



SPRING 2011

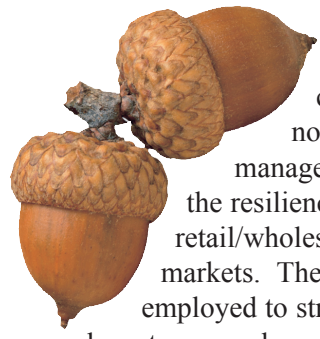
# Lumber MEMO

Pennsylvania Lumbermens Mutual Insurance Company

## COMMENTARY: *Where do we go from here?*

John K. Smith, President & CEO

I spent quite a bit of time during the last two and a half months on the road visiting with insureds and working trade show booths. It has become apparent to me as a result of my conversations with many of you, that your businesses have been stabilizing depending upon the region and customer base. Some are actually seeing improvement in their results on a year-over-year basis. Some feel pleased that things haven't deteriorated even further, and the remainder indicated that it appears that the slide in sales revenue has slowed dramatically. So we must question: Are we at the bottom of the trough? Where do we go from here?



First, let's ponder these questions for a moment. The fact that you're still here is in some ways a victory. We have lost many customers over the last couple of years. Some could not navigate the turbulent waters of this economic environment. The fact that you are still here says something about your management capabilities. Interestingly, some of the conversations have focused on the resilience of the industry and the many thousands of businesses that encompass the retail/wholesale dealer, primary sawmill manufacturing, and secondary manufacturing markets. There was much talk about lessons learned, new techniques applied, methods employed to stretch a dollar, and heartache felt in downsizing operations and laying off long-term employees. You should be pleased that you have navigated these difficult times and congratulated for the truly tremendous effort that you have expended in getting to where you are today.

In reviewing the vast array of economic indicators that we have at our disposal, I wish I could point to something that would indicate a faster rebound, but I can't. It seems like when we take a step ahead like an improved unemployment number or a positive job report, we then take two steps back and new home starts drop. Better times are now in front of you, but getting to them will continue to require employing leadership, business and management skills.

Many of you have heard me thank you for placing your faith and confidence in Pennsylvania *Continued on page 4...*

## **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 out to 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](http://www.ebmda.org).

If you are current member of EBMDA and would like more information on joining the PLM/EBMDA Safety Group Dividend Plan, please contact Susan Cho at 267.825.9350 or at [scho@plmins.com](mailto:scho@plmins.com). You may also visit our website at [www.plmins.com](http://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. In an effort to help customers control this type of loss, some historical background and control strategies have been developed and are presented in this bulletin.

## 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, you may want 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 You Can Protect Your Building

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.
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.

# Fraud - Who Can You Trust?

Joseph McCrea, Sr. Vice President - Claims



In good times and bad, people find it hard to resist taking things and money that don't belong to them. In these economic times, the temptation is even greater. As an insurance carrier, we see fraud in all forms and in all lines of coverage. It ranges from the common "save my deductible" on auto claims (body shops advising people how to inflate damages to cover this insurance deductible) to stolen jewelry.

At the other end of the spectrum, we see some very serious forms of fraud. We have all seen or heard of stories involving arson. Not only is this a serious crime involving large amounts of money, it also puts peoples' lives at risk.

Unfortunately, many people look at small insurance fraud as "not a major crime". Similar to employees who steal office supplies or steal time playing on the internet or on the phone, little consideration is given to the fact that added up, these costs get passed along in higher rates to you and me.

Fortunately, most state legislators realize the cost. Almost all states have increased penalties and/or strengthened the laws to prevent and punish perpetrators of fraud. State and local law enforcement have stepped up their efforts to prosecute.

Today, most states require us to do a thorough investigation and report all suspected cases of fraud to the appropriate law department. So when a loss occurs, an insured needs to understand that prompt responses and cooperation with the carrier are important. It will help expedite the whole process and allow for an early resolution of this claim.

A disturbing trend we have seen and the industry has seen, has been theft and fraud by employees. Not just any employee but sometimes long and trusted employees. The crimes range from phony invoices, selling stock and not recording the sale and accounting fraud like paying for services never rendered by dummy companies.

Companies need to be ever vigilant. This can be done by some simple audit tools. Match the physical inventory to the computer inventory. Have an independent accounting firm review your books and the checks and balances that need to be in place. Watch for signs that indicate something out of the ordinary is happening. Employee triggers may be a bad divorce, break-up with large alimony payments, selling of the house, gambling and/or drug habits, or the employee living above his/her means.

Watch for work comp claims that occur on Mondays. People sometimes hurt their back over the weekend and they say it occurred at work on Monday. Employees sometimes anticipate a lay-off and try to get out on workers comp.

Remember your insurance policy is a contract and is based upon information you supply. The claim is based upon the

information you give to the company and the adjuster. If you give fraudulent information, the policy can be cancelled or annulled. Your claim will not be paid. Be careful to supply the correct data on your application. Types of fraud that can result in you paying a little less premium can cost you a lot more when you have a large loss. Don't mislabel employees (truck drivers listed as desk clerks, etc.). Don't misrepresent your sales data or values of assets.

Fraud is a very serious issue. It can start from very humble beginnings and become a slippery slope. If we can help or assist you in any way, please send me an email at [jmccrea@plmins.com](mailto:jmccrea@plmins.com).

## Lightning Protection ...continued from page 2

### 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 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 you assess the likelihood of lightning affecting your business operations. There are specific control strategies associated with lightning-related losses that can be implemented for protection of your ongoing business operations. The Technical Services Department at PLM is available for consultation regarding the installation of a lightning protection system for your business operation. ■



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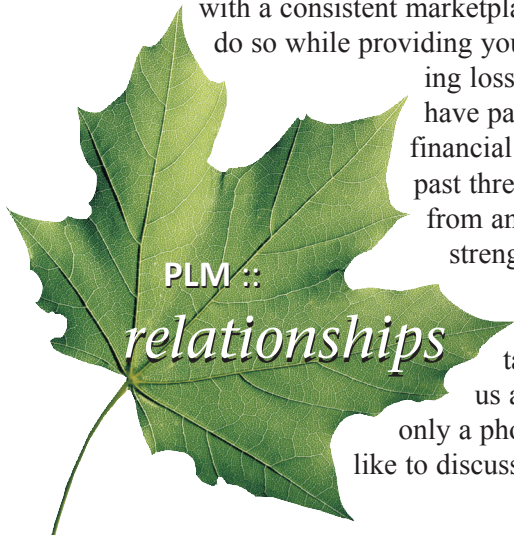
*wood is all we do.*

**COMMENTARY: Where do we go from here? ...continued from page 1**

Lumbermens by allowing us to provide your property and casualty insurance program. You should know that we as a company have been solely committed to the lumber niche for many years and have put our faith and confidence in you. We are not, like many others, broadening our risk appetite among lumber businesses. We continue to feel that you make money in your own business and you lose it in someone else's. We understand your business perhaps better than any other insurance company in America today, and our futures are tied securely together.

We were founded by lumbermen for lumbermen over 116 years ago and our goal and commitment remains the same today as it was then: to do our very best to provide you with a consistent marketplace to fulfill your property casualty needs and do so while providing you superior customer service from an underwriting loss control and claims perspective. Like you, we have patiently built our balance sheet to weather the financial storms that we have been exposed to these past three years. While our profitability has slipped from an underwriting perspective, our financial strength remains intact.

I wish you the very best as we forge ahead taking on the myriad of challenges that confront us and find solutions to get us through. We are only a phone call away if you need us, or if you would like to discuss your current insurance program. ■



**LumberMEMO**

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