Canal Insurance Group *
Central Mutual of Ohio Group
Chubb Group
Church Mutual Insurance Company
Cincinnati Insurance Group *
Columbia Insurance Group
The Commerce Group, Inc.
Donegal Insurance Group
Farm Bureau of Michigan Group
Federated Mutual Group
Frankenmuth Financial Group
GEICO *
Germania Insurance Group
Grange Mutual Casualty Group
Grinnell Mutual Group
The Hartford Fire Group
Hastings Mutual Insurance Company
IDS Property Casualty Insurance Company
Indiana Farmers Mutual Insurance Company
Jewelers Mutual Insurance Company
Kentucky Farm Bureau Mutual Insurance Co.
Louisiana Workers' Compensation Corporation
Maine Employers Mutual Insurance Company
Markel Corporation Group
Mercury Casualty Group
Metropolitan Property and Casualty Insurance Co.
North Star Mutual Insurance Company
Old Republic Insurance Group
Pennsylvania Lumbermens Mutual Insurance Co.
Philadelphia Insurance Companies
Progressive Casualty Insurance Company
Protective Insurance Group
RLI Insurance Group *
SECURA Insurance Companies
Selective Insurance Company of America
Tennessee Farmers Mutual Insurance Co. *
United Fire & Casualty Group
USAA Group *
West Bend Mutual
Western National Mutual Insurance Group
Western World Group

** 16-year recipient (1991-2006)*

Basic Insurance to Value & Coinsurance 101

Richard Letwinch, Property Claims Supervisor

When considering the amount of property insurance you should purchase to protect your business against risks of direct physical loss, there are two trains of thought. One is "worst case scenario" and the other is "I don't need all of that insurance. I will probably never have a total loss". If you follow the latter train of thought, it might be advantageous to read on and reconsider your thinking of how you purchase your property insurance.

Whether your operation is limited to one building or consists of 25 buildings, the best course of action to ensure adequate protection is to always think "worst case scenario". By making sure each and every building, including its contents, is properly insured to value, you will avoid what could be a major financial loss.

In many cases of underinsurance, a particular building is evaluated, perhaps when the insurance policy is first purchased, and the initial value is never revised in subsequent years to coincide with the rising material and labor costs. The Replacement Cost Value (RCV) of any building insured under a "property insurance contract" is based, or should be based, solely on the cost required for a general contractor to build the structure from the ground up. Thus, the appraised value and/or the market value of a building or the land upon which it is erected has no bearing on the RCV of a building. If the RCV of the subject building was set five years ago on the basis of a general contractor's price and the amount of insurance has not been increased since, then it is a sure bet that the building is now underinsured.

In the case of a total loss, a building that was insured for $200,000 a number of years ago could very well cost a general contractor $250,000 to rebuild today. In this scenario, you would receive the policy limit of $200,000 and stand to lose $50,000. This, of course, would be compounded exponentially if the loss results in the destruction of more than one building.

Virtually every commercial property insurance contract contains a "Coinsurance Clause" which triggers your participation on a partial loss, if the building or contents within the building(s) are not insured to value. In the aforementioned example, let's assume that instead of a total loss, the building (which is underinsured at $200,000) sustains damages totaling $50,000, and the policy is written with a 90% coinsurance clause. You would be required to insure the building to at least 90% of its RCV. Since 90% of $250,000 (the actual RCV of the building) would amount to $225,000, you would become a "coinsurer" to the extent that the amount of insurance in effect ($200,000) bears to the amount of the insurance you should be carrying. This statement per the terms and conditions of the policy translates to the following formula expressed mathematically as a ratio:

$$\frac{\$200{,}000 \text{ amount of insurance}}{\$225{,}000 \text{ amount of insurance required}} \times \$50{,}000 \text{ (RCV Loss)} = \$44{,}500$$

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Pennsylvania Lumbermens Mutual Insurance Company
is proud to announce that we have surpassed
$100,000,000
in policyholder surplus for the first time
in our 111 year history.

We thank you for your business
and continued support of PLM.

Dividends Paid to PLM Safety Groups

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The Lumbermens Merchandising Corporation is made up of dealers that are "united in their sole affiliation to one purchasing organization, creating a strong foundation that supports the growth of unique supplier relationships and purchasing opportunities." PLM has provided a program for their members since January of 2000. Dividends have been paid in three of the six years, totaling almost $1 million.

PAL Members Earn Dividend for Third Consecutive Year

The Progressive Affiliated Lumbermen Cooperative (PAL) has completed its 2005-2006 plan year and we are pleased to report that the Board of Directors has approved a 7.5% dividend to all participating members of the PLM/PAL Safety Group Dividend Program. The plan year ended on March 31, 2006 and the group finished with an outstanding adjusted loss ratio of 13.23%. That entitled the 59 participants to dividend checks.

The PLM/PAL program began in April of 2003. The group has earned dividends in all three plan years with pay-outs of 10%, 5% and 7.5% respectively.

PAL is a buying cooperative of independent lumber and building material retailers based in Grand Rapids, Michigan. They currently have members in over sixteen states, mainly in the Midwest. We are pleased to be PAL's endorsed Property/Casualty carrier for their insurance program to their membership.

PLM currently has eleven safety group dividend programs throughout the country. To find out more, simply log-on to our website at www.palumbermens.com . Look under "Industry Resources". There under "Special Programs", you will find all of our current plans, along with links to the Associations' websites. Many of the associations will accept new members so it's worth checking it out.

If you have a client that may be eligible for this or any of PLM's Safety Group Programs, please contact Susan Cho at 800.752.1895 x634 or via email at scho@palumbermens.com. ■

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Pennsylvania Lumbermens Mutual Insurance Company specializes in Property and Casualty insurance services for the lumber, woodworking and building material industries.

Wood is all we do!

Basic Insurance to Value and Coinsurance 101

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Thus, on a partial loss of $50,000 as demonstrated in the above example, you would be penalized or become a coinsurer in the amount of $5,500 before application of the policy deductible. If you had complied with the coinsurance clause, you would have received $50,000 less the policy deductible ($1,000 is a common amount) or $49,000. Since in this example you do not comply with the coinsurance clause, you would instead receive $44,500 less the $1,000 deductible, or $43,500. Obviously, the more the building or contents is underinsured, the greater your participation.

In conclusion, it is vitally important that your buildings and all contents located within those buildings are properly insured to value. To make sure you are adequately insured, a logical starting point would be to consult with a general contractor you know and trust to quote a replacement cost for each building you wish to insure. The assorted and sundry equipment utilized in today's lumber industry can be extremely sophisticated and expensive. It is therefore, equally important to insure this equipment at the proper value for the same reasons enumerated on the building. Considering the stakes involved, it would certainly be worth your while to receive updates from the manufacturers and/or distributors regarding the current value of your equipment. Don't wait until you have a claim before confronting this important issue. Following this advice will allow you to receive proper compensation for your claim. ■

Commentary: PLM's Progress in 2006

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wood-related businesses in 38 states. I was recently at dinner with a client and asked him why he had decided to allow us the opportunity to provide him with his property and casualty coverage. He responded by telling me that we were his sleep insurance. He slept better knowing that we were the company providing him with his coverage. He went on to talk about our knowledge of his business and stated that he valued the relationship that he was building with our people.

I was gratified with this explanation. So if you are a current client, I would like to simply say thank you for your business and sleep well. If you are not a current client then why not give us the opportunity to work with you in reviewing your coverages. You will not be disappointed. ■

Lumber MEMO

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